



Money Laundering in the Current EU environment

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TABLE OF CONTENTS

1.Introduction:.....	3
2. Role of a financial institution in self-regulation & coordination:.....	3
3. Money laundering in EU environment & flaws:.....	4
4. Current risk in the money laundering industry.	4
5. UK’s future Post-Brexit:	6
6. Burden on the financial institution of current policies:	6
7. Controlling cross border money laundering:	Error! Bookmark not defined.
8. Conclusion:	7
9. References.....	8

1.Introduction:

With the increased terrorist activities across the globe, all the developed nations have taken a task force for prohibiting the flow of funds to the terrorist institutions. The only way these institutions get funds is with the help of a combination of money laundering activity and routing it through the financial institutions. There are many other categories of people who have also used these modes to save the tax and accordingly deceive the authority of any government.

In this process to stop such money laundering conditions, there are more 14 institutions worldwide across four continents established working specifically on suspicious activity. They are FINTRAC, OCC, FATF, FCA, AMF, FIC, EBA, BaFin, FSFM, CBRC, MAS, FSA, HKMA, and AUSTRAC.

2. Role of a financial institution in self-regulation & coordination:

In EU states, the FIU's (Financial Intelligence Units) have been established who are placed within law enforcement agencies to directly report to Ministries of Finance. Their role and responsibility are to receive, analyze, and disseminate information for potential money laundering.

The FIU co-ordinate with the various financial institutions who operate at the ground level and in the actual market and co-operate to them by providing the necessary information as per the requirement.

Financial Institutions have to frame their internal procedures to segregate the suspicious transactions based on the limits, customer's profile, history of a customer, their business connections, etc.

The cross border money laundering is increasing at a greater pace in the current times. The modus of Operandi is different and unique in every case. The main area of cross border money laundering is through real estate transactions.

Before understanding the controlling tools, we need to understand their modus of Operandi, which can vary from case to case.

One of the examples for cross border money laundering is when the money is paid out of the country for illegal payments via the third party in consideration of the goods or services received in the base country.

Money Laundering in the current EU Environment

In such circumstances, it becomes very much difficult for financial institutions to differentiate the transactions which are subjected to unscrupulous activity and purpose.

3. Money laundering in EU environment & flaws:

Based on the experience gained from the Panama Papers and Russian Laundromat, there are still shell companies in the market through which the money laundering activity is being executed. The major flaws as identified are through the virtual currencies, gambling, and real estate sectors.

In Panama papers, “nominees” were misused by the frontmen by corrupted individuals.

Hence, there are multiple ways in which the money laundering is being executed, and the major loopholes are due to negligible notaries, lawyers, and non-financial professionals.

One of the major problems flaws is the identification of money laundering transactions. The financial institutions are overflowed with lots of information from different directions. This makes it extremely difficult to segregate the transactions which have material possibilities of money laundering.

The current system is driven as per the directives of the European Commission, which are in general and cannot cater to the various types of money laundering techniques.

FATF (Fast Action Task Force) having the majority of the countries as their members have issued guidelines and drafted many changes in the policy framework recently in May 2020. This emphasis specifically the risk arising in money laundering and terrorist financing due to COVID 19 pandemic. Apart, FATF has drafted its own methodology of working to achieve the specific objective which is also forwarded to various financial institutions for further action.

4. Current risk in the money laundering industry.

The major flaw is in banking knowledge, and the collaboration between various institutions is a big problem. The banking channels are divided into many avenues such as Central banks who monitor the banks; the clearing systems work independently, the servers of the

Money Laundering in the current EU Environment

transactions are discrete, etc. are the issues that prohibit the easy data mining and data analysis of the transactions being executed between various parties.

Further, the voluminous transactions make it difficult for financial institutions to analyze individual transactions in detail. Moreover, hence to have detailed scrutiny for the same, we need a sound forensic team in this regard.

The various flaws in the system, increase the risk of money laundering thereby satisfying the terrorist financing, and ultimately increases the risk of terrorism.

5. UK's future Post-Brexit:

Post-Brexit, UK shall no more be part of the EU. In the said circumstance, UK shall be framing their AMLD through their different regulating agency. All the financial institutions being operating in the UK shall be forced to apply their standards. The compliance burden for international banks will be increased since they will have to comply with the compliance standards of each country or continent where they are based and operative.

This is to have a substantial impact on the operations and reporting framework, standard, and coordination with various agencies in the respective countries. This will lead to increased expenditure over the up-gradation of infrastructure facility, adoption of the financial system of the UK, allowing the intervention of the Central Bank of the United Kingdom in the daily operations of the European Countries.

This is to have an additional cost of burden. Also the taxation on profits of the bank is to have an additional. This can harm the profitability of financial institutions.

6. The Burden on the financial institution of current policies:

The European Union is the directive agency for issuing the various guidelines on the money laundering cases. The EU has issued the 6AMLD to prevent the money laundering via the financial institutions. The directives have to be followed, which can be executed in the following manner:

- Implementing a risk-based AML program.
- Drafting AML policy by the institution, formalizing and documenting the same, and later implementing the policy in a wholesome manner.
- Written policies and procedures should be documented with complete internal controls.
- A policy and procedure for the suspicious activity monitoring and reporting framework.
- Reviews of public source information and other risk indicators.

While executing the above procedures and actions, the financial institutions will have to develop a complete forensic audit team dedicatedly working on the AMLD.

8. Conclusion:

The only option for the financial system to have a sound data mining team, forensic audit team, and data analytics team with supercomputers to analyze the data will only help the financial institutions to keep a detailed track over the voluminous transactions and have fruitful results for the AMLD initiatives.

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