



A term paper on Technology and tool for Anti money laundering and Combating Financial terrorism

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Abstract:

There is a significant focus today on the deficiencies of the financial system as the sector continues to boom while facing the growing pains of financial scandals, money laundering and the financing of terrorism around the world. Here, this study aims to investigate past research and the development of knowledge and practice in the area of countering money laundering and terrorist financing. Additionally, we draw attention to the gaps in the preventive mechanisms adopted by countries to fight against anti-money laundering (AML) and anti-terrorism financing (ATF) and to highlight areas for possible future research. Design/methodology/approach This study was carried out through a systematic literature review of the existing work on AML and ATF. Findings The general findings of the reviewed papers show the deficiencies in the laws, acts and preventive measures meant to fight money laundering and terrorism financing and support the need for more research in this area in terms of law, regulations and technological matters. Originality/value Providing a concrete understanding of the concept of AML and terrorist financing and contributing the theoretical development in the area.

Key words: money laundering, finance, terrorism , terrorist, technology, laws and regulation

Introduction

Effective anti-money laundering and combating the financing of terrorism (AML/CFT) policies and measures are key to the integrity and stability of the international financial system and member countries' economies. Money laundering (ML) and related underlying crimes (the so-called "predicate offenses" or "predicate crimes"), as well as terrorist financing (TF) and the financing of the proliferation of weapons of mass destruction (WMD) or proliferation financing (PF) are crimes with economic effects—they can threaten the integrity and stability of a country's financial sector and a country's external stability more generally. They can result in destabilizing "hot money" resulting from inflows and outflows, as well as in banking crises, ineffective revenue collection, broader governance weaknesses, reputational risks for international financial centers, and loss of correspondent banking relationships (CBRs). In an increasingly interconnected world, the harm done by these crimes is global, affecting the integrity and stability of the international financial system. AML/CFT policies and measures are designed to prevent and combat these crimes and are essential to protect the integrity and stability of financial markets and the global financial system.

Over the past 20 years, the Fund has helped shape AML/CFT policies globally, and within its members' national frameworks. Financial integrity issues are covered (as relevant) in all of the Fund's functions: surveillance, lending, and capacity development. Staff gives policy advice on macro-critical AML/CFT issues in Article IV consultations, covers AML/CFT issues relevant to the financial sector's soundness and stability as part of the Financial Sector Assessment Programs (FSAPs), and inputs into the design and implementation of financial integrity-related measures in Fund-supported programs. The Fund also has an extensive capacity development program on AML/CFT and delivers bilateral, regional, and thematic technical assistance to the membership. Further, the Fund also actively contributes to the global AML/CFT architecture, through participation in standard setting and assessment of countries against the international AML/CFT standards, coordination in CD delivery, and collaborations on policy dialogue and analytical work. The IMF's work on AML/CFT is guided by its AML/CFT strategy which is reviewed by IMF's Executive Board on a five- year policy review cycle. The 2023 Review of the AML/CFT Strategy was endorsed by the Executive Board of the IMF in November 2023.

While Money Laundering and Terrorism Financing activities differ in many ways, they often exploit the same vulnerabilities in financial systems and the broader economy that allow for anonymity and opacity in transactions.

Money Laundering is the processing of assets from criminal activity to obscure their illegal origins. The money laundering offense should apply to all serious offenses, with a view to including the widest range of predicate offenses. At a minimum, it should apply to the 21 categories of offenses designated by the Financial Action Task Force (FATF) in its glossary, including, inter alia, participation in organized crime, fraud, drug trafficking, corruption and bribery, and tax crimes.

Terrorism Financing involves the raising and processing of funds to supply terrorists with resources. While ML and TF differ in many ways, they often exploit the same vulnerabilities in financial systems that allow for an inappropriate level of anonymity and opacity in the execution of financial transactions.

Financing of the Proliferation of Weapons of Mass Destructions is a requirement on countries to implement targeted financial sanctions to comply with the United Nations Security Council (UNSC) resolutions on the proliferation of WMD and its financing.

This requirement is similar in its approach to the targeted financial sanctions applicable in the context of the fight against terrorism and terrorism financing but has a narrower application: it addresses exclusively the freezing without delay of funds or other assets of persons or entities designated by the UNSC as being involved in illicit proliferation of WMD and domestic cooperation.

Anti-money laundering and countering the financing of terrorism: a survey

- This study reviews existing research on AML and CFT to:
- Identify gaps in preventive mechanisms
- Highlight areas for future research
- Provide a theoretical understanding of AML and CFT

Anti-money laundering and countering the financing of terrorism

This paper explores the challenges of traditional currencies and blockchain technology in the fight against AML and CFT. It also examines the current regulatory frameworks in the United States and potential solutions.

Money Laundering and Terrorist Financing in the Art and Antiquities Market

This report includes:

- A list of risk indicators to help identify suspicious activities
- Good practices to address the challenges, such as establishing specialized units
- The importance of rapidly identifying and tracing cultural objects

Other resources on AML and CFT include:

- The International Monetary Fund (IMF) defines money laundering and terrorism financing
- The U.S. Department of State (.gov) discusses how criminals use the financial system to support terrorism
- The Financial Action Task Force (FATF) provides information on AML and CFT.

organizations thar responsible for AML/CFT

The Financial Action Task Force on Money Laundering (FATF), an intergovernmental body, has primary responsibility for developing worldwide standards for AML/CFT. It works closely with other organizations, including the IMF, the World Bank, the United Nations, and FATF-style regional bodies (FSRBs).

To help national governments set up effective AML/CFT regimes, the FATF issued recommendations covering the criminal justice system, the financial sector, certain non-financial businesses and professions, transparency, and mechanisms of international cooperation. Together with the FSRBs, the IMF and World Bank, the FATF monitors countries' compliance with these recommendations.

AML/CFT tools can:

- Expose the infrastructure of criminal organizations, webs of corruption, and conspiracies to commit terror acts
- Provide authorities with roadmaps to those who facilitate criminal and illicit activities
- Lead to the recovery and forfeiture of unlawfully-acquired assets
- Support broad and effective deterrence efforts against a wide range of criminal activities, including the financing of terrorism.

Only a comprehensive anti-money laundering regime which draws on such tools can prevent those that finance terrorism from succeeding. Anti-money laundering (AML) and counter-terrorism financing (CTF) are critical measures to combat financial crimes. AML focuses on preventing the illegal proceeds of criminal activity from entering the legitimate financial system, while CTF aims to disrupt the funding sources of terrorist organizations. Both AML and CTF involve a range of measures, including:

1. **Know Your Customer (KYC) procedures:** Financial institutions are required to verify the identity of their customers and conduct due diligence on their business activities.
2. **Suspicious Activity Reporting (SAR):** Financial institutions are obligated to report any suspicious transactions to the relevant authorities.
3. **Record-keeping requirements:** Financial institutions must maintain detailed records of their transactions to assist in investigations.
4. **International cooperation:** Governments and financial institutions collaborate to share information and coordinate efforts to combat money laundering and terrorist financing.

The Financial Action Task Force (FATF) is an intergovernmental body that sets international standards for AML/CTF. It also monitors countries' compliance with these standards and works to improve global AML/CTF regimes.

The PMLA (Prevention of money laundering act 2002) provides a comprehensive framework for preventing and combating money laundering in India and establishes the legal and institutional framework for AML in the country

Key Features of PMLA

Definition of Money Laundering: Under the PMLA, money laundering is defined as the process of "acquisition, possession, or use of proceeds of crime." The act criminalizes money laundering and provides for stringent penalties, including imprisonment and fines, for offenders.

Obligations of Financial Institutions: The PMLA imposes various obligations on financial institutions, including banks, financial institutions, and intermediaries, to prevent and detect money laundering. These obligations include:

Maintaining records of all transactions

Reporting suspicious transactions to the authorities

Implementing Know Your Customer (KYC) norms

Enforcement Agencies: The PMLA empowers various agencies to investigate and prosecute money laundering offenses, including the Enforcement Directorate, the Financial Intelligence Unit-India (FIU-IND), and the police.

Other Important Acts

In addition to the PMLA, other important acts that govern anti-money laundering and financial terrorism in India include:

Unlawful Activities (Prevention) Act (UAPA), 1967: This act empowers the government to ban organizations involved in terrorist activities and freeze their assets. It also provides for severe punishment for those involved in such activities.

The Prevention of Terrorism Act, 2002 (POTA): This act was enacted in the aftermath of the 2001 terrorist attacks in the United States. It provides for special measures to prevent and combat terrorism, including the freezing of assets of terrorist organizations.

The Financial Intelligence Unit-India (FIU-IND): The FIU-IND is an independent body responsible for receiving, analyzing, and disseminating information relating to suspicious financial transactions. It plays a crucial role in the fight against money laundering and financial terrorism.

International Cooperation

India is also a member of various international organizations and initiatives that combat money laundering and financial terrorism, such as the Financial Action Task Force (FATF) and the United Nations Office on Drugs and Crime (UNODC). These organizations help to set global standards for AML and CFT and provide assistance to countries in their efforts to combat these crimes.

Conclusion:

The paper contributes significantly to scholars and professional practitioners by providing insights through a detailed systematic review of the existing research studies on AML & ATF. First, the paper provides a comprehensive and detailed description of the available literature on the subject. Then, the paper describes the nature of the available studies and clearly discusses the gaps in the literature. Finally, the paper points out the directions for future research that may enable impactful studies on AML & ATF to be published in top-tier journals. To the best of our knowledge, this study is the first to make a detailed review of what has been studied so far in AML & ATF and to identify scope for further research work. This review has several implications. First, the paper reveals that there are gaps in both regulations and legislative laws and the technology used by countries to fight money laundering and terrorist financing. Second, the paper clearly shows the need for cooperation among different parties and entities in the war against ML/TF. Third, one purpose of this study was to more deeply examine the phenomenon of ML/TF, which remains relatively underexplored in different dimensional contexts. Finally, we provide the elements to initiate more quality research on AML & ATF.

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