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## **E-money Laundering Prevention**

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### **Abstract**

Although the word of “Money Laundering” isn’t very old in world literature, but attempted money laundering has a long history a long side with trade and commerce, as it always has been told. Money laundering is a process that the incomes of criminal acts enter to the economic cycle and will purify Dirty income. Therefore, we can say launderers are actually committed two offenses, primarily criminal acts and then use of mass incomes. In the current era, the speed of change and transformation in all areas, especially in the business world is unthinkable. With the arrival of electronic trading in to the range of words, Launderers using modern science and technology, electronic banking and cyberspace capabilities to make their actions complicated to prevent, detect and neutralize. After the recent global economic crisis, transparency and confidence-building, especially banks, monetary systems have become more important. Accordingly dealing in the field of money laundering and terrorism financing issues emphasized by observer authorities, including the Central Bank of the countries. Among the important questions are provided. What are effective methods for identifying bank customers? How financial operations are observed and monitored? How to record your data in the digital space area? And finally, How and when to report and what information to provide to the competent authorities? Preparing, planning and registration of new standards and evaluation of all activities of involving institutions, particularly banks, requires entry of all those who know the value of the negative consequences of anti-money laundering offense. Although, this work should be organized and the financial intelligence unit (FIU) must conduct all Anti-Money laundering with monitoring role in area of suspicious transaction reports and follow-up

them. Because cyberspace and e-government in related organizations, including banks, stock exchange, exchanges, insurance companies, national organization for civil registration, national organization for Docs and real estate registration, national organization for registration of companies and commercial enterprises have not matched yet, in that situation the importance of combating E-money laundering is manifested. And governmental officials should consider the Preparing updated laws and regulations, the infrastructure, culture, and public acceptance and international cooperation strongly.

**Keywords:** E-Money Laundering, Dirty Money, E-Banking, E-Commerce, Banking System, Financial Intelligence Unit (FIU), Financial Action Task Force (FATF).

**Introduction:**

Offense is a term of very old times has been changed along with social development. With the development of society, criminal activity has been developed from the individual to the group organized and from simple process to the mix and complex process. Offenders to be powerful along with community development and sometimes leading and organizing the jurisdiction. They are hidden not only in their original form, but obviously using the technology to compete with entrepreneurship and real productive and sometimes they are removed by offenders.

Other feature of new offenders is the higher national dimension that they haven't concentrated in a region, city or a particular country on the contrary they fold the international boundaries and make themselves international by using the international payments of virtual banking, mobile banking, home banking and all of the electronic banking system.

Perhaps in the ring of criminal activities for hiding the principles of activities they run the productive, business and commercial work to prevent their sinister intentions are discovered. They use the various activities such as trading, import and export, banking and construction to cover their bad practices. Hence the police, auditors and tax controller couldn't realize the targets of criminal with the conventional methods.

In fact we use the money laundering word for purification of those incomes from drug trafficking, fraud, massacre weapons smuggling, human trafficking and etc, in 1980 according to the western countries decision money laundering entitled the crime.

These countries sought to establish an organizational structure, providing international standards, laws and expansion of international cooperation to counter this crime.

During these years, with the development of money and capital and related organizations and a variety of online services, anti-money laundering has faced to the serious problems.

With the entry and expansion of newfangled economies and necessity of the international exchanges and variety of payment instruments, the neologism of "electronic money laundering" has entered to the economy.

**First topic: Electronic Commerce (e-commerce)**

Any type of commercial transaction information through the electronic instruments is called Electronic Commerce (e-commerce). Obviously, any technology creates threats and opportunities for organizations. Alteration in laws and organizational system, difficulties of adaption, speed of process and transition, create the new and sometimes hidden expectations are part of the challenges facing e-commerce.

Inexpensive and cost reduction, process speed, security and protection of information and data, ease of doing business, passing the time and place (do not need any work done at the work time and in certain places) and never has several other advantages prevent criminals entering to this field or to reduce users desire. Virtual methods, virtual goods and virtual and electronic payment methods provide context for the launderers operations.

Electronic data processing phase coincided with the passing of the era of management information systems and then Internet phenomenon make the methods of launderers and the way of dirty money purification more complex, and need to the tight cooperation of decision makers, policy makers and beneficiaries and highlights the role of government in the formulation and implementation of standards, regulations, international cooperation and rules.

**E-commerce dealing with numerous benefits that can be referred to the following:**

**- Fix location restriction:**

Any point of the world that can access to the internet we can buy and sell digitally.

**- Fix time limitation:**

At any time, day or night, there is the ability to do work

**- Easy access to information:**

We can access to the different kind of information via the Internet even without any membership of sites.

**- Save costs:**

Commuting to the stores seems unconventional.

**- Paperless trade**

**-The absence of intermediaries**

**- Trans-regional markets**

It can easily be found that banks were the first users of internet and in fact had established the electronic banking that time.

**The second topic - electronic banking**

A simple definition of e-banking can be using banking electronic instruments to do the banking process. In this respect, the ATM, POS and etc are applied.

The Important processes in our country that already active by digital systems include:

**- ATM:** we can do the activities like fund transfer, getting the bill, blocked the cheque, account balances, payment orders, pay bills, change the password and etc.

- **Cash receive:** receive the customers' cash online or offline
- **Point of sale:** buying the goods and immediate receipt of funds by recipient
- **Internet Banking:** Internet network specifically focused online payment accounts
- **Mobile Banking:** Using an intelligent ear, rather than a personal computer and do the variety of activities, especially the transfer of funds.

**Our Electronic banking status in comparison with developed countries has the challenges as follows:**

- Lack of the widespread use of the Internet in country.
- Lack of international cards such as Visa Card, Master Card due to international sanctions.
- Low-speed internet that cause the increasing costs and reducing security in the country.
- Lack of telecommunications infrastructure.
  - Lack of rules.
  - Restrictions on international exchanges.
  - Security and availability of information and its limitation.
  - Various definitions of personal information and confidential personal data.
  - Identity on the internet and verification way.
  - Challenges of lack of the continuous access to the internet and general distrust to the digital systems.
- Lack of standards and clear rules due to the combating electronic crime.
- No final the digital signature and did not match the relevant organizational units in the e-banking and e-commerce process that provides opportunities for criminal money launderers.

Due to a combination of human resources, which is generally made up of young people from all walks of life and level of education, our country has the high capacity of using the internet and e-banking relatively.

It is the responsibility of all beneficiaries and government including the use of new technologies that can effectively organize and expand the electronic banking activities because on the one hand, the effective entry into this space is not only a choice but a compulsion and on the other hand the non-entry into that space undermine the authority duties such as public peace and security.

Although not long passed the age of electronic banking but fortunately the banks already can keep step towards the development of e-banking and increase its penetration with approximately 33000ATM, near to 3 million POS and near to the 266 million cards. Paying the subsidy to near 21 million of Iranian families and stock dividend of companies to their shareholders are the only part of the services provided.

However, the security issues associated with the development of the internet and computer knowledge is very important.

The necessity of international communications standards, national standards compilation, correction and new legislation and its enforcement, redefined distribution

process and perhaps most importantly the security of electronic payment actually is a notion that can be considered by the regime to prevent electronic money laundering. With the membership in a network or bank, payment process is done.

Thus, the user must have a debit or credit card and then log on the website and by using the Token Device or no use of that enter to his or her account and order to pay with the code language and approving the destination account and process specifications and finally, a number that indicates the correct action has done is received. It is clear that the process of e-cards origins identifies the account, user identification, given the verification process, the destination account details or authentication may attack by the offenders via the criminal electronic act (hacking) or a distortion of the process to implement an electronic money laundering.

**Types of electronic transfer of funds in the banking system:**

- Transfer funds from one account to another account at the same bank
- Transfer funds from one account to another card at the same bank.
- Transfer funds from one account to another account in another bank.
- Transfer funds from one account to the other card in other banks.

**Types of electronic payment instruments:**

- **Debit card:** A plastic card that issue by the banks, shops and even hotels that charge a fee and will be provided to the buyer before the transaction card and the amount is received.
- **Credit Card:** The credit card that the transaction fee is received after the date of the transaction based on the customer's credit towards the payment transaction will act.
- **Electronic money:** a virtual currency that is transferred and we can use them as stored value cards.

**Components of electronic money:**

- 1- Value for money saved
- 2- Elements of beneficiaries, such as "publishers, users and providers
- 3 - Funds received is at least equal to the amount of electronic money
- 4 - Adoption of e-money and its acceptance

Besides the advantages of electronic money, such as cost reduction, cross-border transfers, to be simple, repeatable nature, crossing time and space, has some disadvantages that may be mentioned impossible to track, the transfer speed, unlimited rotation.

All of the above non-specific intercept and identify the source can be exploited by money launderers. It is not possible to identify the customer.

- **Electronic wallet:** a smart card which can be used for micro-payments (metro tickets, movie theaters, gas stations, etc)

### **Electronic Money laundering steps:**

Electronic Money laundering: in a word, dirty money laundering operations in light of the use of information technology over the internet due to its origin, route and destination will be ambiguous.

Electronic Money launderers could be free from the control unit of auditors, regulators and legislative requirements circulate the money in to the world market.

Dirty money: funds, which are considered to be illegal in your community can be divided into three groups:

1 - dirty money and dipped in blood: transfer of drugs

2 - gray currencies: the proceeds from the sale of goods and is obtained from production tasks, but the government is not aware of the hidden and often "these things are being done for tax evasion.

3 - black money from smuggling and participate in the lucrative transactions that can be obtained outside the normal conventions of the society.

### **Third Subject: E-Money Laundering Steps**

1- Electronic placement: in traditional laundering, offenders must hand over their cash to the bank or change into the merchant or asset and will sell it and use the laundering money into the financing and productivity path. These steps are not as easy to do, because the standards for customer identification and verification have been carried out. Most countries set limits on the number of entries in the cash flow but in electronic money laundering the offender can make his or her criminal income into the electronic Money and remove the border or purchase the invaluable product because identification will be difficult and it has the less risk activity. Although, it seems has not been developed the international standards for them.

2- Electronic layering: in traditional money laundering the offender must come between occasional source and first entrance and other usages. For example, "money entrusted to invest in a recreational institution or a behavior that is acceptable to do in public. Anonymity and concealment of identity are the purpose of money launderers that traditionally is very difficult and in electronic money laundering procedures that can be done quickly, without a border and be done with the use of electronic banking wouldn't be very difficult and even in some countries need to open an account with no physical authentication and can be done in cyberspace.

3- Electronic integrating: in the traditional integration take place the various methods such as investment, take loans to establish coating companies, forgery of documents, including purchase or sale transaction and It is a high risk procedure but all these activities can be done in virtual space and with less risk.

### **Challenges and activities that can be exploited by money launderers:**

- Customer Accounts initiation in cyberspace will be hidden in identification.
- Encryption and digital signature of the customer's identity can still be kept secret.
- The use of seemingly legitimate.

- Betting in cyberspace - winners and losers may be one person.
- Pre paid debit cards.
- Online Transactions.
- Lack of national and international standards for Anti-Money Laundering.

**Fourth Subject: Financial Action Task Force (FATF)**

an Inter-governmental institution that was founded in 1989 by seven countries and now has 36 members. The group has a number of associate members and observers, including the World Bank, IMF, Basel Supervisory Committee, OECD central banks economies of Europe, Interpol (International Police), UN Office for Drug Control, Anti-terrorism Committee of Council. In other words, it has become the general state of the world.

When established, the main mission of “FATF” was legislating of international standards to combat money laundering, but later the legislation of the standards in combating terrorism added.

**Forty double standards FATF:**

- 1- Evaluation of risks: money laundering, the identification, evaluation, and should be evaluated.
- 2- Coordination and cooperation between national
- 3- criminalization of money laundering
- 4- confiscation and provisional measures
- 5- criminalization of terrorism financing
- 6- Targeted financial sanctions and void
- 7- targeted sanctions associated with the proliferation of weapons of mass destruction
- 8- Caring for Non-Profits
- 9- secrecy laws
- 10- Identifying customers
- 11- Maintenance of records
- 12- Persons with political risk
- 13- Remote
- 14- Financial services and money transfer
- 15- new technologies
- 16- electronic funds transfer
- 17- Reliance on third parties
- 18- Internal Control
- 19- Countries with risk
- 20- report
- 21- Provision of Confidential Information and Privacy
- 22- Identification of non- business customers
- 23- Other measures in the non-financial business
- 24- Transparency and stakeholder ownership of natural persons

- 25- Transparency and beneficial ownership of legal entities
- 26- regulation and supervision of financial institutions
- 27- Powers of Supervisors
- 28- To regulate and supervise the actions of certain non-financial businesses and professions
- 29- Financial Intelligence Units
- 30- authorities responsible for law enforcement and investigation
- 31- Law enforcement authorities and research
- 32- bearers money
- 33- Statistics
- 34- Help and Feedback
- 35- Penalties
- 36- The international documents
- 37- Assistance to judicial
- 38- confiscated
- 39- Extradition
- 40- Other forms of international cooperation

**Fifth subject: Financial Intelligence Unit (FIU)**

The Financial Intelligence Unit is the central office that receives the Suspicious Transaction Reports (STR). Then analyses them and Next, the results of this analysis to combat money laundering and financing of terrorism could be sent for law enforcement. Based on a comprehensive international standard for the FIU in 1996 and subsequently provided as revised in 2004, The FIUs are independent, national and centralized organization which is analyzing and considering the STRs and then disclosure of financial information cases to the relevant agencies.

Meanwhile, the "Financial Information Unit types include:

Administrative Model, Judicial officer model and Hybrid model.

Regulation and supervision of institutions:

- Observers authorities.
- Statistics and information.
- International cooperation in the exchange of documents, assistance, extradition and other contributions,

with study of these standards can be found easily that most of these standards have relativity for combating money laundering and they mentioned to the E-AML less.

**Conclusions:**

With regard to the content of mentioned items, it can be said that the expansion, development and diversification of e-commerce and e-banking has made the money laundering more difficult. Identity concealment of money laundering with using of cyberspace makes the replacement, layering and integration easier than before.



On the other hand there along with traditional banking and electronic banking, reduce the risk of criminal operations and the existence of infrastructure and the existence of parallel organizations or organizations in the non-utilization of operations in the technology make the electronic money laundering more easily.

Consequently, the use of private sector development and the role of government policy experts and fade Decentralization will Innovative and money-laundering operations are more complex and therefore more difficult to fight.

### **Suggestions:**

- 1- simultaneous use of new technologies in organizations which relate to the Anti money laundering include registration, records, documents, banking system and etc.
- 2- Meets all international standards and develop new standards to combat money laundering and the use of new technologies, with emphasis on the experiences of developed countries.
- 3- Legislation and regulations related to electronic money laundering and combating the financing of terrorism. Including customer identification, criminalization and redefining the privacy.
- 4- Create and develop the anti-money laundering unit in financial and monetary institutions and companies of all sized up and its enforcement.
- 5- Create a variety of money-laundering for criminal penalties such as social restrictions.
- 6- Linking all financial and monetary organizations, social security, registration, documentation, organization of taxation, customs, judiciary, organizations and SMEs to follow-up and monitoring information
- 7- ban on issuing credit cards unnamed and in amounts up 150 million Rails.
- 8- Develop international cooperation in the fight against money laundering.

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38\ New Marketing Research Journal, Special Issue, 2014

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