

## **Money Laundering and Its Global Modes. A Serious Challenge to Law Enforcement Agencies. Some Observations**

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**ABSTRACT:** *The global economy is heavily affected by money that is illegally acquired and used for illegitimate purposes. Large sums of money are laundered every year, posing a threat to the global security and economic development. Although it is not possible to measure the exact volume of money laundering, but according to the recent conference of United Nation Office on Drugs and Crime, 2009, globally, this crime generates approximately \$2.1 trillion annually, which is about 3.6% of world's GDP (gross domestic product) through formal channels. According to the International Monetary Fund, the annual amount of money laundering world-wide could be between 2-5% of world GDP, which would be around 1000 till 3000 billion in 2010. Up to \$40 billion is lost due to corruption in developing countries annually. Illegally income from human trafficking amounted to 32 billion dollars every year. A range of other crimes such as illegal trafficking, violence, corruption, organized crime yielding big money which is also major impediments to the Millenium Development Goals. Globalization and the advances made in information and communications technology have provided criminals with loopholes, which they exploit, with a view to concealing the origins of funds that they have gained through illegal activities. They make extensive use of various modes, such as the rapid transfer of money from one country to another and/or the use of financial systems to disguise the true owners of the funds. The global community of governments and organizations that have studied money laundering recognize it as a serious global threat. Money laundering can have devastating effects on the soundness of financial institutions and undermine the political stability of democratic nations. Criminals quickly transfer large sums of money to and from countries through financial systems by wire and personal computers. Such transfers can distort the demand for money on a macroeconomic level and produce an unhealthy volatility in international capital flows and exchange rates. Now, we see the proceeds of major crimes run into not just hundreds of billion of dollars, but possibly a few trillion dollars. Considering the sums involved in the proceeds of crime, it is quite logical to ask the question of how these are managed and laundered. Keeping in view its global dilemma, its negative impact, its volume, technological misuse, therefore, an attempt has been made here in the present paper to highlight the modes of money laundering and examine how the law enforcement agencies fail to detect the crime.*

**KEYWORDS:** *Money Laundering, Modes of Money Laundering, Role of Technology.*

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### **I. INTRODUCTION**

A new era of *globalization* has emerged, and it is shrinking the world and shaping domestic politics and international relationships. Globalization involves the international integration of capital, technology, and information in a manner resulting in a single *global market* and, to some degree, a *global village*. This integration enables individuals and corporations to reach around the world farther, faster, deeper, and cheaper than ever before. However, the same aspects of globalization that have expanded opportunities for free market capitalism also have resulted in new risks. Globalization has turned the international financial system into a money launderers' dream, siphoning off *billions of dollar* a year from economies around the world and extending the reach of organized crime. This unintended consequence of globalization presents a serious challenge to law enforcement agencies.

Therefore, money laundering has become a global problem as a result of the confluence of several remarkable changes in world markets (*i.e.*, the globalization of markets). The growth in international trade, the expansion of the global financial system, the lowering of barriers to international travel, and the surge in the internalization of organized crime have combined to provide the source, opportunity, and means for converting illegal proceeds into what appears to be legitimate funds.

### **II. DECEPTION-THE HEART OF MONEY LAUNDERING**

*Money is honey my little sonny the rich mans' words are funny!* is an old adage. When money in the form of currency replaced the barter system of payment for value received, counterfeiting was resorted to and deception and illegal gains resulted. Deception is the heart of money laundering. At its most basic level, money laundering is deception by criminals attempt to hide the origins and ownership of the proceeds of their criminal activities. Money generated in large volume by illegal activities must be "*laundered*," or made to look legitimate, before it can be freely spent or invested, otherwise, it may be seized by law enforcement and forfeited to the government.

### III. WHAT IS MONEY LAUNDERING AND ITS OBJECTIVE

Criminologically, money laundering is defined as "the process that disguises illegal profits without compromising the criminals who wish to benefit from the proceeds."

The objective is to enable them to retain control over the proceeds and to provide, ultimately, a cover for their income and wealth. A substantial portion of the proceeds is managed and required for the running expenses for the criminal enterprises, a large proportion of the proceeds of crime are spent in an open manner with all the attendant risks of being caught, then there are several criminals who like to hide their wealth or secret it away in secure hiding places. However, the over-riding concern of criminals is to make their proceeds appear legitimate.

### IV. MODES OF MONEY LAUNDERING

*"There are so many money laundering systems existing that it's difficult to note all of them, but all of them have common features and practically they mean only the endless variations of the same theme."*

Today, a criminal considers the world as his field of operation. He commits a crime in one country, deposits the money derived from criminal activities in an offshore bank in another country and takes refuge in yet another country. The wide spread political, economic, social and technological changes as well as variations in legislation, procedures and policies in different countries on mutual assistance in criminal matters have allowed organized crime groups to become increasingly active in the international arena. International criminal organisations are taking full advantage of globalization of world markets, dismantling of trade barriers, the increased ease of international travel, liberalized emigration policies, high-tech communications equipment and sophisticated money laundering techniques to enhance and further their criminal efforts and to forge alliances with other criminal groups. They are engaged in such felonious activities as illicit drug trafficking, money laundering, the use of violence and extortion, acts of corruption, trafficking in women and children, illicit manufacturing of and trafficking in firearms, environmental crime, credit card fraud, computer related crime, illegal trafficking of stolen vehicles, etc.

The criminals select always the economy and country where the regulation is the smallest but at the same time the conditions exist, *i.e.* the willingness and availability of the money market are also present. Their aim is the dirty money to pass through as much as possible administrative systems, exploiting by this way the different regulation conditions, *thus delaying, hindering the tracing of money movement.* The money considered to be white is transferred to financial institutions and investments of several countries, thus reducing their financial losses in case of their eventual denunciation.

The most difficult in money laundering is that, apart from some schemes, it is extraordinarily complex and difficult to be verified. It's such a self-preserving and at the same time self-generating process in which there is no beginning and end as it is in constant circulation. It is a hidden cancer that allows criminal activity to seep through all sectors of legitimate business, *making detection of, and enforcement against such activities extremely difficult.*

Every year, huge amounts of funds are obtained by illegal activities. These illegally obtained funds need a process, which is called laundering, in order to appear legitimately obtained and become usable. The crime of money laundering can be realized in many ways. The offenders make always use of newer and newer modes/techniques which are of long standing, are difficult to be traced, therefore the criminals still prefer to apply them in the practice. Money launderer's modes are varied and complex. The different, but adaptable modes, that are used to launder money may include, the use of internet services, online banking and new electronic payment technologies, international companies, trade and false invoicing for the supply of goods or services, real estates, art, diamonds, and gold and other precious metals. Therefore, international money laundering circuit essentially comprises of three stages; *i.e.* Placement, Layering and Integration which are discussed below:

**Placement of Money:** Money laundering methods and routes evolve because of several factors. Technology is one of them, but other things as well influence the flow of dirty money. The Placement or introduction of illegitimate money in the international money laundering circuit is an indispensable but susceptible maneuver. This is the first stage in the washing cycle. Money laundering is a "cash-intensive" business, generating vast amounts of cash from illegal activities (for example, street dealing of drugs where payment takes the form of cash in small denominations). The illegitimate proceeds so acquired are placed into the financial system or retail economy or are smuggled out of the country. The aims of the launderer are to remove the cash from the location of acquisition so as to avoid detection from the authorities and to then transform it into other asset forms; for example: travellers cheques, postal orders, etc. Money is generally introduced into the international circuit of

money laundering through financial havens classified as 'entry point safe havens'. *This initial step is the most vulnerable to law enforcement detection because it involves the physical disposal of cash.* While cash is anonymous-an attractive quality for criminal proceeds, it is bulky and difficult to physically transport. For example, pounds of cocaine worth \$1 million equates to 256 pounds of street cash worth the same amount; the cash weighs more than six times the drugs.

Smurfing is another effective mode of facilitating placement of illegitimate money in the international circuit; it successfully exploits the provision of reporting international transactions exceeding a certain monetary limit. The illegitimate cash is converted into valuable security which is of an amount less than the reporting requirement; *thus money is pushed undetected into the international money circuit.* Other effective modes of placement of money for the purpose of laundering in the international circuit comprises making use of money orders, purchase of expensive art objects, use of underground and parallel banking systems and the employ of correspondent banking channels.



**Layering of Money:** The second stage involved in the process of laundering money in the international circuit is called layering. In the course of layering, there is the first attempt at concealment or disguise of the source of the ownership of the funds by creating multifaceted layers of financial transactions premeditated to disguise the audit trail and provide obscurity. The purpose of layering is to disassociate the illegal proceeds from the source of the crime by deliberately creating an intricate web of pecuniary transactions *aimed at concealing any review trail and the source and ownership of illegal proceeds.*

Layers are created by moving the illegitimate proceeds in and out of the offshore bank accounts of bearer share shell companies through electronic funds' transfer. Given that there are over 500,000 wire transfers representing in excess of \$1 trillion electronically circling the globe daily, most of which is legitimate, there isn't enough information disclosed on any single wire transfer to know how clean or dirty the money is, therefore providing an excellent way for launderers to move their dirty money. Money is also laundered by multifarious dealings with stock, commodity and futures brokers. The sheer volume of daily transactions and the high scale of anonymity available render the probability of laundering transactions being traced to miniscule. The purpose of creating such a complex trail is to so obscure the connection between the money and the crime that *detection by law enforcement agencies becomes impossible.*

Law enforcement agencies finds that detecting money laundering is particularly difficult when the countries involved in the layering process are tax havens or strict bank secrecy jurisdictions. An example of a layering process is when a money launderer sends funds electronically from one bank to a different bank in another country, then invests and moves the funds within an overseas market to avoid detection. Each transaction that a launderer makes creates an additional layer that law enforcement must analyze in order to follow the paper trail, and *"the deeper the 'dirty money' gets into the international banking system, the more difficult it is to identify the origin."*

**Integration of Money:** Integration of money constitutes the final stage in the process of laundering money at the international level. It is legitimate economic and financial system and is assimilated with all other chattels in the system. Integration of the laundered proceeds into the economy is accomplished by the launderer making it materialize as having been legally earned. By this stage, *it becomes exceptionally difficult to distinguish between the legal and illegal proceeds.*

For example, after being deposited in a U.S. bank account and wire transferred through Cayman financial institutions, laundered drug proceeds arrive in a bank account in Colombia. The Colombian trafficker then withdraws the money from the bank account and spends it in the legitimate economy on such items as cars or guns.

The paper trail created through the layering process complicates law enforcement's task of determining which funds within the legitimate economy are illegal. Unless law enforcement has established an audit trail during the first two stages of the laundry cycle, the funds' illicit origin will not be discovered. For this reason, the launderer may use the funds for whatever purpose he chooses, including buying luxury goods, such as automobiles or aircraft, and investing in legitimate business enterprises, such as tourism or real estate ventures.

This e-monetisation is facilitating the money laundering activities like never before. Well financed and technologically savvy criminals move large amounts of funds easily and quickly from one country to another. They use new payment modes that have emerged in the last couple of years. They take advantage of our weaknesses, and are constantly looking for new opportunities to launder money. Criminals commit crimes using the whole world as a stage; the most international of them all being the ultimate organized crime, money laundering. And they do that because they know that for law enforcement agencies, it is difficult to work international cases, where the crime crosses borders. The reason is that it's difficult to collect evidence in other countries to build a case against the criminal. It takes a lot of time, and sometimes cooperation between different jurisdictions is not as it should be.

## V. ROLE OF TECHNOLOGY

Today, technology has made the money laundering cycle shorter and simple. Tragedy is, it is for the money launderers but complex for the law enforcement agencies. Money is moving seamlessly from one destination to another, from one channel of operations to another, all due to Internet and network technologies. Websites have become windows to the world wide money laundering web. They have emerged as the most sought after tool in the money laundering trade providing an online platform for all sorts of transactions. Technology has created a virtual free zone of financial activity by permitting the proliferation of financial centres outside the regulatory sphere. By aiding the fluidity of capital, technology contributes to a global market for both legitimate and illegitimate capital. It is now possible to move slush funds at the speed of light on roads where there are no policemen to call halt, custom or immigration authorities to detect and seize. Technology has created the means and ability to launder money by use of completely untraceable digital currency. Money cannot be traced into a particular account. Internet is the launderers' paradise now.

Money laundering is mostly possible in the countries receiving large capital inflow, as in such countries the foreign investments are generally supported without inquiring size and origin of inflowing capital, further more the countries where opening of anonymous deposits and purchasing respectively handover and transmission of demand instruments are possible.

## VI. CRIME PAYS

The laundries are continuously developing their modes, while they are looking for new, not yet captured business opportunities. They are skilled and rapid, moreover they also establish alliances among them, creating uniform services with them. Crime pays and criminals naturally want to be able to enjoy their profits without worrying about the police or the courts. This is not a new economic or sociological problem. However, geopolitical developments over the past 68 years together with economic globalization have meant that the *international movement of money* has increased. The rapid expansion of international financial activity has gone hand-in-hand with the development of transnational crime, which takes advantage of political borders and exploits the differences between legal systems in order to maximise profits. The groups involved are genuinely multinational and pose a direct threat to the financial stability of economic systems. They destabilise democracy because they are backed by *clandestine networks* subject to the law of the underworld. Money laundering cannot be disassociated from other forms of crime. It is a fact that it thrives on corruption. Corrupt people use financial modes to hide their fraudulently obtained assets and the continued successful application of these modes depends on the involvement of influential accomplices.

Money laundering is therefore, at the *centre of all criminal activity*, because it is the common denominator of all other *criminal acts*, whether the aim is to make profits or hide them. Laundering operations are, in fact, intended more to conceal the origin of the money than its criminal nature, in other words to hide the traffic from which it is derived rather than the general criminal activity which actually generated it. It is therefore, essential to move the money in order to scramble the route it takes. The operation is wholly successful when the nature of the money is also concealed and it is impossible to establish a link with any criminal activity because the different circuits taken give it the appearance of legitimate income.

## VII. CONCLUDING OBSERVATIONS

In light of the aforesaid discussion and exploration, it would be pertinent to mention here, that money laundering is one of the most critical problem, that law enforcement agencies are facing today. International crime probably cannot be controlled or reduced unless criminal organizations can be deprived of their illegal proceeds. At present, they enjoy a swift, silent, almost risk-free pipeline for moving and hiding money *via* international wire transfers. Law enforcement agencies actually have to act proactively and *think like criminals* in order to prevent money laundering. Further, money laundering continues to represent a major problem for the global economy, leaking *billions of dollars* a year away from legitimate business and into the bank accounts of criminals. Given the sophisticated modes of money launderers, their use of advanced technologies and professionals, limiting this multi-billion dollar industry will not be an easy task. The global nature of money laundering require that countries are well versed in international prevention and enforcement challenges and endeavour to collaborate with other states and international bodies in sharing information

Since money laundering has potentially devastating economic, security, and social consequences. It provides the fuel for drug dealers, terrorists, illegal arms dealers, corrupt public officials, and others to operate and expand their criminal enterprises. Crime has become increasingly international in scope, and the financial aspects of crime have become more complex due to rapid advances in technology and the globalization of the financial services industry. Therefore, unchecked, money laundering can erode the integrity of a nation's financial institutions. Due to the high integration of capital markets, money laundering can also adversely affect currencies and interest rates. Ultimately, laundered money flows into global financial systems, where it can undermine national economies and currencies. Money laundering is thus, not only a law enforcement problem, it poses a serious national and international security threat as well. Last but certainly not the least, there is no doubt that globalisation and advances in technology has enabled criminals to devise newer means to conceal the funds they get through illegal performance. Therefore, no individual country has the power to stop money laundering, if one country is hostile to laundering, criminals simply look elsewhere for a place to clean their money. Hence, global cooperation is essential. While increased worldwide efforts are making a small dent in the money laundering industry, the problem is huge, and requires continued urgent attention. It is thus, important to seek increased global awareness and cooperation to curb the success of money laundering industry.

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