OPEN ACCESS

Scholars International Journal of Law, Crime and Justice

Abbreviated Key Title: Sch Int J Law Crime Justice
ISSN 2616-7956 (Print) |ISSN 2617-3484 (Online)
Scholars Middle East Publishers, Dubai, United Arab Emirates
Journal homepage: https://saudijournals.com

Review Article

Concepts of Money Laundering Resulting Destroy the Structure of Financial Policy

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DOI: 10.36348/sijlcj.2024.v07i02.004 | **Received:** 05.07.2023 | **Accepted:** 14.08.2023 | **Published:** 28.02.2024

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Abstract

Money laundering is the technique used to make significant sums of money earned illegally through drug trafficking, terrorism, or other major crimes that appear to have come from legitimate sources. Money laundering has a negative influence on the nation's economic and political stability, hence it must be strictly prohibited. As one of the most significant components of the financial system, it serves as the backbone of the money market and plays a vital role in raising funds for beneficial investments that advance economic growth in a nation. An effective and stable financial system is a requirement for the nation's overall growth.

Keywords: Money Laundering, Drug Trafficking, Terrorism, Economic and Political Stability.

INTRODUCTION

If a study is conducted, what exactly is money laundering? Most people would assume that it must be linked to the drying, washing, or maybe dry cleaning of the money notes. To some extent true, but the average person doesn't know anything about the third-largest industry in the world. According to IMF statistics, this industry's annual revenue may be close to $1.5 trillion.

Money laundering is the process through which a sizable sum of money that has been gained illegitimate way (via drug trafficking, terrorism, or other significant crimes) is made to look as though it came from a legitimate source [1]. However, to put it simply, it is the transformation of black money into white money. One is brought back to sorting through the massive cash heaps. If done properly, it enables the criminals to keep control of their gains and eventually offers a legal defense for their revenue source. Drug traffickers, terrorists, organized criminals, insider dealers, tax evaders, and a host of other criminals who need to avoid the kind of attention from law enforcement that sudden wealth from illegal activities brings all depend on money laundering to further their goals [2]. These criminal businesses strive to penetrate civilized society in order to gain money and influence by engaging in illegal activity.

Demerit Roles of Money Laundering

Money laundering is the illicit practice of disguising huge sums of cash obtained via criminal activity, such as the financing of terrorism or drug trafficking, as coming from a legitimate source. The technique "launders" the money, which is thought to be dirty as a result of the illicit action, to make it appear clean. Both white-collar and low-level criminals use money laundering, a severe financial crime. Anti-money-laundering (AML) rules are in place at the majority of financial institutions today to identify and stop this behavior. [2]

The term "money laundering" is one that is relatively new in history. Money laundering is a complex crime that no one in society should first take seriously [3]. It is a contemporary crime as compared to street crimes. It is sometimes referred to as a victimless crime, but in actuality, it is not a crime against a specific person, but rather a crime against governments, economies, the rule of law, and the entire globe. A global threat has emerged: money laundering. A significant proportion of crimes are committed with the intent of making money for the person or group committing the crime and then concealing either the source or the destination of the money [4]. The processing of these criminally obtained funds to conceal their illicit source is known as money laundering. This procedure is crucial because it allows the criminal to benefit from the income without endangering their source.

Illegal arms sales, smuggling, corruption, drug trafficking, and organized criminal operations like tax fraud are just a few of the crimes that bring in large quantities of money. Insider trading, bribery, and computer fraud schemes all generate substantial profits and encourage the money laundering of ill-gotten wealth [5]. When a criminal enterprise makes a sizable profit, the person or group responsible must figure out how to manage the money without drawing attention to the illegal enterprise or the individuals responsible. Criminals do this by hiding the origins, altering the form, or relocating the cash to a location where they are less likely to draw notice. Otherwise, law enforcement agents would take the money and they wouldn't be able to utilize it since it would link them to unlawful behavior. If done effectively, it gives the criminals control over their money and, in the end, a legal justification for their revenue source. The capacity to launder proceeds from crime increases the allure of crime in situations where offenders are permitted to use such gains [6].

Importance of Study Regarding Money Laundering

Since the attacks on the U.S. twin towers on September 11, 2001, the subject of money laundering has acquired more attention. Since that time, the world has focused on the idea of money laundering as a whole and acknowledged it as a means of financing terrorism. The trend of globalization and the revolution in communications has increased the international reach of crime, and the financial elements of crime have been complicated due to the quick development of technology. The global expansion of foreign banks has made it easier to transmit money and hide its true source. This might have terrible societal repercussions and jeopardize the security of any nation, big or little. It fuels the operations and growth of all kinds of illicit enterprises, including those carried out by drug traffickers, terrorists, illegal arms dealers, corrupt public officials, and other criminals. Money laundering makes it possible for crime to continue [7].

Resources are diverted to less productive parts of the economy as a result of money laundering, which in turn slows economic growth. Money laundering might have major social and political consequences if it is not stopped or handled in an inadequate manner. Criminal organizations' economic and political clout has the potential to erode society's social cohesion, moral consensus, and eventually its democratic institutions.

Steps of the Money Laundering Process:

There are obviously several methods for laundering either cash or other assets. It may be used in a variety of ways, from the straightforward act of employing it in the form in which it is gained to more intricate plans including a web of worldwide companies and investments. It has long been acknowledged that the three steps of the money laundering process are:

- **Placement:** The first step in the money laundering process, placement involves the direct or indirect introduction of illicit monies or assets into the financial system.
- **Layering:** The second step of money laundering involves moving, distributing, and disguising illicit monies or assets in order to hide their true source. Through a maze of intricate transactions, money may be concealed in the financial system.
- **Integration:** The third step in the money laundering process, integration is where illicit monies or assets are effectively cleaned up and made to seem lawful in the financial system.

The Financial Sector: Money Laundering Undermines Domestic Capital Formation

A review of money-laundering typologies consistently shows that banks, equity markets, and non-bank financial institutions (NBFIs), such as insurance companies, are preferred methods of laundering illicit funds both internationally and within developing countries, despite the fact that using formal financial institutions is not necessary. The efficiency that financial institutions may offer to money launderers is what accounts for this choice. Just as they play a crucial role in supporting the legitimate economy, financial institutions can also serve as an inexpensive means for the criminal economy to launder money [8] The placement and layering phases of money laundering, where illicit funds are being laundered but have not yet been fully integrated into the economy for use by the funds' claimants as consumption goods or as investments in ostensibly legitimate businesses (as discussed in Section III of the real sector of the economy), are those of greatest concern when taking into account the impact on a developing country's financial institutions. Money laundering through financial institutions is extremely important from the perspective of economic growth in three different ways. First, financial institutions themselves suffer due to money laundering. Second, the growth of strong, dependable banks and NBFIs is a key component of overall economic development. In fact, such institutions are now acknowledged as being necessary for such development, and customer trust is crucial for the development of sound financial institutions, especially in developing nations [9]. Third, in addition to safeguarding these institutions from the harmful consequences of money laundering itself, the implementation of anti-money-laundering policies by government financial supervisors and regulators, as well as by banks and NBFIs, can strengthen the other good-governance practices that are crucial for the growth of these economically significant institutions [10].

Financial Institutions Suffer from Money Laundering:

Widespread money laundering through financial institutions in developing countries weakens these institutions in three main ways: by raising the possibility that specific customers will be defrauded by dishonest employees within the institution; by raising the possibility that the institution itself will turn dishonest or even be controlled by criminal interests, which would again lead to customers being defrauded; and by raising the institution's risk of financial failure. Such hazards fall under the official category of operational risk and can greatly increase the reputational risks that banks are exposed to. These 3 elements are particularly likely to enhance operational risks, notably through fraud, and reputational risks faced by banks. They might develop individually or together—indeed, they can reinforce one another. Naturally, any operational (or other) harm brought on by money laundering also makes reputational damage worse, and vice versa. In the worst-case scenario, a quick loss of reputation might jeopardize the institution's sound financial situation by causing a run on its deposits. Money laundering activities raise the possibility that specific consumers or the institution itself will be cheated by dishonest employees [11]. Financial fraud is frequently involved in major money-laundering incidents that take place in otherwise respectable financial organizations. In particular, FATF claims that financial crime is the most prevalent predicate crime that generates the revenues to be laundered, second only to narcotics trafficking.

Money laundering makes it more likely that the financial institution will itself turn crooked or perhaps come under the influence of organized crime. In a developing nation, the likelihood that criminal interests may one day take over a complete financial institution is significantly higher. First of all, because they are often smaller, it is simpler to exercise control over them [12].

Second, financial regulation and oversight in developing nations are frequently less strict than in wealthy nations, which are also plagued by issues like lower-level fraud or criminals infiltrating institutions. Businesses that are efficient places for money laundering, like banks and casinos, run the danger of being taken over by criminals, according to a document written by the Management Development and Governance Division of the United Nations Development Programme. Financial institutions have been founded and taken over by organized criminal organizations in nations like the former Soviet Union where banking rules are weak or poorly implemented. There are several indicators that there are large amounts of illegal cash in the financial systems of developing economies. The influence of criminal interests over financial institutions becomes a real worry at such high levels. Loss of crucial investor trust is one of the reputational implications. The negative impacts of money laundering on financial institutions in developing countries outlined above clearly pose operational hazards to the institution's ability to maintain a healthy financial position. However, these risks also result in and exacerbate another unfavorable aspect: reputational risk, or the loss of an integrity reputation. The importance of a financial institution's reputation in promoting its soundness is frequently emphasized by financial professionals.

Money Laundering Diminishes the Contribution of the Financial Sector to Economic Growth:

In emerging nations, the ownership and management of financial institutions frequently change from state ownership to private investors. However, research has indicated that private investors are more hesitant to make financial commitments to acquire ownership in businesses that have been accused of wrongdoing. The evidence is clear that the announcement that a firm has allegedly engaged in corrupt activities is typically associated with materially negative equity return at the time of the announcement, indicating that investors are less likely to hold shares in the firm, according to one study that statistically analyzed nearly 70 cases. [12].

The impact that international anti-money-laundering regulations are anticipated to have on the economy of the developing country is the first of several factors that must be considered when designing policies for developing countries. In the extreme, significant trading and investment partners may formally impose penalties on a nation with insufficient anti-money-laundering enforcement procedures. As illustrated by the severe worldwide bank restriction on American dollar transactions with Vanuatu implemented in reaction to the lack of anti-money-laundering efforts in that jurisdiction, such penalties do not always involve governments directly. [13] As evidenced by suggestions that the IMF should reevaluate its ongoing financial assistance to the Russian Federation in light of evidence that such assistance was being misappropriated on a large scale and laundered "outbound" by criminals in the form of capital flight, developing countries may not be able to fully access international economic resources as a result of money laundering problems—actual or perceived. Similar to this, many business groups allegedly caused "a run" on a Bosnian bank when they withdrew their money in response to reports that the bank was engaged in money laundering. Progress in measures to combat money laundering may be a condition of receiving economic help from industrialized nations.

Anti-Money-Laundering Reforms Support Financial Institutions through Enhanced Financial Prudence:

Strong alignment between anti-money-laundering laws and standards of financial good governance. As was said in the preceding section, a robust legal system that controls financial institutions in emerging nations is a crucial requirement for economic development. Financial institutions in emerging countries operate in a stable rule-of-law environment thanks in part to anti-money-laundering regulations. The substantial overlap between core anti-money-laundering laws and the prudential financial stability regulations supported by governments and intergovernmental organizations on the one hand is a clear indication of this. Second, as the previously referenced Masciandara article stated, concerns about the costs that institutions must face may be addressed by strengthening the structure and effectiveness of anti-money- laundering rules [14]. Masciandara shows that early 1980s Italian anti-money-laundering legislation was in fact more onerous and ineffective than they were later on. Third, while the necessity for international cooperation in the fight against money laundering is frequently mentioned from the standpoint of law enforcement, such cooperation also helps to lower the financial institutions' out-of-pocket expenses associated with such operations. For instance, if banks only operate in one jurisdiction within a region, any administrative costs associated with those policies will be borne by those banks and not their rivals in other jurisdictions, suggesting that the costs cannot be passed along to clients who have an alternative, nearby banks without such costs, creating a competitive imbalance with respect to those costs (although offsetting those costs will be possible). By enabling all banks subject to such charges to better pass them along to their consumers, equal action by all jurisdictions will lessen this disparity [15-22].

CONCLUSION

One may thus fairly draw the conclusion that money laundering is a worldwide issue that must arouse global attention. International collaboration is necessary if money laundering is to be stopped. The crooks outsmart the law enforcement authorities and use a team of specialists, including banker's mafia, attorneys, and chartered accountants, to mask their unlawful funds as legitimate revenue. The fees for these professionals range from 10% to 15% of the total amount. It is impossible to exclude a connection between mafias, politicians, law enforcement, and white-collar criminals. The operation cannot be carried out without the cooperation of bankers, who play the most important role. The challenges of detecting the flow of slush funds have been further exacerbated by the development of new high-tech combined with wire transfers of monies. Due to the global nature of money laundering, successful investigations and prosecutions of individuals who spearhead these intricate criminal schemes depend on collaboration between international law enforcement agencies. The primary tools for combating money laundering must be criminal laws and international agreements governing cooperation between judicial and law enforcement agencies. Last but not least, it is crucial to remember that simply passing anti-money laundering laws is not sufficient. The law enforcement community must keep up with the constantly evolving dynamics of money launderers, who constantly develop novel techniques that enable them to avoid detection by the legal system.

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