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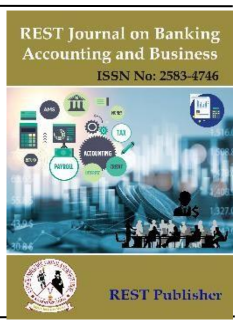

Money Laundering: A Review

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Abstract: *Money laundering is a major global issue, influencing the economy of pretty much every nation including India. This term has become a buzzword nowadays. Money laundering is an illegal process of concealing the origin of the money which is obtained from unlawful activities, but this is converted and is shown to be obtained from a legitimate source. Understanding the concept of money laundering and its nature is essential to combat it. There are different types and methods that money launderers use to disguise their illicit funds. This illegal activity has the simple purpose of converting black money to white money. This is done through activities like drug trafficking, corruption, or gambling. The real estate sector as a target, is the largest, most vulnerable, and easiest sector for money laundering. To deal with this worldwide issue, countries from everywhere implemented laws and regulations and are coming up with newer techniques.*
Keywords: *Money Laundering; Illegal Process; Black Money; Economy; Global Issue*

1. INTRODUCTION

The term money laundering has many definitions but to simply put it into words it refers to the illegal process of concealing the origin of the money which is obtained from unlawful activities. This is converted and is shown to be obtained from a legitimate source. The unlawful activities can include drug trafficking, corruption, or gambling. The objective of this activity is as simple as converting black money into white money. This is usually a huge amount of money that is the proceeds of illicit activities that is given the appearance of being obtained lawfully. This is not limited to India but is a global phenomenon. Money laundering is a serious offense with significant legal and financial consequences. It has an impact on other sectors as well, directly or indirectly. Money laundering is a three-step process, which includes placement, layering, and integration. Placement involves the introduction of funds into the financial system. Criminals often use cash to avoid traceability, but they may also use financial institutions to deposit or transfer the proceeds of illegal activity. Layering involves the use of financial transactions to obscure the origin of the funds. This may include complex financial transactions such as transfers between different countries and financial institutions, the creation of false documentation, or the use of intermediaries to obscure the source of the funds. Integration involves the placement of the funds back into the economy, appearing to be legitimate funds. This may involve establishing a new business, investing in real estate, or other investments to make the funds more legitimate. There are numerous reasons as to why money laundering occurs. The first and most straightforward reason is to hide the sources of illegal funds. Money launderers do this to make it difficult for law enforcement agencies to trace the money back to them. Another reason that we understand is to make the illegal funds appear legitimate. The launderers can use money laundering to invest in legitimate businesses or real estate, and they can use the laundered money to purchase assets such as jewelry or artwork. And finally, money laundering can be used as a source of finance for other criminal activities, which may be drug trafficking, human trafficking, and terrorist activities. There are several methods that criminals use to launder money. The most common methods include using cash-intensive businesses, such as casinos or restaurants, to hide the source of funds. Money launderers may also use anonymous shell companies or offshore companies that are created solely for the purpose of laundering money. Wire transfers from one account to another across countries or financial institutions can also be used to launder money. Black salaries are another method wherein a company may have unregistered employees without written contracts and pay them cash salaries. Combating money laundering is a global issue. Countries all over the world have implemented laws and regulations. There are various organizations established for this purpose. Stopping money laundering becomes even more difficult as this now happens in the electronic world too. Digitalization of money enabled this. Money laundering is a serious issue that affects countries worldwide. It is crucial that governments enact strict enforcement measures and that financial institutions comply with anti-money laundering laws in order to prevent and combat money laundering. By doing so, we can ensure that the proceeds of illegal activities do not continue to fuel other criminal activities. The objectives of the study have been done based on the following objectives. study money laundering, to analyze the impact of money laundering on the global economy and financial systems, to identify money laundering crimes and legal consequences, to explore the major laws, regulations, and international conventions designed to combat money laundering and to assess the effectiveness of anti-money laundering measures in curbing the incidence of money laundering.

2. METHODOLOGY

It is a descriptive study based on secondary data. The data is collected from various published sources such as journal articles, books, and published reports from agencies and newspapers over a period of past decades. The research is conducted by collecting and analyzing how and what events occurred during the year gaps between 1990-2022. This paper focuses on finding out details regarding the money laundering system and is conducted with the purpose to create awareness about the topic and to achieve the mentioned objectives.

3. LITERATURE REVIEW

Kumar, V. J. (2012) Money laundering is simply the conversion of black money into white money. It has a major impact on the economy, the political stability of the country, and how the government runs. People assume this is a victimless crime but in reality, it is not an individualistic crime, it is a crime against nations, economies, governments, the rule of law, and the world at large. Recent globalization and the revolutions in communication have made crime increasingly international in scope, and the financial aspects of crime have become more complex due to rapid advances in technology. Groups of international banks all over the world facilitated the transmission and the disguising of the origin of funds. There are huge negative impacts of money laundering which particularly damage the financial-sector institutions, hamper economic growth, reduce productivity in the economy's real sector by diverting resources, and encourage crime and corruption. The real estate sector is the largest and most vulnerable and easiest sector for money laundering because it is a safe investment. The value is difficult to assess and it allows you to get "white" returns. Money laundering is not restricted to a certain place but is a global problem. People involved in these target foreign jurisdictions with liberal bank secrecy laws and weak anti-money laundering regulatory regimes. Sundarakania, S. and Ramasamy, M. (2013) Money laundering is the process of providing a legitimate appearance to the illegally gained revenue. Banks are traditionally measured as pillars of economic prosperity. A good banking system will be able to ensure good production in all sectors of the economy. Money Laundering erodes financial institutions, weakens the financial sectors, and in turn, hampers economic growth. It has the habit of facilitating corruption, crime, and other illegal activities at the expense of countries' development and can increase the risk of macroeconomic instability. Banks and other financial institutions are at the forefront of the battle against money launderers. The negative economic effects of money laundering on economic development are difficult to quantify. The usage of banking products to transfer criminal proceeds for money laundering and terrorist financing undermines the integrity of the financial system. The role of banks over the past years is to identify that money launderers have shown new patterns and to handle these emerging threats from criminals, banks have to develop an Anti-Money Laundering department. The Anti-money laundering (AML) department has become an essential department in every bank as their progress is closely monitored by central banks, government, judicial system, and international organizations. AML activities require a large investment for enhanced transaction monitoring and revision of KYC documentation for existing customers. Rajeswari, B. (2021) The process of concealing the origins of money obtained illegally is called money laundering. It is done by passing it through a complex sequence of banking transfers or commercial transactions. The overall objective of this process is to obtain the returns as "clean" money to the launderer in an obscure and indirect way. Money Laundering is a criminal act of misrepresenting illegally obtained money, such as from drug trafficking or terrorism, being obtained from legitimate resources. It is one of the activities through which criminals conceal their original ownership of undeclared money. This money or proceeds appear to have been derived from lawful sources. Money laundering is a serious threat not only to financial institutions but also to the nation. Money laundering is a criminal activity to disguise black money as white money. It is a process by which illegal funds and assets are converted into legitimate funds and assets. Money Laundering occurs in three stages: Placement, Layering, and Integration. The financial sector is progressing and evolving at an exceptional pace. New technologies have introduced a whole new spectrum of money laundering opportunities as people discover newer techniques.

Matejić, I. and Ćurčić, M. (2022) Money laundering is done through ways using electronic payment systems, money transfers, online gambling, and cryptocurrencies and not just through cash. There is a misuse of electronic payment systems, online betting, and electronic money for the purpose of laundering illegally acquired money. The most commonly used methods of money laundering are fake invoicing, false lawsuits, and layering. The choice of an electronic money laundering payment system depends on a number of factors such as the amount of money to be laundered, the nature of the transfer, and the adaptability of money laundering organizations to new technologies. It can be through payment systems in one of the following ways using false identities, transfers through banks in offshore countries, or informal money transfers. Money laundering through cryptocurrencies is done through the same phases as cash laundering, that is, through investment, layering, and integration. Electronic payment systems are evolving with the development of technology, but as much as this development brings with it benefits for users, so does the danger of misuse. The misuse of these systems achieves anonymity in money laundering, terrorist financing, and the purchase of illegal goods, and makes it more difficult to combat these illegal activities. Kumar, T.M., *et al.* (2019) Counterfeiting cash represents the unlawful replication of unique currency and thus makes fake currency an illegal currency that has not been approved by the government. The Reserve Bank of India is the main body that has the sole right to print currency notes in India but it faces the issue of fake currency or counterfeit currency. Prior fake currency detection was finished by utilizing the chemical properties of the currency paper. But these days with the advancement of computerized reasoning and image processing, advanced image processing is as often as possible utilized for fake currency detection. Feature extraction is a testing function as it includes the extraction of legitimately or in a roundabout way unmistakable highlights of Indian currency. Security feature highlights of a currency are basic factors for deciding genuine and fake monetary forms. Basic security highlights incorporate watermarks, idle images, security thread, intaglio, optically factor ink, smaller-scale lettering, and fluorescence. Extricating properties for images of currency notes can get very unpredictable as it includes the extraction of some obvious and imperceptible highlights of Indian currency. Kumar, R. (2020) Black money promotes corruption. The impact of black money tends to be huge and wide, affecting areas like economic, political, and socio-cultural lives and also reducing the very foundations of honest human behavior. India has massive physical cash in circulation and as this physical cash increases, the greater the generation of black income becomes. The government's decision to demonetize can help to move a cashless economy free from black money, as it withdraws the current legal currency. The Indian government announced the cancellation of the legal currency of all Rs.500 and Rs.1000 notes. The main objectives of demonetization were to reduce black money, lower cash circulation to reduce corruption in the economy and eliminate fake currency and terrorism funding. The positive impact of this includes reduction of money laundering, reduction of funding for terrorism, promotion of a cashless society as the transaction of banking channels increases significantly, and making inflationary conditions steadily reduce which may contribute towards improving the standard of living of low-income.

Masciandaro, D (1999) We get to learn how money laundering can be seen as a multiplier of criminal financial activities. Money laundering, by converting potential into effective purchasing power, enables the reinvestment of laundered illegal funds, thereby strengthening the ties between the real and financial sides of a criminal economy. "We also get to learn the inverse relationship between the degree of diffusion of money laundering activities and the effectiveness of anti-money laundering regulation in a given economy." The legislator was shown to be faced with a trade-off between protecting the integrity of the economic system through effective regulation and impeding the efficiency of financial intermediaries due to regulatory costs. Therefore, the legislator's tolerance towards both the damages caused by money laundering and the costs of regulation determines the strictness of an anti-money laundering policy. The possibility of increasing the effectiveness of the regulation while also efficiently analyzing its costs was also mentioned. Such a result would allow for both increased efficiency and more effective regulation. We assumed the economy was closed throughout the paper, so we advocate for further relaxation of this assumption. The model presented in Sections 1 and 2 was then used to examine the evolution of Italy's anti-money laundering legislation. We demonstrated how the Italian case demonstrates policymakers' growing sensitivity to the costs of money laundering, paired with an unsatisfactory solution to the efficiency-effectiveness trade-off. Improvements in this direction were thus identified as feasible and hoped for. Walker (1999) This paper presented the design of a model for estimating global money laundering flows. While there are many issues with missing and non-comparable data, there appear to be rational techniques for filling in these gaps using expert knowledge. The model focuses on gathering or estimating information that can be cross-checked so that while it will inevitably be off in some areas due to bad data or incorrect hypotheses, there are numerous opportunities to cross-check with other data in the model. Estimates based on data and hypotheses about crime levels and profits, for example, cannot logically contradict estimates based on economic or financial data. A number of ratios and indices (for example, money laundering as a percentage of GNP, the ML Attractiveness Index) is calculated for each country within the model and can be evaluated by experts. When they disagree with the model, it is a sign that a 'third opinion' is needed — that more research is needed in the exact area of data conflict. Newman, E. P. (1959) When an American privateer intercepted a British vessel carrying a letter from Sir Henry Clinton, Commander-in-Chief of the British Forces in North America, to Lord George Germain, British Secretary of State, the excitement in America must have been palpable. It is unarguable that the British Civil Government, as well as military leaders, approved and directed the counterfeiting of American paper money. Counterfeits in large quantities contributed significantly to Continental Currency's eventual worthlessness and repudiation at the end of the war. Captain Thomas Anburey, a British officer, believed that counterfeiting was to blame for the depreciation when he wrote in a letter dated May 12, 1779. In American areas occupied by British forces, no Continental Currency was permitted to circulate, genuine or counterfeit. When the British occupied New York City, they did not overlook other methods of depreciating the currency in surrounding areas, as evidenced by the following advertisement in the New York Gazette on October 28, 1776. Klaus Kultti (1996) Throughout history, there is ample evidence of counterfeiting. This paper presented an equilibrium analysis of the phenomenon. They have specifically investigated the conditions under which the economy can maintain an equilibrium in which both counterfeit and genuine money circulate and are accepted. It was discovered that there are two distinct cases that preclude the above equilibrium. First, if counterfeit money holders cannot avoid punishment, counterfeit money is not accepted and does not circulate. Second, if the agents are extremely patient, i.e., have a low rate of time preference, counterfeit money is not accepted because the agents can easily wait until they receive genuine money. However, in some cases, counterfeit money is readily accepted. Notably when the penalty for possessing it is not too severe and there is not enough genuine money in circulation. Based on this last insight, they demonstrated that private monetization of the economy is possible as long as the ruler has the ability to adjust the punishment for counterfeiting. The outcome is consistent with the belief that monetizing trading requires some level of coordination or centralization.

Jost, P. M., and Sandhu, H. S. (2000) This paper describes the hawala and alternative remittance systems that play a role in money laundering. For the purpose of fighting money laundering, it's critical to distinguish between valid and illegal hawala transactions. There are three stages of money laundering location, layering, and integration. Money laundering schemes involve the transfer of money from one account to another, which presents two problems to the money launderer: the possibility of being reported as suspicious and the paper trail created by these transactions. Hawala transfers leave a sparse or confusing paper trail due to the mixture of legal goods and illegal money, leading to confusion about the source of the money. In the final stage of money laundering, integration, the launderer invests in other assets and uses the funds to continue to invest in illegal activities. McCusker, R. (2005) This paper discusses Underground banking that has been overshadowed by its potential use by criminal and terrorist groups, so the decision to regulate or license brokers must carefully evaluate the practicalities and consequences of doing so. Australia has recognized the existence of remittance dealers and AUSTRAC has targeted them via multilingual advertising campaigns. Persuading remittance dealers to register and submit financial transaction reports to AUSTRAC is a sound way to mitigate the impact of those who might elect to launder money or finance terrorist groups, but the most pragmatic solution may involve altering the economic conditions which currently render underground banking a viable alternative to the formal banking sector. Argentiero, A., Bagella, M., and Busato, F. (2008) This paper suggests a method based on a theoretical model that could be useful for generating otherwise unobservable quantities relying on observable and estimated variables. The paper derives equilibrium expressions for the unobservable quantities (ML) from a dynamic general equilibrium model, which is structurally and dynamically consistent with the behavior of the other aggregate macro variables. This approach is complementary to standard estimation techniques and can be used to provide benchmarks related to well-behaved preferences and production technologies in the market and informal sector. Purkey, H. (2010) The art industry needs more regulations to combat the use of art to launder money. Auction houses must report cash transactions over $10,000, art auctioneers must be held criminally liable, and financial institutions and banks should be made aware of the use of art as a means to launder money. These measures will increase the likelihood of money laundering being caught and deter organized criminals from engaging in willful blindness. Customs officials should have a basic understanding of the selling price of art, but this may prove difficult. Instead, they should spot warning signals such as where the art is coming from, the method of payment for the art, and the purchaser's general interest in art. These measures will only be a step towards winning the battle against the use of art to clean dirty money in the international war against money laundering. Lucian, R. D. (2010) Globalization and regionalization have created an important issue for the international community, as criminal groups have organized international networks to manage their own activity with increased efficiency. This has allowed them to exploit free borders and create opportunities for political or social interactions, but also for the expansion of phenomena in direct connection with the underground economy. The money laundering market is valued at $ 600 billion, and the fight against it requires specific national regulations and an attitude of non-acceptance of such phenomena at the level of civil society. Morris-Cotterill, N. (2001) Money laundering is a modern phenomenon, but it has a long history of protecting legitimate or illegitimate wealth from the unwanted attention of the government. It can be done by converting money into readily movable assets, moving cash outside the jurisdiction to invest it in a business, and trading at inflated prices to expatriate funds. Economic and financial globalization has also made the life of a money launderer easier, as legal funds circulate around the globe and money placed in a bank branch in a less regulated jurisdiction is easily transferred internally within the organization to a branch in a more regulated jurisdiction. The Financial Action Task Force on Money Laundering (FATF) estimates the global scale of money laundering. Money laundering is an enormous problem endemic to any financial system and is criminal and immoral. It involves hiding, moving, and investing the proceeds of criminal conduct. Even legal money can become illegal if it breaches a country's foreign-exchange controls or other financial regulations. Clean money can also generate dirty money through tax evasion. However, legitimacy often resides in the eyes of the beholder, and white Zimbabwean farmers who have expatriated wealth may have committed a crime.

4. FINDINGS

This report consists of information collected from the years 1990-2022. It can be observed that during the time of 1990-2000, the most discussed topic was about people recognizing the event of such money laundering crimes taking place in the financial system, and slowly, by the time of 2000-2010 the focus was more on global impact in the money laundering business and, in the year 2010 -2022 the government slowly started to take the initiative against the crimes by introducing various anti-money laundering systems, introducing different schemes and methods to prevent the flow of black money in the financial system like demonetization. Most of the studies have highlighted the important points about the concept of money laundering and how it plays a role in criminal offenses. Dr. Rajeswari B (2021) discusses that money laundering is a criminal act of misrepresenting illegally obtained money, such as from drug trafficking or terrorism, being obtained from legitimate sources. Some studies have highlighted the impact of money laundering on the financial system as well as the ways the government has tried its best to analyze the impact of money laundering on the global economy and financial systems. The study performed by Masciandaro, D (1999) shows money laundering as a multiplier of criminal financial activities, by converting potential into effective purchasing power, enables the reinvestment of laundered illegal funds. The study assesses the effectiveness of anti-money laundering measures in curbing the incidence of money laundering. Surendran Sundara Kania, M. Ramasamy (2013) suggests the requirement of the role of banks over the past years to identify money launderers has shown new patterns and handle these emerging threats from criminals. Banks must develop an Anti-Money Laundering department. Prior fake currency detection was finished by utilizing the chemical properties of the currency paper, T Naveen Kumar, T Subhash, SK Saajid Rehman, N Hari Babu, P Sai, Dr. D. Regan (2019) found out that fake currency can be detected through computerized reasoning and image processing. Rajeev Kumar (2020) appreciates the government's initiative of demonetization to reduce black money, lower cash circulation to reduce corruption in the economy and eliminate fake currency and terrorist funding. Money Laundering is not only restricted to financial institutions there are different types of money laundering crimes and their legal consequences. Purkey, H. (2010) mentions the use of art from auction houses to clean dirty money in the international war against money laundering, and Vandana Ajay Kumar (2012) that the real estate sector is the easiest sector for money laundering because it is a safe investment. The real estate and art industries are considered non-financial institutions and are used as a distraction against crimes. Jost, P. M., and Sandhu, H. S. (2000) discuss how the Hawala transfers leave a sparse or confusing paper trail due to the mixture of legal goods and illegal money, leading to confusion about the source of the money. The other studies discuss the role of money in the global economy and how even legal money can become illegal if it breaches a country's foreign-exchange controls or other financial regulations and explore the major laws, regulations, and international conventions designed to combat money laundering. Morris-Cotterill, N. (2001) discusses the international conventions that help in fighting money laundering and how the Financial Action Task Force on Money Laundering (FATF) estimates the global scale of money laundering, which is an enormous problem endemic to any financial system and is criminal and immoral. Vandana Ajay Kumar (2012) mentions how people involved in money laundering target foreign jurisdictions with liberal bank secrecy laws and weak anti-money laundering regulatory regimes. Maiandra, D (1999) discusses the legislator’s tolerance towards both the damage caused by money laundering and the costs of regulation determining the strictness of an anti-money laundering policy.

5. CONCLUSION

In conclusion, money laundering is a serious crime that poses a significant threat to the global economy and financial stability. It is mainly carried out by sophisticated criminal organizations that exploit weaknesses in the financial system to clean their ill-gotten gains. Despite the efforts of governments and regulatory authorities to combat this crime, it remains a prevalent issue worldwide. Therefore, it is essential to have a comprehensive and coordinated approach to money laundering prevention, including increased transparency in financial transactions, enhanced international cooperation, and stronger anti-money laundering laws and regulations. By implementing effective measures, we can reduce the flow of illegal funds and safeguard the integrity of the financial system.

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