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BEHIND CLOSED DOORS: THE SECRET WORLD OF MONEY LAUNDERING

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ABSTRACT

Money laundering is a global issue that significantly threatens the integrity of financial systems and economies worldwide. This paper presents a theoretical description of money laundering and outlines the structured activities involved in the process. Additionally, it explores the electronic methods employed in money laundering, highlighting the various functions carried out using electronic gadgets and the internet. The author emphasizes the importance of understanding the characteristics, reasons, and negative impacts of money laundering on businesses and economies to gain a clear perspective on the issue. Money laundering is a criminal act in most countries, and economically developed nations have established strong barriers against it. However, the practice persists, and the paper examines how launderers circumvent these barriers and employ innovative, illegal methods to convert their illicit money into legitimate funds. The study found that money launderers employ various techniques to evade detection and prosecution, including layering, integration, and placement. Electronic money laundering is also a growing concern, with online platforms, digital currencies, and anonymous payment systems providing new avenues for launderers to conceal their activities. This paper provides an overview of money laundering and its detrimental effects on the global economy. It underscores the need for continued efforts by governments, financial institutions, and law enforcement agencies to combat this menace. Additionally, it highlights the importance of vigilance and developing innovative strategies to detect and prevent money laundering.

INTRODUCTION

The term "Money Laundering" comes from the United States and refers to the Mafia's attempt to "launder" illegal money through cash-intensive washing salons controlled by company acquisitions or business formations (Schneider & Windischbauer, 2008). Money laundering happens outside of the typical range of economic data by definition. However, as with other areas of illicit business activity, preliminary estimates have been proposed to provide some measures for the situation. Illicit sources are estimated to account for two to five per cent of global GDP. According to 1996 data, the amount of money laundered varied between 590 billion and 1.5 trillion U.S. dollars. The lower amount is about similar to the value of the size of Spain's economic output. A large portion of the revenue comes from drug dealing, prostitution, illegal arms sales, smuggling, or any organized crime. Tax fraud, market manipulation, extortion, and cyber fraud schemes can also generate huge profits, creating an incentive to "validate" illicit earnings through money laundering. Most unlawful transactions are completed in cash since there is the least chance of leaving one's mark; nonetheless, there is a clear trend to exploit the internet to conduct illegitimate transactions in the form of Online Banking, Cyber Money, and Electronic Purses. A huge proportion of crimes aim to make money for the individual or group who commits the act. Money laundering is the processing of unlawful profits to conceal their illegal origin. This procedure is crucial since it allows the launderers to earn without risking their source.

METHOD RESEARCH

Qualitative research was conducted using meta-data from past research literature and scholarly articles. To identify previous research studies for inclusion in the meta-analysis, the researcher searched several business-oriented databases using related keywords: money laundering, process, anti-money laundering, etc. The researcher is well aware of the content validity because it is one of the key concerns in meta-data analysis (Schriesheim et al., 1993). The deductive approach generated the list of proposed items by reviewing the previous literature (Aboul-Ela, 2014). The researcher also reviewed the reference lists of other summaries to identify relevant articles missed in the computerized search.

Using these search procedures, the researcher randomly identified over 50 studies and screened them to determine their relevance. The researcher excluded some studies which are repeated in the topics. After evaluating the studies based on the inclusion criteria, 16 and 5 reports were selected. All studies included in the meta-analysis are appended in the reference section.

RESULT AND DISCUSSION

Characteristics of Money Laundering

Money laundering refers to any monetary assets (cash and electronic bank transfers) or their surrogates, along with quasi-assets such as transportable items and real estate, created either directly or indirectly from illegal actions or designed for the implementation of such an activity. The process is meant to launder illegal assets into lawful usage. The action is therefore distinguished by a malicious intention to change, blend, move, redirect, and misrepresent the real origin or characteristics of incriminated items intentionally and in a structured manner (Schneider & Windischbauer, 2008).

(Korejo et al., 2022) mentioned that it might be split down to apply to three categories of characteristics. First, assets obtained as a result of illegal activity related to a specific offence. Second, the worth of the asset in question, and finally, assets comparable in worth maintained inside the nation and taken or held just outside of the nation. In other words, money laundering refers to the intentional creation of all financial and non-financial assets obtained either directly or indirectly from any illegal behaviour; the former refers to cash or soft-electronic fund transfer or their replacements, while the latter contains portable commodities and immovable estates. Furthermore, such illegal activity is aimed at realizing an asset. Additionally, such illegal activity is aimed at realizing an asset. As a result, acts are distinguished by an unlawful purpose to meticulously transform, blend, hide, and mislead the true source or form of the items engaged in the unlawful activity.

As previously said, the resultant offences have been continuously extended to the crime of money laundering; thus, it is essential to investigate this expanding worldwide legal mechanism combatting money laundering.

Reason Behind Money Laundering

According to various estimates, the entire revenue of organized crime ranges from $500 billion to 2.1 trillion USD. Some estimate that the global value of money laundering ranges from $400 billion to USD 2.85 trillion. Money laundering is considered necessary by launderers because cash is used in practically all unlawful transactions since it puts no transaction marks such as records or proof. Drug trafficking is vital, with a total income of $500-1,000 billion USD, amounting to about 9% of global commerce (UNODC, 2009) The illegal drug industry is massive in scope. The amount, assessed at market prices, exceeds the G.D.P. of 88% of the world's nations. These enormous sales volumes and earnings from drug trafficking must be laundered because one million USD in 20-dollar bills weigh around 55 kg; the same amount in five-dollar bills weighs 220 kg (Schneider & Windischbauer, 2008).

According to (Blum et al., 1998), who also identified that self-employed farmers are somehow responsible for money laundering, one of the ten essential rules of money laundering is: *the more the business structure of production and distribution of non-financial goods and services is dominated by small and independent firms or self-employed individuals; the more difficult the job of separating legal from illegal transactions.*

(Hendriyetty & Grewal, 2017) mentioned that Self-employed individuals and small local firms are not regulated in emerging economies and consequently operate unofficially; thus, they are classified as part of the shadow economy. Money launderers utilize business enterprises in the shadow economy as routes to disguise their illicit earnings in the early stages of money laundering. (Blum et al., 1998) mentioned that underground operations are either criminal or unofficial enterprises that engage in several stages with a legitimate business.

The shadow economy mostly comprises tiny, independent businesses or self-employed people. They typically keep their enterprises small to escape the official inspection and the need to register in the official sector. As a result, the number of tiny and independent businesses will grow, which will be utilized by money launderers to conceal their unlawful operations and give them a legal outlook. As a result, the larger the shadow economy, the more challenging it is to discover money laundering since it is impossible to distinguish between legitimate and criminal activities.

Even though small, self-employed or individual businesses typically run the shadow economy, small businesses are an easy scapegoat for extortion by huge corporations that are more competent at skirting the law by abusing small businesses. This informal sector serves as a conduit for money laundering operations. Because it is challenging to do careful research on operations in an economy with a larger level of interaction between documented and undocumented, official and unofficial, and underground and above-board activities, determining the origins of funds will become increasingly complex (Blum et al., 1998).

Furthermore, money laundering promotes the growth of the shadow economy. Because utilizing legitimate means to shift funds is risky, particularly with the anti-money laundering system in place, money launderers will shift their money to the informal economy. In the underground economy, unconventional financial transactions and tangible cash transfers are preferred (Hendriyetty & Grewal, 2017).

Negative Impact of Money Laundering

On Business

The reputation of the financial services and banking industry is strongly reliant on the notion that it operates within a system of high legal, professional, and moral codes. A business institution's image for transparency is one of its most precious assets. Suppose money from illegal activity is easily processed through a specific institution, either because its professionals or managers have been bribed or because the organization turns a blind eye to the questionable nature of these monies. In that case, the organization may be drawn into active collaboration with criminals and become part of the illicit network. Indications of this collusion will harm the views of other financial intermediaries, regulatory bodies, and regular customers (FATF).

On Economy

Launderers constantly search for new ways to launder their money. As established financial centres or developed nations build strong anti-money laundering policies, economies with expanding or emerging financial centres but insufficient regulations are especially vulnerable. Money launderers will target variations of anti-money laundering policies among countries by transforming their networks to different nations with financial systems that are weak or ineffective defences. Many may claim that emerging economies cannot expect to be overly demanding about the funding sources they receive. However, deferring consequences is risky. The longer it is delayed, the more established and organized crime occurs. Foreign direct investment is depressed whenever a nation's commercial and economic sectors are considered under the influence and dominance of organized crime, just as when a private financial institution's credibility is harmed (FATF).

Financial market imbalances put the international economy's stability at risk. Economic problems are hence worsened if not caused. Furthermore, money laundering involves penetrating legal, and economic systems and crowding cutthroat competition. Additionally, the "dollarization" of the economy limits the budgetary and financial political reach of national governments and banks, respectively. Aside from that, financially impoverished nations that primarily provide financial services risk economic (and hence political) reliance. Measures to fight money laundering boost the cost of legitimate activity and interfere with them in the capital markets.

Steps Of Money Laundering

Money Laundering follows three steps.

Placement

The launderer inserts unlawful funds into the economic system at the first or placement stage of money laundering. This might be accomplished by dividing large quantities of cash into smaller sums deposited directly into a bank account or by obtaining a series of financial instruments (cheques, money orders, etc.) that are subsequently collected and transferred into banks in different areas. There is an elevated chance of being revealed at this point. The placement stage is divided into two sub-sections as follows.

Primary deposit

This refers to the quick transfer of criminal income into a legal, economic system without drawing the notice of governmental authorities. Limited quantities are undercut with "structuring" and "smurfing" to escape detection, reporting responsibilities, and paperwork requirements. Furthermore, funds are carefully divided into small quantities to allow payment in multiple financial institutions below relevant recognition and disclosure limits. For example, savings accounts of up to 15,000 euros are exempt from these requirements in Austria (Schneider & Windischbauer, 2008).

Another technique of placement includes exerting an effect on economic sector institutions in terms of acquiring existing banks or establishing new banks in offshore nations ("company havens" or "bank havens"). Furthermore, coworker corruption is a regularly utilized criminal tool to place incriminated funds: endeavours are made to socialize with bank personnel to permit immediate penetration of funds without drawing the attention of regulatory agencies. Depositing cash into bank accounts abroad allows participation in the economic or financial cycle.

Secondary deposit

Secondary deposits, as opposed to primary deposits, are a passive penetration of the liquidity into the Financial sector and hence a transformation into book money via the interconnectivity of a real or legal entity. This occurs either by modifying the channel, in which incriminated funds are turned into other resources, or through leads, who act on their behalf but trade for the account of a third party or grant the use of their name to execute out (realize) an account opening, the formation of a company, or the conclusion of an insurance scheme.

Forward displacement of the money laundering site onto life insurance companies, financial service providers, and exchange offices can also result in indirect placement. Currently, numerous proposals are received through email or posted on websites to work as a "financial agent," providing banking accounts that are used to send unlawful gains to conceal transfer methods.

Another method of laundering money is the formation of front firms, which, in contrast to leading corporate entities, penetrate black money on the bank deposits and hence into the financial system through simulated turnovers. Cash-intensive businesses (cuisine, shipping enterprises, vehicle business, hotel industry, auctioneers, and galleries) are required. Partially, no phantom firm/dummy firm is created, but simply foundational documentation is falsified. For example, 25,000 life insurance clients are suspected of laundering illicit money with single payments totalling one billion euros (Schneider & Windischbauer, 2008).

Layering

The second - or layering - stage occurs once the money has entered the financial system. During this stage, the launderer converts or moves the monies to separate them from their origin. The monies may be routed through the buying and selling financial items, or the launderer could easily shift the cash through a network of accounts at multiple organizations worldwide. Using widely dispersed institutions for laundering is particularly common in nations unwilling to cooperate with anti-money laundering operations. In other cases, the launderer may camouflage the movements as purchases for commodities or services, giving them the appearance of legitimacy.

Integration

After successfully processing the illegal gains through the initial two stages of the money laundering procedure, the launderer advances the money to the third step, integration, when the funds are re-introduced into the legal, financial sector. The launderer may decide to invest the money in the housing market, luxury goods, or business ventures.

Electronic Money Laundering And Steps

When funds are laundered electronically, it is defined as electronic (E) money laundering.

Electronic Placement

In conventional laundering, criminals must give over their money to a bank or convert it into a product or property, which is then sold and the laundering money is used to finance and production. These procedures are more difficult to complete since the client identification, and verification criteria have been met. Most nations limit the number of entries in the cash flow. Still, with electronic money laundering, the criminal can convert their unlawful earnings into digital money and cross borders or acquire expensive products since verification is tough and it is a low-risk operation. However, it appears that worldwide regulations for them have not been set.

Electronic Layering

In conventional money laundering, the launderers must use a comma to separate the occasional source from the first entry and other potential uses. "Money committed to engaging in a leisure facility or a publicly approved action," for example. Confidentiality and camouflage of identity are the goals of money launderers, which have typically been challenging. However, electronic money laundering processes can be done immediately, without a border, and digital transactions would not be hard. Even in certain nations, opening a bank account with no physical verification can be done virtually.

Electronic Integrating

In conventional integration, many techniques are followed, such as investing, taking loans to form coating firms, and fabricating papers, including buy or sale transactions, a high-risk operation. However, all those processes can be done in a virtual space and with less danger.

Anti-Money Laundering Initiatives

The international community has developed a comprehensive anti-money laundering legislative framework for over thirty years. The creation of this paradigm was linked to the United Nations Vienna Convention of 1988, which addressed the problem of narcotics trafficking profits laundering. Following this, the Palermo Convention of 2000 and the Convention Against Corruption in 2003 combined enlarged derivative crimes related to the money laundering offence. As a result, all three Conventions formed the basis for the globalized structure for countering money laundering. However, the actions of the Financial Action Task Force have been more essential to the expansion of the international anti-money laundering legal system (Force et al., 2012).

The United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (1988) (Vienna Convention) was the first inter-governmental accord to demonize money laundering. Still, it is limited to drug-related crimes such as manufacturing, plantation, acquisition, transfer, ownership, and control. The agreement also compelled governments to implement global anti-money laundering regulations, including freezing and relinquishing unlawful gains. However, the phrase "Money Laundering" was not formally introduced in the Convention. Nonetheless, this document created a broad definition of "proceeds" of narcotic crimes and was a comprehensive weapon for combating present global narcotics trafficking; it required nations to prosecute the laundering of drug-related profits and designated money laundering as an actual criminal act. Under this agreement, "proceeds" are defined as any property derived or received, directly or indirectly, from the conduct of drug-related offences (as defined in paragraph (a) of Article 3 of the Convention).

Furthermore, the scope of the offence includes cooperation in concealing or disguising the illicit activity or origin of the assets (drug revenues). Moreover, money laundering is committed by aiding any individual in the commission of such an offence or misdemeanour to avoid the legal consequences of their actions; assisting means any act of invisibility or disguise of the true origin, disposition, or mobility of assets, recognizing that such assets are acquired from an offence or offences founded by Article 3 of the U.N. Vienna Convention. Nevertheless, while the criminalization efforts under the Vienna Convention acknowledged the revenues of drug-related offences, there were major gaps in the terminology concerning money laundering. However, its range and applicability were limited to drug-associated money laundering. The revenues from other offences were still allowed to be washed and so fell inside the instrument's blind zone (Korejo et al., 2021).

The United Nations Convention on Transnational Organized Crime (Palermo Convention) is a global pact combating global organized crime signed in Palermo in 2000. However, it went into effect on September 29, 2003. The Convention was created to encourage governments to collaborate more effectively to detect and fight international organized crime. The Convention was the initial worldwide legally enforceable treaty addressing cross-border organized crime. The Palermo Convention broadened the criminality realm of "criminal proceeds" from drug-related offences to proceeds of "severe offences" when the punishment for the violent act is ultimate liberty forfeiture for four years or more. Besides, under the same Convention, an essential progression in the crime of money laundering occurred by the prosecution to a wide range of predicate offences, which include all severe crimes, participation in a structured terrorist cell, inclusion as an association, bribery, limiting justice, and engagement of legal entities in violent felonies.

Even though the Convention is a comprehensive framework that establishes a foundation for handling money laundering and profits of wrongdoing, it has several shortcomings, including ambiguity in words like "serious offence" and no definition of the phrase "predicate offence." The treaty also has various flaws in terms of corruption and malpractice offences.

The Financial Action Task Force (FATF), a 33-member international group combating money laundering and terrorism funding, aims to guide non-cooperative nations with a "name and shame" approach by releasing a "blocklist". Furthermore, it attempts to prevent money laundering globally using conceptual frameworks and 40 international standards suggestions. No Non-Cooperative Nations and Jurisdictions have been on FATF's list since October 13, 2006.

Suspicious Transaction Model

(Jullum et al., 2020) developed an anti-money laundering model to detect money laundering using machine learning technology. They displayed the following equation:

$$L\{Yi,f(xi)\} = Yi \log\{f(xi)\} + \{1-Yi\} \log\{1-f(xi)\}$$

Suppose Yi accepts the value I if transaction I was signalled to the authorities and 0 if it was not. Let xi indicate vectors comprising the numeric explanatory variables. (Jullum et al., 2020) try to predict the chances of a transaction being detected, given its explanatory variables minimizing the logistic loss.

Several research has revealed that there is no perfect method for categorization. (Chen et al., 2018), (Rivera et al., 2015) (Savage et al., 2016), and (Zhang & Trubey, 2019) all recommend running many algorithms on the same data set before deciding which one to use. (Daryadel et al., 2021) suggested four algorithms: logistic regression, random forest, support vector machines and decision tree.

CONCLUSION

Conjunction with conventional banking and electronic banking, lowering the threat of illegal activities and the presence of infrastructures and parallel organizations or the non-utilization of activities in technology make electronic money laundering more readily. Additionally, the use of private enterprise development and the function of governmental political analysts is diminishing. Consequently, decentralization will make the money-laundering schemes more creative and complicated, making them tougher to combat. The author would like to thank Umama Rashid Lamiya (MSc student, Department of Soil Water and Environment, University of Dhaka) for helping screen the materials and find the best resources for this paper. No funding was taken for writing this article, and the author fully consented to publish it.

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