

A research proposal on money laundering finance essay



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The purpose of the study concerned the impact of money laundering and its effects on the local economic and method of laundering technique in Mauritius. Money Laundering is very vast in nature; it consists of various steps, technique and approach of undertaking such unlawful activity. The research analyzes the economic effects of Money laundering in the Mauritian Economic. The research work will attempt to examine the money laundering activities and the usefulness of prevention and detection techniques by local companies. The method that is to be used is mainly studying available research papers so that we get a maximum of information. The purpose of this study is to provide the general public a broad idea on money laundering with some existed solutions. The research will be in the main interest of financial institution, Government and General Public.

2. 0 Literature Review

2. 1 What is Money Laundering?

Money laundering is the process by which money is obtained illegally.

Various types of frauds corruption, cooking the books, involve money which has been preceded by several criminal acts. Individual or groups make illegal gains by carrying out these criminal acts and often swindle high amounts.

Money laundering makes it possible to legitimate ill-gotten gains through computer crimes, insider trading, and bribery where these produce large amounts of profits. Money laundering takes place within all types of profit-motivated crime, such as embezzlement, fraud, misappropriation, corruption, robbery, distribution of narcotic drugs, and trafficking in human beings (Økokrim, 2008).

2. 2 Characteristics of Money Laundering

Money Laundering consists of a series of various transactions used to change the source of financial assets so as these assets can be used without compromising the criminal's offences. These transactions involve 3 stages (Billy Steel):

2. 2. 1 Placement

The first stage refers to the physical distribution of financial assets. It is the most dangerous one for the perpetrators as the money from illicit activities are introduced into the financial system. Money laundering is a 'cash intensive' business generating huge amount of cash from unlawful activities (for example street drug dealing, where payment are made in cash). The proceeds are then placed into financial institutions, in the retail economy or deposited out of the country. The principal aim of the launderer is to deliberately remove the cash from the location of acquisition and to convert it into other assets so as to prevent detection from authorities.

2. 2. 2 Layering

Layering involves creating complex layers of financial transaction designed to cover audit trails and provide secrecy. The first attempt is to disguise the origin and ownership of the funds by creating complex layers of transaction. The idea of the transaction is to disassociate the illegal funds to the source of the offence. Layering is the second stage, in which the funds are moved so as to veil or remove any whatsoever link from the crime committed to obtain the money.

During the layering process, a number of accounts, financial institutions, companies, funds as well as the use of professionals such as brokers, lawyers and consultants as intermediaries could be involved as this is where the money will be channelled. Assets that are bought through unlawful funds can be resold locally or abroad and as a result, the assets become more difficult to map out and seize.

2. 2. 3 Integration

The final stage consists of the integration of the money in the legitimate economic and financial institution. Integration is the stage whereby takes place the creation of a legitimate basis for the asset origin. The launderer make the money appear legally earned and 'cleaned'. At this stage it is very difficult to distinguish by authorities the difference between legal and illegal wealth. The money is viewed as being legal, and the criminal can use it for any purpose. Illicit money is often removed from its country of origin to be cycled through the international payment system so as to blur any audit trail (Joyce, 2005).

There are different ways in which the third stage of money laundering is done. For example, a credit card might be handed out by offshore banks, casino "winning" can be cashed out, capital gains on option, and stock trading might follow, and real estate sale might lead to profit. The proceeds of criminal acts could be generated from organized crime such as drug trafficking, people smuggling, people trafficking, proceeds from robberies or money acquired by embezzlement, tax evasion, fraud, abuse of company structures, insider trading, or corruption.

Popular Methods of the launders at this part of the game is

Sending fake import – export invoices and overvaluing the price of the goods. Consequently it allows the launders to move the funds from one company or country to another with the invoices serving as source of the capital place with financial companies.

A simpler technique is to shift the money (via EFT) to a rightful bank from a bank owned by the launderers, as ‘off the shelf banks’ are easily purchased in many tax havens.

The establishment of unspecified company in countries where the right to concealment is guaranteed. In such case the launderer is in a position to grant loans from banks to undertake certain future legal transaction. In addition launders can claim tax relief on loan repayments and interest on loan so as to increase their profits.

Most criminal acts are motivated by profit, argues Financial Intelligence Unit (2008). When substantial profits are generated from crime, perpetrators have to devise a means to control the assets in such a way that they do not attract attention to themselves or the crime committed. Thus, the money laundering process is crucial in order to enjoy the profit without arousing suspicion.

2. 3 Problem statement:

2. 3. 1 Banking Secrecy: A major drawback of money laundering

Banking secrecy is a professional obligation, meaning that financial institutions shall not expose a customer's financial information and they even have the right to resist any third party's enquiries in order to protect the customer's wellbeing. Secrecy laws have served to safeguard persons from financial failure in countries plagued by unsteadiness, fragile currency and run-away inflation rate. Wealthy individuals and political agents are also protected by allowing them to hide their possessions to avoid the risk of persecution (Savona, E. U, 1997).

In some countries, for example in Switzerland, the revelation of secret banking information is punishable by law, whether it is intentional or unintentional (Corrado, M. G, 1988).

In the world we are presently living, nobody can deny the fact that banking secrecy is the most significant weapon for money launderers. Some countries like Hong Kong, Switzerland, Panama are even known as notorious 'banking secrecy heavens'. These jurisdictions really make the crime of money laundering more severe and out of control. For instance in Hong Kong, a new regulation was introduced in 2000 which requires banks to report suspicious transactions. This resulted in 6, 100 suspicious transactions being reported in 2000 and 95% of them were from banks (www. hongkong. org/press/ny-021400. htm, 15th Aug 2001)

2. 4 Combating Money Laundering: The Lifting of Banking Secrecy

Despite being an important part of individual privacy, banking secrecy has to be lifted in some cases as it is equally important to fight against money laundering in order to guarantee a protected and safe society. The lifting of bank secrecy has already been embodied in the most vital international documents. Each party should authorize the court or other authority to order that financial or business reports should be made accessible or be seized under the 1988 Vienna UN Convention, the 1990 Strasbourg Convention and the 2000 Palermo US Convention specifically.

The FATF recommended that financial institutions should concentrate on all unusual or large transactions, which have no evident economic or lawful purpose. Such transactions should be examined, written and be made available to supervisors, auditors and law enforcement agencies. If financial institutions doubt that proceeds come from a criminal activity, they are required to account for their suspicions to the expert authorities without delay (The FATF Recommendations on Money Laundering, 1996 Art 14, 15).

These measures are innovative, modern and extremely different from the conventional banking system. In early times, the relationship between financial institutions and customers were founded on trust and confidence: neither the banker asked questions nor the customers made disclosures. The situation has now changed. Along with that, the way of thinking and attitude of bank directors, staff and that of management authorities have changed (Galvao G, 1997).

3. 0 Research Methodology

3. 1 Aims and Objective of the research

The aim of the research is to identify evidence of banking secrecy and their effectiveness in combating money laundering. Cases of money laundering in Mauritius will be studied and analysed. Key principles from the anti-money laundering act and from regulations imposed by bank regulators (e. g. Financial Services Commission and the Bank of Mauritius) will be outlined. The study will then research on the measures taken by banks to fight against potential cases of money laundering in order to guarantee a protected and safe banking service. The lifting of bank secrecy has already been embodied in the most vital international documents. The objectives of this research are to:

3. 2 Research Method

A survey with a self-administered questionnaire will be the data collection technique used. The questionnaires will be sent to the senior managers, executives and branch managers of the identified banks in Mauritius. Visits to the company/meeting with the relevant person will be carried out where necessary to ensure maximum response and that questionnaire is being filled up by the addressee.

Also, secondary data will be taken from company websites, reports and financial statement to supplement research.

3. 3 Statistical Analysis of data

After the questionnaire, the response will be input as data so as to make use of specific statistical technique. Thus SPSS statistical package will be used to analyze data for the findings of the research.

3. 4 Benefits of the Research

The research will be beneficial to:

Companies

Government

Future Research Dissertations

3. 4. 1 Companies

Combating money laundering will have a positive impact on companies:

Through integrated management of financial crime operational efficiencies will improve

The risk of corruption, identity crime and other criminal crimes will reduced considerably

Reduced financial risk, reputational risk and legal risk

Bad debts and fraud losses due to customer comprehensiveness

3. 4. 2 Government

Money laundering has a negative effect on the economy, such as loss of control on the economical policy, economic distortion and instability.

Moreover, government loss revenue as tax collection becomes more complicated and confusing. Therefore, the research will help to reduce these drawbacks.

3. 4. 3 Further Research

Research will assist other researchers to make further research in the topic.

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Task/activity

Mar

Apr

May

Jun

Jul

Aug

Sep

Oct

Choose topic

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Literature search

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Developing framework

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Design questionnaire

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-

Survey

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Data Input

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Analysis

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-

Writing up

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Submit

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Budget Analysis

Expenditures

Rs

Consultants and contracts

1400

Travel

400

Supplies and materials

400

Communications (Telephone, postage, etc.)

150

Equipment (Purchase)

700

Other (Equipment rental, etc.)

400

Total

3450