

## Money-Laundering

The term 'money-laundering' is typically used to refer to any financial transaction that was meant to be kept secret, but was eventually found out. In many cases it refers to the process of concealing a source of money which is often obtained by illegal means such as drug trafficking, health-care fraud and smuggling, to name a few. Various laundering techniques can be used by individuals, groups, officials, and corporations. The goal of a money-laundering operation is usually to hide either the source or the destination of money; in many cases it aims to make illegal transactions appear lawful and legal. Money-laundering is converting black money (tax-evaded income) into white by entering into some complicated transactions.

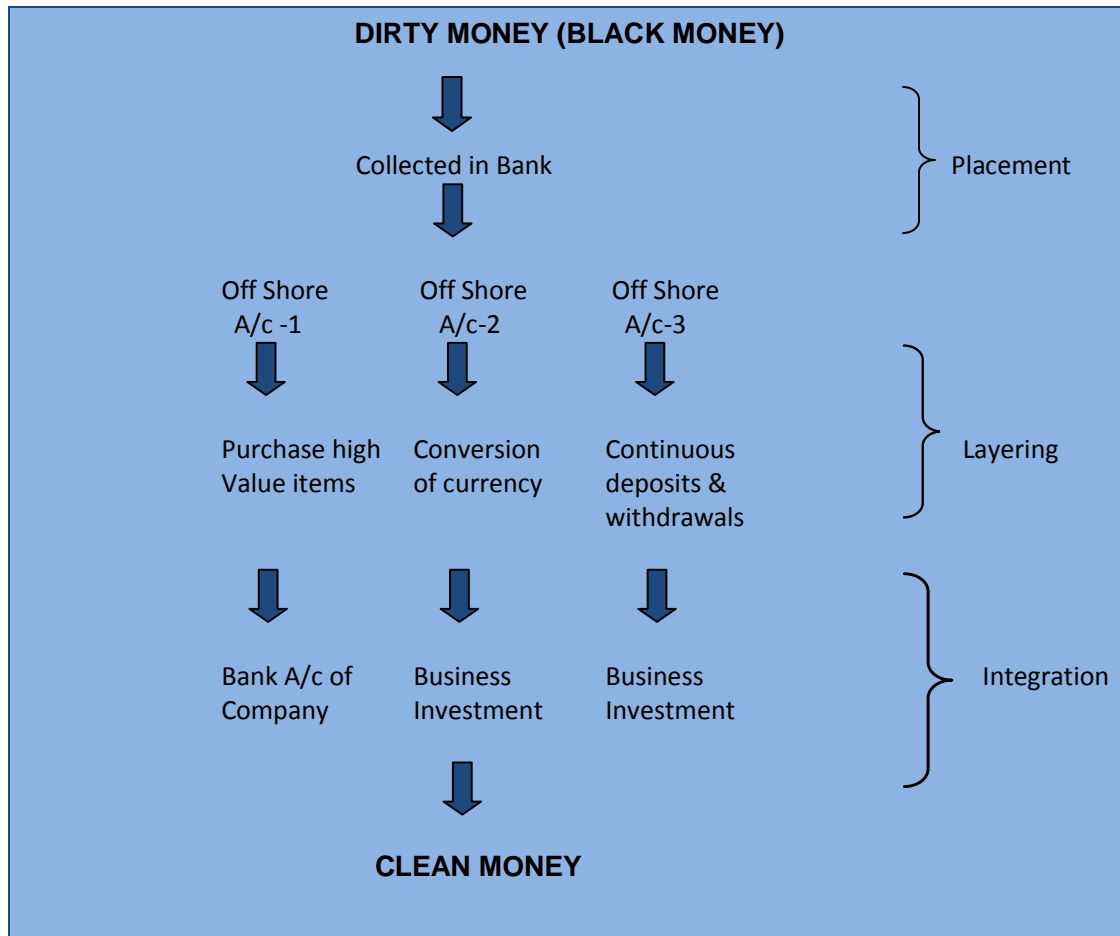
The methods by which money may be laundered are varied and can range in complexity. Money-laundering happens in almost every country in the world, and a single scheme typically involves transferring money through several countries in order to make it difficult to trace its origin.

However, money-laundering has become a much more complicated and refined activity in our days, with the help of covering enterprises, tax havens, orders placed for non-existent products and services and the assistance of corrupt officials.

Money-laundering is mostly possible in countries receiving a large capital inflow, as in such countries the foreign investments are generally supported without inquiring about the amount and origin of inflowing capital. Furthermore, the countries where the opening of anonymous deposits and purchases respectively are done, the handover and transmission of demand instruments are possible.

### The basic money-laundering process has three steps:

1. **Placement** - At this stage, the launderer inserts the dirty money into a legitimate financial institution. This is often in the form of cash bank deposits. This is the riskiest stage of the money-laundering process, because large amounts of cash are very conspicuous and banks are required to report high-value transactions.
2. **Layering** - Layering involves sending the money through various financial transactions to change its form and make it difficult to trace. Layering may consist of several bank-to-bank transfers, wire transfers between different accounts in different names in different countries, making deposits and withdrawals to continually vary the amount of money in the accounts, changing the money's currency, and purchasing high-value items (boats, houses, cars, and diamonds) to change the form of the money. This is the most complex step in any laundering scheme, and it is all about converting the original dirty money as hard to trace as possible.
3. **Integration** - At the integration stage, the money re-enters the mainstream economy in legitimate-looking form -- it appears to come from a legal transaction. This may involve a final bank transfer into the account of a local business in which the launderer is "investing", in exchange for a cut of the profits, the sale of a vessel bought during the layering stage or the purchase of a \$10 million screwdriver from a company owned by the launderer! At this point, the criminal can use the money without getting caught. It is very difficult to catch a launderer during the integration stage, if there is no documentation during the previous stages.



Section 3 of the Prevention of Money-laundering Act (PMLA), 2002, defines the Offence of Money-laundering as: “Whosoever directly or indirectly attempts to indulge or knowingly assists or knowingly is party or is actually involved in any process or activity connected with the proceeds of crime and projecting it as untainted property shall be guilty of the offence of money-laundering.”

Anti-Money-laundering is the term used by banks and other financial institutions to describe the variety of measures they have to fight this illegal activity and to prevent criminals from using individual banks and the financial system, in general, as instruments for their criminal proceeds. In all major jurisdictions around the world, criminal legislation and regulation make it mandatory for banks and financial institutions to have arrangements to fight Money-laundering, with harsh criminal penalties for non-compliance.

Anti-Money-laundering processes and controls help banks and financial institutions protect themselves and their reputation from criminals.

The key elements of a sound Anti-Money-Laundering programme, many of them required by law, include:

- Minimum Standards and Policies, approved by Senior Management, which clearly state your policy on crime prevention and business requirements.

- Strong "Know-Your-Customer" checks on new customers to identify and exclude known criminals, but also to establish the real identity of your new customers.
- Strong training programmes for all staff.
- Processes (very often automated) to monitor the activities on customer accounts to identify suspicious activity and to check incoming and outgoing payments for unauthorised transactions and to enable reports to be made to the relevant authorities.