

Money Laundering as Specific Form of Fraud Management

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ABSTRACT : Money laundering is the legalization of capital and money obtained from crime and core activity of fraud management. This activity is carried out through financial transactions that obscure the original source of money or capital. Recurring modus operandi of money laundering is achieved through the falsification of documents and the manipulation of banking transactions. Money laundering is associated with various forms of threats to security as a source of financing terrorism, organized crime, trafficking of human and drugs. In the process of money laundering, exchange offices, casinos and insurance companies have important role, which are due to reduced regulatory oversight in relation to other institutions engaged in financial transactions. Global networking and interplay of many dimensions of

globalization emphasize the necessity of solving the problem of money laundering on a global scale. Financing of political and economical processes obtained from money laundering is a serious security problem that has the impact even in the most economically developed countries in the world and requires special attention in creating mechanisms for the prevention of this type of criminal activity.

Key words: fraud management , money laundering, , crime, security, globalization.

INTRODUCTION

Money laundering is legalization of capital obtained from crime or financial transactions made to disguise the origins of money and other forms of capital in the market. It consists falsifying financial documents and manipulation of interbank transactions in the system. In recent years, increased illegal trade of drugs and weapons as well as organized gambling, prostitution and racketeering, processes of privatization in the former socialist countries of Eastern Europe, opened up

organized criminal channels in the West. The term money laundering occurs from the US the period of Prohibition (time ban dispensing alcohol), in the third decade of the last century, when criminals earned money from the illegal production and smuggling of alcohol drinks , portrayed as earnings that were achieved in the chain as washing their laundry and cars. As the time was passing by, this phenomenon began to be used in the term of money laundering and studied through Criminological Sciences.

Launderers generally do not seek to achieve the highest rate of profit on the money that opera, but they are more important place or investments that will allow them the easiest and fastest way processing of money. That money can travel from state that has good economic policy which generates more profit rate in the country with poorer policy and lower yields than investments rates. Thus, regarding money laundering

it can happen that free capital for investments is less rational, which can greatly impair current economic trends. The change in money demand - as a result of money laundering, which is not reflected in official terms - at the national level can cause volatility of interest and exchange rates. Money laundering significantly undermine consumer structure where a small number of people get tremendous purchasing power, the demand for luxury goods and creates the conditions for inflation and other adverse economic situation. Popular travel destinations for " money washers" are Cyprus, Seychelles, Cayman Islands, Liechtenstein ... ¹ In the process of money laundering, the most common role is played by banks, with other financial institutions that use large amounts of money, and often those institutions are not under strong legal supervision such as: casinos, exchange offices, insurance companies, etc ... As elsewhere in crime entrepreneurship is valued. Such advantages are present in the numerous countries, mainly those barely visible on the world map. Particularly popular The Caribbean, and barely inhabited island with extremely exotic names in bulk Pacific Ocean. In the small country Belize Caribbean for \$ 500 there can be opened anonymous account, while an additional \$ 500 a person can get even a fictitious name of the account holder.

In the Cayman Islands with only 39,000 inhabitants, for example, there are 34,000

registered companies, 590 banks and 500 billion dollars in the accounts. If the banks are involved in money laundering, that fact undermines the confidence the public has in them, and if they are linked to organized crime it shatters their stability.

2. METODOLOGY OF MONEY LAUNDERING

Exposed definition of money laundering and complexity of the process of converting illegal money into seems legitimate, with the aim of concealing its true origin, indicates the number of options that are pushing offer. Modalities of money laundering differ depending on the amount of money that a person or organization wants to wash, relevant legislation, and financial market, the selected mode (through financial or non-financial sector) and the process (phases) through which the money will go to its final destination. The fact that international transfers usually are an integral part of the process, advanced technology and electronic banking are providing new opportunities and turning direction of development methods and techniques of his laundry. Lately, with the issues of money laundering often relates to the question of preventing terrorist financing which is also indicative with electronic transfer of funds, operation of non-profit organizations, insurance companies and especially the entire financial sector (freelancers and professionals).

3. TYPOLOGY OF LEGAL ENTITIES

Featured methods are commonly used in international context: off shore zone, the non-resident accounts, fictitious contracts and

¹ <http://www.novosti.rs/vesti/naslovna/aktuelno.291.html>: 355141

printing fictitious accounts, investment cash into the financial system, front or shell companies etc.²

3.1 Off-shore Zones and Non-resident Accounts

Off-shore destinations can be defined as an economy that promote themselves as free zones in which the companies that operate internationally significantly lower taxed so as to remove other barriers to international commerce and the way to attract companies that are based in developed countries with significant tax burden. Common features of all business areas are low or nonexistent taxes revenues and operations, the absence of restrictions on the movement of capital and the protection of banking secrets and confidential business and investment transactions. Although it was initially free of the business areas focus was on the conduct of international trade easier, these zones are gradually specialized in international financial transactions.³

The main characteristics of the offshore zones include the entry of goods or money, as well as establishment of non-resident companies. Off-shore zones are often the first place by the strength of the circumstantial evidence for suspicion of money laundering, given the frequency and size of transactions transfers. These are areas which by definition have a very liberal set legislation in respect of the business and the opening of banks and firms, where a very small percentage tax liabilities, a very pronounced and strong banking secrecy.

² Mode of action of money laundering Radojević, M. (9-10 / 2004): Money laundering. "Pulse", p. 28

³ Bjelica, P. (2005): International Trade. Belgrade: Faculty of Economics, p. 257

Another important indicator for suspicion of money laundering, although not so much indicative of off-shore zone because it is a distinctive, modern and widely used mode of operation of modern banking, are non-resident accounts. Non-resident accounts are often in very close connection with offshore zones because transactions take place through open non-resident accounts offshore zone countries that are suitable for the purpose close-developed banking system and the usual channels communication. The following is a very simple way to transfer: company offshore open non-resident account in another country to issue an invoice that is legally payable over domestic banks listed on the account and thus transferred the funds used for the smooth personal needs, re-inserted into the reproductive cycle of criminal activity or trying to legalize (launder) in the form of investment funds for investment in local entrepreneurship and infrastructure.⁴

3.3 Fictitious Contracts and Issuing Fictitious Account

As one of the most common techniques, there is the creation of fictitious contracts and such "Legal basis" issuing fictitious invoices. This area is divided into two parts:

1. The placement of totally fictional account for services, generally (consulting, market research, etc., mainly most non-commodity payments)
2. invoicing with greater or lesser amounts of real for goods or lesser extent services.

⁴ Milovanovic, M. (2008): Money laundering: some open questions. "Journal of Security", No. 5/2008, p. 32

3.4 Investment of Cash Into the Financial System

As a fourth group of money laundering techniques, appears to invest cash in financial system, the current accounts of companies, in the form of loans of all types, credit relations between employees and partner companies, passing fictitious daily expenditure of such transactions and from the accounts of legal entities on account of natural persons and vice versa. The use of the payment system in the country, also appears as one of the forms and ways of money laundering. The practice shows that this is a "textbook example" of implementation of the first phase money laundering process, and it is the laying down of dirty money into legitimate financial system, with the aim of concealing its illicit origin. And this way, money laundering can be classified as classical methods because modern methods of money laundering include investment in the financial sector, reliance on modern technology, electronic banking and investment funds. However, it is not impossible that these modes appear together, linked in an interactive process of money laundering, including numerous washing techniques and different time periods.

3.6 Smuggling of Money

One of the oldest and simplest techniques of money laundering is smuggling money. It occurs at the very beginning of the process of money laundering which directly breaks apparent connection between the money and the owner and the illegal source. On the one hand we can say that the most stable because without leaving a written record, but also the most risky, especially for a person who is physically transferred across state borders.

Illegally acquired funds are usually transferred:

1) in bundles of banknotes,

2) same routes as drugs (truck, plane, boat) or

3) change of cash in some other Securities in bearer (check).

Illegal funds are usually transferred to a foreign country that has strict laws on secrecy of bank accounts.

3.7 Transactions With Cash

Although modern technology has taken hold, and daily put on the market new technology transfer money, most states fundamentals of preventive strategies related to problem Money laundering is still based on cash transactions. Therefore, it is mandatory to prescribe the application of regular and connected cash transactions to the statutory constraints, which cash transactions are still recognized for their frequency and importance in analytical processing of received data on transactions and faces.

3.8 Unusually Large Cash Deposits

This method of money laundering by the very name reveals that it is a cash position, or cash in transactions.⁵ However, as the term "Uncommon (large amounts)" varies from client to client and is linked to, for example, with business background, it is often an illogical or suspicious transaction by their nature do not reach the law set a limit for cash transactions, and have an atmosphere of suspicion. Unusually large cash deposits as money laundering typologies of physical persons are related to the cash deposit in the accounts of all kinds, and deviate from the standard Traffic on the customer's account. Representing significant items and do not have coverage in lawful business and income customers. Most transactions of this type there is no logical

⁵ Popovic, D. (2003): Winners and losers in transition. Politics, Ekonometar, no. 16, p. three 20 4:10 Transactions

sequence, analyzing the economic and economic criteria.

Breaking the transaction into smaller amounts of related transactions, in order to avoid the limits set out statutory provisions, in English literature is known as structuring. Unusual or large deposits of cash easily captivate the attention of officials and open up further opportunities for rapid detection of money laundering process which is why more often use so-called. related transactions. It's about breaking up a large amount of money on a few small amount (to avoid the application limit cash transactions) because deposits of small amounts of cash apparently give the impression of choice good washing techniques money.

In relation with payments from abroad as indicators of suspicious transactions, interesting are the ones that come on the accounts of residents, especially in favor of non-residents, payments in large amounts from offshore zone and those which are not justified, as seen according to turnover on the account or the credit rating of a client. An exception to the mentioned above is regular monthly income from abroad in foreign currency accounts of domestic natural persons that come from pensions earned abroad, rents, salaries seafarers serving on foreign ships, wage activists of domestic legal persons who carry out investment projects abroad to pay in foreign currency, etc. because it is a regular income, often an unchanged amount, the same payee and recipient. However, even in these cases they may be interest in case of transactions for its character depart from normal (two or more inflows in the same month, two or more proceeds payable to various foreign currency accounts of the same individuals, unknown principal payments, etc.) to indicate the implementation of illogical actions or clear suspicion of money laundering or terrorist financing.

3.9 Foreign Currency

Exchange transactions are extensively used to conceal the trace dirty money, especially money that came from drugs trafficking. Because they are involved in a wide variety of monetary transactions, the exchange activity in developed countries is subject to stringent legal regulations. By establishing an exchange office, a few money laundering process will take place fully and under direct, full supervision of the criminal milieu. For the same reason, most legislation in the world requires licensing exchange offices. Just like in the casino, there is a risk that the exchange offices are not used for money laundering indirectly buying and selling foreign currencies.

3.10 Use of Credit Lines

Taking a loan, regardless of the amount and the ultimate goal of his funds, is not the subject of considering indicators for identifying suspicious transactions for known source of money.⁶ By observing lines of credit, as another of the many ways money laundering, it is important to note that there is a fundamental difference between the use of an existing credit lines for the return of illegally acquired funds and, on the contrary, to raise loans from which will be an asset to qualify for illegal purposes. Quite different is a situation in which exists an open line of credit used to return the funds before the agreed deadline. In this case, the illegally acquired money returned to take credit when which is evident to convert dirty money into seemingly legitimate.

⁶ Djokic, Z. and Palma, A. (2004): Corruption is a serious crime in the Proceedings of the XVI Seminar rights "Severe forms of crime." Prague: Institute for Criminological and Sociological Research: Higher School of Interior, p. 259-260.

Achieving the ultimate goal of money laundering process provides completing legal documentation of the origin of money. Restoring the loan before the agreed deadline with the prior transfer of funds between banks parent and daughter model to repay a loan deposit is one of the possible ways of money laundering. Bank nut from abroad grants loans and deposits to banks in other countries who are continually coming back with new borrowings. The purpose of the withdrawal of new loans or deposits is reportedly favorable loan maturity which, according to the real situation, often happens only three months longer than the prepaid the loan. Finally, the cost of credit is actually identical to the price of the deposit, which confirms that transactions are not economically justified and logical goal.⁷

[7] Teofilović, N. and Jelacic, M. (2006): Prevention, detection and detection of corruption offenses and money laundering. Belgrade: Police Academy, p. 242

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