Facing Anti-Money Laundering

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Anti-Money Laundering (AML) refers to the set of laws, regulations, and procedures designed to prevent the generation of income through illegal activities. At the market level, the importance of AML cannot be overstated, as it plays a crucial role in maintaining the integrity of financial systems and protecting economies from the detrimental effects of crime.

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Importance of AML

AML is vital for numerous reasons. Focusing on the most important ones, AML is crucial because it helps combat organized crime and terrorism (R. Bashir, Rajeev, Shatarah, & N. Bashir, 2020). Criminal organizations often rely on money laundering to disguise the origins of their illicit funds, allowing them to reinvest in further criminal activities.

AML is essential for protecting the reputation of financial institutions. Banks and other financial entities that fail to comply with AML regulations can face severe penalties, including hefty fines and reputational damage (Yusoff, Jumbli, Norazman, Razak, & Hashim, 2024). A single incident of money laundering can lead to a loss of customer trust and confidence, which can take years to rebuild, if there is not a total disaster in between.

The economic implications of money laundering are also significant. Money laundering can distort financial markets, leading to unfair competition and undermining legitimate businesses. When illicit funds are funneled into the economy, they can create an uneven playing field, making it difficult for lawful enterprises to compete. This can stifle innovation and growth, ultimately harming the economy as a whole (Shah & Pandit, 2022).

Although all the above refer to the economy as a total and the financial institutions as the power supply of the market, discussions and references should be made at the company level as well.

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AML Compliance

What tools (and not only IT related ones), should companies use?

Compliance seems to be the magic word, however, it is also a headache as well. Companies must comply with national and global AML regulations with a view to maximizing their ability to detect and prevent the respective financial crimes as money laundering, terrorist financing, fraud, tax evasion, and sanctions evasion.

Faced with the risk of penalties and bad reputation, the achievement of AML compliance becomes a competitive advantage, since it builds trust with the customers and supports the growing of the business.

AML compliance comes together with the use of compliance programs (Cox, 2014), which are sets of policies and procedures that help the company in the detection and prevention of money laundering and other financial crimes. Moreover, the risk based approach should be used for AML as well. It involves firstly the identification of the probable risks, the management's tolerance level to these risks, and then the matching of the relevant compliance program. The risk based approach is very important in ensuring that companies perform proper due diligence on their risky customers.

Risk assessment is the useful tool that allows companies to implement the risk based approach. By performing the risk assessment, it helps the management to determine the targeted evaluation of the customer AML risk. Risk assessment also allows for the effective risk management and this process should be ongoing, meaning that assessments should be performed for example annually.

When onboarding new customers, the "know your customer" process (KYC), is a very powerful tool since it verifies the customer's identity, with the involvement of data such as the customer's location, occupation, financial history, politically exposed persons, negative media, and sanctions in order to define their risk profile. Since the transactions relationship with the customer has started, their monitoring should be ongoing. This allows the company to identify and investigate suspicious transactions and capture any changes that may affect their risk level.

Last but not least, the first line of defense (relevant employees) should be trained (Everhardt & Kuhn, 2004) frequently to recognize and combat financial crime and cooperate with the compliance officer of the company.

IT Tools

The use of an IT platform or Artificial Intelligence is a must in achieving AML compliance. Although there are numerous platforms in the market, the necessary features that a platform should perform are:

• Machine learning that could be used for risk detection. In this case, management has to be able to see beyond the horizon, so new types of financial crime or indications not yet covered by existing rules, should be identified.

• Risk scoring for candidate customers is necessary, since it will allow companies to match the level of risk and tolerance to their prospective customers.

• Updates on the risk score should be continued in real time, given any new information for the customer, so changes to the customer's risk profile can be captured immediately.

• Transparency in compliance and the records kept should be available any time, so that regulatory compliance can be proved any time.

Conclusions

At a governmental level, by enforcing AML regulations, governments can ensure a level playing field for all businesses, fostering a healthier economic environment. At a financial institutions level, adherence to AML standards (Oliveira, 2015), strengthens their protection from legal repercussions but also enhances their credibility in the eyes of clients and regulators. By implementing robust AML measures, governments and financial institutions can disrupt illegal operations, making it more difficult for criminals to profit from their activities. This in turn, contributes to national and global security, as it limits the resources available to terrorist groups and organized crime syndicates. By prioritizing AML efforts, governments and financial institutions can help create a safer, more secure world for everyone.

AML efforts contribute to the overall stability of the financial system. When money laundering is prevalent, it can lead to increased volatility in financial markets, as illicit funds can be withdrawn or moved rapidly, causing disruptions. By mitigating the risks associated with money laundering, AML measures help to promote stability and confidence in financial institutions, encouraging investment and economic growth.

International cooperation is another critical aspect of AML. Money laundering is often a cross-border issue, requiring collaboration between countries to effectively combat it. Organizations such as the Financial Action Task Force (FATF) work to establish global standards for AML and promote cooperation among nations. This international framework is essential for addressing the complexities of money laundering, as criminals often exploit jurisdictional gaps to evade detection. By cooperating on a country level, countries can share intelligence, best practices, and resources to strengthen their AML efforts.

Anti-Money Laundering (AML) compliance for companies involves implementing policies and procedures to prevent, detect, and report money laundering and terrorist financing activities. This includes conducting risk assessments, establishing customer due diligence measures, ongoing transaction monitoring, staff training, and adherence to national and international regulations.

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