

Money Laundering

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Abstract

Money laundering has a corrosive effect on a country's economy, government, and social well-being.

Money is the prime reason for engaging in almost any type of criminal activity. Money-laundering is the method by which criminals disguise the illegal origins of their wealth and protect their asset base, so as to avoid the suspicion of law enforcement agencies and prevent leaving a trail of incriminating evidence. Money laundering happens in almost every country in the world.

Terrorists and terrorist organizations also rely on money to sustain themselves and to carry out terrorist acts. Money for terrorists is derived from a wide variety of sources. While terrorists are not greatly concerned with disguising the origin of money, they are concerned with concealing its destination and the purpose for which it has been collected. Terrorists and terrorist organizations therefore employ techniques similar to those used by money launderers to hide their money.

In this article, we'll learn exactly what money laundering is and why it's necessary, who launders money and how they do it and what steps the authorities are taking to try to foil money-laundering operations

Keywords: Money laundering, Fraud, Corruption, Terrorists organizations

1.Introduction

Money laundering, the process by which criminals attempt to conceal the illicit origin and ownership of the proceeds of their unlawful activities. By means of money laundering, criminals attempt to transform the proceeds from their crimes into funds of an apparently legal origin. If successful, this process gives legitimacy to the proceeds, over which the criminals maintain control.

Money laundering is the process of transforming the profits of crime and corruption into ostensibly 'legitimate' assets. In a number of legal and regulatory systems, the term money laundering sometimes used more generally to include misuse of the financial system (involving things such as securities, digital currencies, credit cards, and traditional currency), including terrorism financing.

According to legend, the term money laundering was originated in 1920's during the period of prohibition in the United States. The organized criminals in the United States got greatly involved in the profitable alcohol smuggling industry and for legalizing their profits they started combining their profits with the profits from legislative business. But according to Robinson, the term was first used in 1973 in relation with the Watergate scandal. He says this case describes the money laundering perfectly despite of its origin, In that case the dirty or illegal money was put through a series of transactions and the money appears clean or legal at the other end.

1.1 Objectives of money laundering

The objective of criminalising money laundering is to take profit out of the crime. The rationale for the creation of the offence is that it is wrong for individuals and organisations to assist criminals to benefit from the proceeds of their criminal activity or to facilitate the commission of such crimes by providing financial services to them.

1.2 Money Laundering: A Three Stage Process

Money laundering has three stages: placement, layering, and integration.

A TYPICAL MONEY LAUNDERING SCHEME



i) The Placement Stage

The **placement stage** represents the initial entry of the "dirty" cash or proceeds of crime into the financial system. In the placement stage, the launderer introduces the illegal profit into the financial system. Generally, this stage serves two purposes:

- (a) it relieves the criminal of holding and guarding large amounts of bulky of cash;
- and (b) it places the money into the legitimate financial system. It is during the placement stage that money launderers are the most vulnerable to being caught. This is due to the fact that placing large amounts of

money (cash) into the legitimate financial system may raise suspicions of officials.

The placement of the proceeds of crime can be done in a number of ways. For example,

cash could be packed into a case and smuggled to a country, or the launderer could use *smurfs* to defeat reporting threshold laws and avoid suspicion. Some other common methods include:

Loan Repayment	Repayment of loans or credit cards with illegal proceeds
Gambling	Purchase of gambling chips or placing bets on sporting events
Currency Smuggling	The physical movement of illegal currency or monetary instruments over the border
Currency Exchanges	Purchasing foreign money with illegal funds through foreign currency exchanges
Blending Funds	Using a legitimate cash focused business to co-mingle dirty funds with the day's legitimate sales receipts

This environment has resulted in a situation where officials in these jurisdictions are either unwilling due to regulations, or refuse to cooperate in requests for assistance during international money laundering investigations.

To combat this and other international impediments to effective money laundering investigations, many like-minded countries have met to develop, coordinate, and share model legislation, multilateral agreements, trends & intelligence, and other information.

For example, such international watchdogs as the Financial Action Task Force (FATF) evolved out of these discussions.

ii)The Layering Stage

After placement comes the **layering stage**. In this stage the launderer engages in a series of conversions or movements of the funds to distance them from their source. Finally The layering stage is the most complex and often entails the international movement of the funds. The primary purpose of this stage is to separate the illicit money from its source. This is done by the *layering* of financial transactions that obscure the audit trail and serve the link with the original crime.

During this stage, for example, the money launderers may begin by moving funds electronically from one country to another, then divide them into investments placed in advanced financial options or overseas

markets; constantly moving them to elude detection; each time, exploiting loopholes or discrepancies in legislation and taking advantage of delays in judicial or police cooperation.

iii)The Integration Stage

The final stage of the money laundering process is termed the **integration stage**. Finally, in the integration stage, the funds reenter the legitimate economy. It is at the integration stage where the money is returned to the criminal from what seem to be legitimate sources. Having been placed initially as cash and layered through a number of financial transactions, the criminal proceeds are now fully integrated into the financial system and can be used for any purpose.

It's very difficult to catch a launderer during the integration stage if there is no documentation during the previous stages

There are many different ways in which the laundered money can be integrated back with the criminal; however, the major objective at this stage is to reunite the money with the criminal in a manner that does not draw attention and appears to result from a legitimate source. For example, purchases of property, art work, jewellery, or high-end automobiles are common ways .

2.VULNERABILITIES AND EXPECTED TYPOLOGIES

The most common money laundering methods include opening multiple bank accounts to hide or route funds, purchasing bank cheques with cash, and routing funds through complex legal structures. Illicit funds are sometimes

laundered through real estate, educational programs, charities, and election campaigns. Laundered funds are derived from narcotics trafficking and illegal trade, as well as tax avoidance and economic crimes. Counterfeit Indian currency has also been a problem. Notably, however, in November 2016, the Reserve Bank of India demonetized the 500 and 1000 rupee notes and introduced new banknotes to try to crack down on “black money” stemming from corruption, tax evasion, and other illicit financial activity. While this action addresses the problem of counterfeit currency, it does little to mitigate long term money laundering risks.

Demonetization as a cleaning exercise has produced several good things in the economy. But at the same time, it has created unavoidable income and welfare losses to the poor sections of the society who gets income on their daily work and those who doesn't have the digital transaction culture

3.KEY AML LAWS AND REGULATIONS

In October 2015, India began implementing legislation passed in response to government electoral promises to repatriate previously undisclosed and non-taxed financial

assets. Some tax analysts and business community members criticized the severity of the legal penalties in the new law, such as 10-year jail terms, hefty financial penalties, and lack of immunity from prosecution. India's tax department has attempted to allay taxpayer fears of harassment and corruption by assigning enforcement responsibilities to senior officers and publicly clarifying legislation guidelines.

India has comprehensive KYC and STR requirements. India is a member of the FATF, as well as two FATF-style regional bodies, the APG and the EAG.

4.ENFORCEMENT/IMPLEMENTATI ON ISSUES AND COMMENTS

While 2012 amendments to the Prevention of Money Laundering Act (PMLA) widen the definition of money laundering, the government has not changed its enforcement model. Observers and law enforcement professionals express concern about effective implementation and enforcement of the current laws, especially with regard to criminal prosecutions.

India should address noted shortcomings in the criminalization of money laundering, as well as its domestic framework for confiscation and provisional measures. The government should ensure all relevant DNFBPs comply with AML regulations. India should extend its safe harbor provision to also cover all employees. The government of India should seek to use data and analytics to systematically detect trade anomalies that could be indicative of customs fraud, TBML, and counter-valuation in hawala networks.

4.1 Key recommendations include the need to:

- i) Know your customer. Collecting information about customers identity, citizenship, occupation, source of funds, volume and type of activity, and countries where they do business can help banks learn what kind of risk the customers pose, the report said.
- ii) Address the technical shortcomings in the criminalization of both money laundering and terrorist financing and in the domestic framework of confiscation

measures

- iii) Broaden the customer due diligence obligations with clear and specific measures to enhance the current requirements regarding beneficial ownership;
- iv) improve the reliability of identification documents, the use of pooled accounts, politically exposed persons, and non-face-to-face business;
- v) Ensure that India Post, which recently became subject to the Prevention of Money Laundering Act, effectively implements the AML/CFT requirements;
- vi) Enhance the effectiveness of the suspicious transactions reporting regime;
- vii) Enhance the effectiveness of the financial sector supervisory regime and ensure that India Post is adequately supervised
- viii) Ensure that the competent supervisory authorities make changes to their sanctioning regimes to allow for effective, proportionate and dissuasive sanctions for failures to comply with AML/CFT requirements; and
- ix) Extend the Prevention of

Money Laundering Act to the full range of designated non-financial businesses and professions, and ensure that they are effectively regulated and supervised."

x) Financial Intelligence Unit To provide quality financial intelligence for safeguarding the financial system from the abuses of money laundering, terrorism financing and other economic offences.

Conclusion

From the above brief description of what is involved in money laundering, How it effects or can effect the social and financial well being of every individual it is clear that if it goes unchecked, money laundering is a detriment to economic development policy because it damages the financial institutions, impairs productivity and can even distort a country.s international capital flows.

Therefore one can conclude that money laundering is a threat to the smooth functioning of a country and its financial system. Mostly, it is through financial transaction records that connection can be made between criminals, hidden assets, and the identity of the criminals. Money laundering investigation is often the only way to locate the

stolen funds and restore them to the victims. Consequently, combating money laundering and depriving the criminals from their ill-gotten gains means that criminals are hit hard where it hurts most: their profits which are the objective of their activity. If there is no profit in crime, criminals will lose their incentive. However, it will not be possible to stop money laundering without the full cooperation between authorities, on a micro level and international on a macro level.

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