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MONEY LAUNDERING

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Abstract

Money Laundering is the illegal process of making large amounts of money generated by criminal activity, such as drug trafficking or terrorist funding, appear to have come from a legitimate source. The money from the criminal activity is considered dirty, and the process “launders” it to make it look clean. Online banking and crypto currencies are the main forms of money laundering in the world. In this article we discuss about the main features of money laundering, how it works, variants of money laundering and effects of money laundering on the economy.

Introduction

Money laundering is a process that allows criminals to transfer or unload money while hiding details and information, usually because they’re getting the money through illegal situations. Money laundering disguises where the money has come from, who it belongs to, where it’s come from or where it’s going. Money laundering is a type of financial crime that deliberately sets out to bring in and circulate money that’s often been generated illegally into financial and economic streams, like banks. From here, criminals can then legally use the money to buy goods and services. In the context of money laundering, ‘dirty’ money refers to cash made illegally and ‘clean’ money is when it is cleared to be used freely. Money laundering deceives the system to make dirty money appear as clean money.

Unfortunately, money laundering schemes can benefit different forms of crimes, where criminals can be from white-collar, corporate backgrounds as well as street level. Drug traffickers, Human traffickers, terrorist financiers, white color professionals also involve in money laundering across the globe. According to the United Nations Office on Drugs and Crime (UNODC), between 2% and 5% of global GDP is laundered each year. This translates into an astounding amount of between EUR 715 billion and 1.87 trillion each year.

Objectives

1. To understand the money Laundering
2. To know about the working of money laundering in the economy
3. To discuss about the effects of money laundering on the economy.

KEYTAKEAWAYS

- Money laundering is the illegal processes of making “dirty” money appear legitimate instead of ill-gotten.
- Criminals use a wide variety of money-laundering techniques to make illegally obtained funds appear clean.
- Online banking and crypto currencies have made it easier for criminals to transfer and withdraw money without detection.
- The prevention of money laundering has become an international effort and now includes terrorist funding among its targets.
- The financial industry also has its own set of strict anti-money laundering (AML) measures in place.

KEY WORDS:

Money Laundering, Drug Trafficking, Online Banking and Crypto Currencies

How Money Laundering Works

Money laundering is essential for criminal organizations that wish to use illegally obtained money effectively. Dealing with large amounts of illegal cash is inefficient and dangerous. Criminals need a way to deposit money in legitimate financial institutions, yet they can only do so if it appears to come from rightful sources.

The process of laundering money typically involves three steps: placement, layering, and integration.

- **Placement** surreptitiously injects the “dirty money” into the legitimate financial system.
- **Layering** conceals the source of the money through a series of transactions and bookkeeping tricks.
- In the final step, **integration**, the now-laundered money is withdrawn from the legitimate account to be used for whatever purposes the criminals have in mind for it.

Variants of Money Laundering

One common form of money laundering is called smurfing (also known as “structuring”). This is where the criminal breaks up large chunks of cash into multiple small deposits, often spreading them over many different accounts, to avoid detection. Money laundering can also be accomplished through the use of Currency exchanges wire transfers, and “mules”—cash smugglers, who sneak large amounts of cash across borders and deposit them in foreign accounts, where money-laundering enforcement is less strict.


Other money-laundering methods include:

- Investing in commodities such as gems and gold that can be moved easily to other jurisdictions;
- Discreetly investing in and selling valuable assets such as real estate, cars, and boats;
- Gambling and laundering money at casinos;
- Counterfeiting; and
- Uses Shell companies (inactive companies or corporations that essentially exist on paper only).

Impact of the money laundering on the economy of a Country

The Money laundering puts negative effects on the economic development of a country where it is prevails. Money laundering leads to a serious threat to international economies and respective governments. The penetration and sometimes saturation of dirty money into legitimate financial sectors and nations accounts can threaten the economic and political stability of a country. Economic crimes have a distressing effect on a national economy since potential victims of such crimes are far more numerous than those in other forms of crime. Economic crimes also have the potential of adversely affecting people who do not prima-facie, seem to be the victims of the crime. For example, tax evasion results in loss of government revenue, thus affecting the potential of the government to spend on development schemes thereby affecting a large section of the population who could have benefited from such government expenditure. Economic distortion and instability, Loss of revenue, Security threats to privatization efforts, Volatility in exchange rates and interest rates due to unanticipated transfers of funds.

1. The Economic Cost of Money Laundering



The act of money laundering poses a threat to financial institutions that play a crucial role economic growth. It fuels criminal activities and corruption, which in turn, hinders productivity and slows down economic growth. This problem is pervasive in major financial markets as well as emerging markets. As developing economies and financial sectors emerge, they become more vulnerable to money laundering activities. The adverse impacts of money laundering are far-reaching and can cause unpredictable changes in money demand, exchange rates, and international capital flows. Its economic impact can be seen in various aspects, such as growth rates, income distribution, tax revenues, and financial institutions.

2. The Social Cost of Money Laundering

Money laundering has not only economic costs but also significant social risks. Criminals, such as drug traffickers use money laundering to expand their operations, creating a burden on the government due to increased law enforcement and healthcare spending to combat the serious consequences. Money laundering briefly shifts economic power from the government, citizens, and the market to criminals, which has a degenerative impact on society. In some cases, money laundering can lead to a virtual takeover of a legitimate government. Therefore, reducing the ability of criminals to launder their income and conduct criminal activities requires global standards and international cooperation. However, governments must also be mindful of the negative impact of increased AML regulations and law enforcement on public spending. Ultimately, the normal citizen could be adversely affected.

3. The Adverse Money Laundering Implications for Developing Countries

Money laundering and terrorism financing can occur in any country, but their impact may vary from one nation to another. Developing countries with their relatively small markets and vulnerability to criminal or terrorist

influences, suffer significant economic and social consequences from money laundering. However, even countries with fragile financial systems are not immune to the damaging impacts of illegal finance. In essence, the economy, society, and security of any country that becomes a hub for money laundering or terrorism financing are at risk. In the following article, we will focus on the impact of money laundering on developed countries.

4. International Consequences and Foreign Investment

If a developing country has a reputation as a hub for money laundering. It could face negative consequences for its growth and development. Foreign financial institutions may limit their transactions with institutions in these locations, leading to reduced investments and increased transaction costs. Legitimate businesses in these areas may also suffer from decreased access to global markets and higher expenses due to increased scrutiny of their ownership and control systems. Consequently, countries with inadequate AML/CFT enforcement are less likely to receive foreign private investment and may face severe restrictions on eligibility for foreign state aid, particularly in developing countries.

5. Increased Crime and Corruption

When a country is seen as a place where money laundering is prevalent, it becomes a magnet for criminals and corruption. There are several factors that contribute to the rise in crime and corruption, such as a weak AML/CFT system. Insufficient or selective enforcement of AML/CFT laws, inadequate penalties, including asset seizure, and a limited number of precursor offenses for money laundering. If money laundering is widespread, there is a higher likelihood of corruption and other crimes occurring. Criminals often bribe key institutions within the country to facilitate their money laundering SCHEMES. These institutions can include financial institutions, lawyers, accountants, legislatures, supervisory authorities, police officials, prosecutors, and courts. However, implementing timely and impactful practices in the country can greatly reduce the profitability of criminal activity and deter future crimes.

6. Private Sector

Criminals involved in money laundering often employ the use of shell companies. These companies appear legitimate but are actually controlled by criminals and are used to mix illegal funds with legal ones in order to conceal ill-gotten gains. The ultimate goal of these shell companies, also known as front companies, is not only to generate profits but also to safeguard the illegal funds. By investing in legitimate companies and using shell companies, money launderers can gain control over various sectors and industries within a country's economy, which can lead to instability and improper allocation of resources due to artificial distortions in asset prices. Furthermore, this method of money laundering enables individuals to evade taxes, thereby depriving the country of much-needed revenue.

7. Weakened Financial Institutions

Money laundering poses a threat to the stability of a country's financial sector, particularly to banks. The resulting risks, which include reputational, operational, legal, and concentration risks, are interconnected and come at a

cost. The reputational risk, for instance, may result in a loss of trust in the bank's integrity due to negative publicity about its business practices and affiliations. This may lead customers, borrowers, depositors, and investors to avoid doing business with the institution, especially if there are suspicions or allegations of money laundering or terrorist financing. Thus, money laundering can have a myriad of detrimental impacts on financial institutions.

How to Prevent Money Laundering

Governments around the world have stepped up their efforts to combat money laundering in recent decades, with regulations that require financial institutions to put systems in place to detect and report suspicious activity. The amount of money involved is substantial. According to the United Nations Office on Drugs and Crime, global money-laundering transactions account for roughly \$800 billion to \$2 trillion annually, or some 2% to 5% of global GDP, although it is difficult to estimate the total amount due to the clandestine nature of money laundering.

In 1989, the group of seven (G-7) formed an international committee called the Financial Action Task Force (FATF) in an attempt to fight money laundering on an international scale. In the early 2000s, its purview was expanded to combating the financing of terrorism.

The United States passed the Bank Secrecy Act in 1970, requiring financial institutions to report certain transactions, such as cash transactions above \$10,000 or any others that they deem suspicious, on a Suspicious Activity report (SAR) to the Department of the Treasury. The information that the banks provide to the Treasury Department is used by the Financial Crimes Enforcement Network (FinCEN), which can share it with domestic criminal investigators, international bodies, or foreign financial intelligence units.

While these laws were helpful in tracking criminal activity, money laundering itself wasn't made illegal in the United States until 1986, with the passage of the Money Laundering Control Act.⁸ Shortly after the Sept. 11, 2001, terrorist attacks, the USA Patriot Act expanded money-laundering efforts by allowing investigative tools designed for the prevention of organized crime and drug trafficking to be used in terrorist investigations.

The Association of Certified Anti-Money Laundering Specialists (ACAMS) offers a professional designation known as a Certified Anti Money Laundering Specialist (CAMS). Individuals who earn CAMS certification may work as brokerage compliance managers, Bank Secrecy Act officers, financial intelligence unit managers, surveillance analysts, and financial crimes investigative analysts.

Conclusion

Thus, it can be concluded that Money Laundering is global problem and must attract global concerns. Without international cooperation money laundering cannot be controlled. The criminals outsmart the enforcing agencies and deploy a team of experts like chartered accountants, attorneys, banker's mafia, to disguise their illicit money and masquerade it as legitimate income. The nexus between white-collared criminals, politicians, enforcing agencies and mafias cannot be ruled out. The Bankers must play the most important role and without their involvement, the operation cannot be carried out. Development of new high-tech coupled with wire transfer of funds has further aggravated the difficulties to detect the movement of sludge funds. The international nature of money laundering requires international law enforcement and cooperation to successfully investigate and prosecute those that instigate these complex criminal schemes. Money laundering must be combated mainly by penal means and within the frameworks of international cooperation among judicial and law enforcement authorities. Last but not the least it is vitally important to keep in mind that simple enactment of Anti-Money Laundering Laws are not enough, the Law enforcement Community must keep pace with the ever changing dynamics of money Launderers who constantly evolves innovative methods which helps them to stay beyond the reach of law.

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