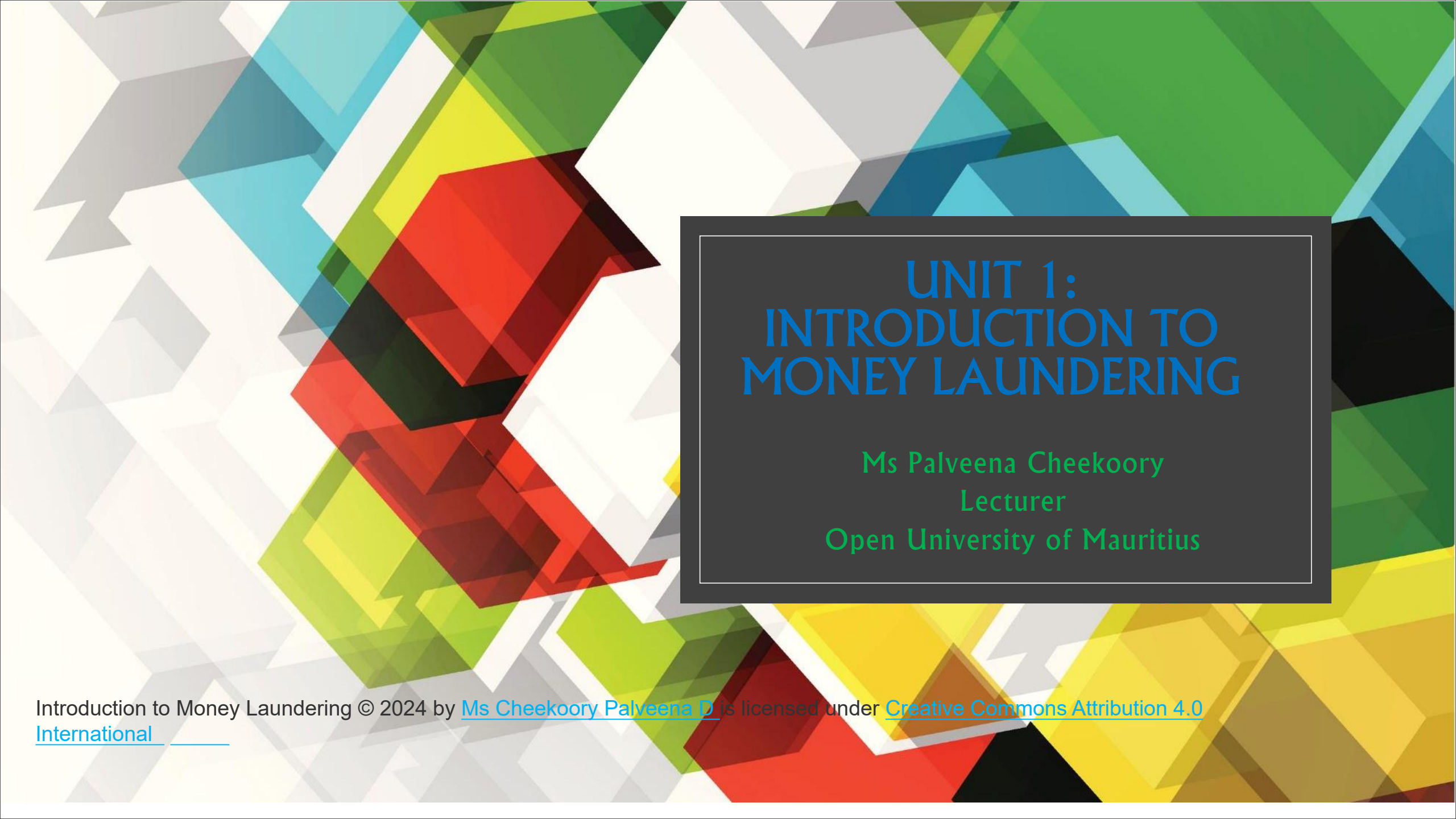




UNIT 1: INTRODUCTION TO MONEY LAUNDERING

Ms Palveena Cheekoory
Lecturer
Open University of Mauritius

Money Laundering

- Money laundering is a complex process designed to conceal the origins of illegally obtained funds. It involves a series of transactions or activities that make the money appear to be derived from a legitimate source, thus disguising its true illicit origins.
- The term "money laundering" originated from the practice of criminals passing illegal profits through businesses or other legitimate financial institutions to "clean" the money, making it appear legal.
- This process allows criminals to enjoy their illicit gains without attracting attention from law enforcement agencies or financial regulators.

Economic Consequences of Money Laundering

- Money laundering has severe economic repercussions, affecting both national and international enterprises, as well as society at large.
- The circulation of "dirty" money destabilizes the economy by causing unpredictable shifts in money demand. This instability leads to increased expenditure rates, rises in imports, exports, inflation, interest rates, and unemployment.
- Money laundering also impedes the effectiveness of monetary policy, potentially resulting in financial crises that can spread globally.

Economic Consequences of Money Laundering

- Money laundering leads to a loss of government revenue due to difficulties in tax collection, which can undermine public services like healthcare.
- Financial institutions risk instability and damage to their reputation if they inadvertently facilitate money laundering.
- Furthermore, money laundering distorts markets by constraining the expansion of the private sector and causing volatility in international capital flows and exchange rates.
- Finally, by enabling criminals to finance illegal activities, money laundering fosters corruption, granting criminals economic influence over markets, governments, and society, thus perpetuating crime and corruption.

The necessity to combat money laundering

- Preventing criminals from laundering "dirty" money into "clean" money is crucial in combating crime.
- Money laundering relies on exploiting the global financial system, posing risks to specific institutions and the entire industry.
- The ease of laundering illegal funds and the challenge of tracking them stem from increased global financial integration, capital flow deregulation, and electronic banking expansion.
- Legitimate financial success depends on attracting and retaining legal funds, as opposed to temporary gains from criminal activities. Money laundering tarnishes the reputation and integrity of financial systems and can lead to legal repercussions and loss of trust for implicated individuals or organizations.

The 3 stages of Money Laundering

- **1. Placement:**

- This is the initial stage where illegally obtained funds are introduced into the financial system. The goal is to place the "dirty" money into the legitimate economy without raising suspicion. Examples of placement include:
 - a. Structuring deposits: Criminals may deposit cash into bank accounts in amounts below the reporting threshold to avoid detection. For instance, if a reporting threshold is \$10,000, the launderer may deposit \$9,000 multiple times to avoid triggering a report.
 - b. Smuggling cash: Illicit funds may be physically transported across borders to deposit them in offshore accounts or to invest in assets abroad, making it difficult to trace the money's origin.
 - c. Using shell companies: Criminals may set up shell companies to receive illicit funds, disguising the true beneficiary of the money.

The 3 stages of Money Laundering

◦ **2. Layering:**

- In this stage, the launderer conducts a series of complex financial transactions to further obscure the origin of the funds. The goal is to create layers of transactions that make it difficult to trace the money back to its illegal source. Examples of layering include:
 - a. Wire transfers: Money may be moved between multiple accounts in different jurisdictions, making it challenging for authorities to follow the trail.
 - b. Currency exchanges: Launderers may convert funds into different currencies multiple times to complicate tracking efforts.
 - c. Investments: Illicit funds may be invested in assets such as real estate, stocks, or businesses, with subsequent transactions designed to distance the money from its criminal origins.

The 3 stages of Money Laundering

- **3. Integration:**

- In the final stage, the laundered funds are reintroduced into the economy as legitimate wealth. The goal is to seamlessly integrate the illicit funds with legal assets. Examples of integration include:
 - a. Purchasing assets: Launderers may use the laundered money to buy high-value assets like luxury real estate, art, or vehicles, which can then be sold or used without attracting suspicion.
 - b. Business investments: Criminals may invest in legitimate businesses or start their own enterprises, using the laundered money to fund operations and generate legitimate income.
 - c. Loans and mortgages: Laundered funds may be used to obtain loans or mortgages from financial institutions, effectively blending the illicit money with legitimate financial transactions.

How can the financial sector businesses be vulnerable to ML?

- Efforts to combat money laundering have historically targeted the handling of deposits within the financial sector, as this is where suspicious activities are most likely to be detected.
- However, criminals have adapted by seeking methods to obscure the origins of illegally obtained cash before it enters the financial system, making detection more difficult.
- Techniques such as wire transfers and "smart" cards are utilized to covertly move funds, posing challenges for tracking. Financial institutions must now consider the money laundering risks associated with the products and services they offer, particularly those involving minimal face-to-face customer interaction.

How can the financial sector businesses be vulnerable to ML?

- All financial institutions are vulnerable to being used at various stages of money laundering, including placement, layering, and integration, due to their provision of money transportation services. Electronic funds transfer services further facilitate the rapid movement of funds between accounts with different identities and in different jurisdictions, increasing susceptibility to laundering activities.
- Sophisticated criminal enterprises, employing professional money launderers, may establish elaborate international trading operations to transfer illicit funds across borders. Front companies and fictitious documents, such as inflated invoices and fabricated letters of credit, are used to obscure the origin and destination of funds.
- Some of these front companies may even seek financing from lenders to support their illicit activities. Financial institutions involved in international trade services must remain vigilant for various laundering schemes to mitigate risks effectively.

An overview of the legal evolution on ML in Mauritius.

- The Republic of Mauritius has demonstrated a strong commitment to combating money laundering and the financing of terrorism through various actions.
- Mauritius pledged its commitment to the Mutual Evaluation mechanism and the 40 recommendations of the Financial Action Task Force (FATF) in 1997.
- The FATF, established in 1989, sets global standards for anti-money laundering efforts and published its Forty Recommendations in 1990, with subsequent revisions in 1996, 2003, and 2012 to adapt to evolving money laundering methods.
- Mauritius also adhered to the requirements of the United Nations Minimum Performance Programme and ratified the UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances and the UN Convention against Transnational Organised Crime.
- Legislation in Mauritius has evolved to address money laundering, with the Economic Crime and Anti-Money Laundering Act 2000 being replaced by the Financial Intelligence and Anti-Money Laundering Act 2002.

An overview of the legal evolution on ML in Mauritius.

- This Act established a Financial Intelligence Unit (FIU) with powers to gather, analyze, and disseminate information. Regulations accompanying this Act, including identification verification and record-keeping provisions, have been amended over the years to enhance compliance.
- Additionally, the Anti-Money Laundering (Miscellaneous Provisions) Act 2003 and the establishment of the Eastern and Southern Africa Anti-Money Laundering Group further strengthened Mauritius' anti-money laundering framework.
- Key legislation includes the Anti-Money Laundering (Miscellaneous Provisions) Act 2003, Financial Intelligence and Anti-Money Laundering Regulations 2003, Financial Intelligence and Anti-Money Laundering (Amendment) Regulations 2005 and 2006, and the Prevention of Money Laundering Act.
- The AML/CFT Handbook of FSC 2020

THANK YOU

- This presentation is made available to you with a



licence.