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Money Laundering Risks Posed By Mobile Money Services

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Abstract. Mobile money service has been proved an effective tool in financial industry in recent years around the world. Although this kind of financial service brings a number of advantages, many concerns have been raised regarding potential issues that may stem from the use of mobile money. Among these concerns are the issues of using mobile money to facilitate money laundering activities and terrorist financing. In order to mitigate those potential risks for financial system in general, this paper seeks to explore the mobile money characteristics that may pose risks to anti-money laundering and terrorist financing system. This work is based on the available information from scientific research, articles and reports, and other sources.

Keywords. Money laundering, mobile money, anti-money laundering

1. Introduction

Information and communication technologies have been significantly changed in the past several decades. Although there are a huge number of positive advantages, these technologies also raise the issues criminals can exploit to commit crimes in a totally different manner compared with the traditional ways. The current literatures have proved that that cyberspace facilitates the illegal activities and creates obstacles for detection, investigation, and prevention. This article seeks to mitigate the risks and challenges that mobile money might pose to the regulatory system and law enforcement agencies. Firstly, the paper provides general literature about money laundering and mobile money. Secondly, it highlights the main characteristics of mobile money that might pose risks to anti-money laundering system before proposing the possible solutions in the end.

2. Mobile money concepts

Mobile phone has seen the most significant development around the world in recent decades. A number of benefits of mobile phone and mobile technology has been shown in the current literature (Suri, 2017). Among the most innovative adding services is the introduction of mobile money. Mobile money is a technical term standing for the use of mobile devices to conduct financial transactions. Mobile money enables mobile phone owners to deposit, send, and receive money without owning a bank account, keeping them away from bank accounts. This service was first introduced in mid-2000s in Kenya and then the Philippines and Tanzania. And now has quickly spread in the world. This new form of payment has been proved to

significantly contribute to the mobile commerce development and the reduction of volume of cash flow in the economy (Chatain, Hernandez-Coss, Borowik, & Zerzan, 2008).

According to estimation of GSMA (an organization representing the interests of mobile operators worldwide) 2019 marked a major milestone for the mobile money industry with more than one billion mobile money account registered, which processes around \$2 billion in value per day (GSMA, 2020). Mobile money service has changed the way customers access the financial services because it can provide chances to enlarge financial service to a large number of people around the world more quickly and easily than the conventional way (Evans, 2018).

3. Money laundering concepts

There is no fixed definition of money laundering among scholars and policy-makers around the world. In his research, Simser (2012) defines money laundering as a technique that criminals utilize to disguise the true origin of ill-gotten gains in order to avoid interference from predatory underworld rivals or governmental authorities. Article 6 of the United Nations Convention against Transnational Organized Crime in 2000 defines money laundering as:

“(i) The conversion or transfer of property, knowing that such property is the proceeds of crime, for the purpose of concealing or disguising the illicit origin of the property or of helping any person who is involved in the commission of the predicate offence to evade the legal consequences of his or her action;

(ii) The concealment or disguise of the true nature, source, location, disposition, movement or ownership of or rights with respect to property, knowing that such property is the proceeds of crime” (United Nations, 2000).

Furthermore, money laundering is defined by the Financial Action Task Force (FATF) as the processing of concealing the origin of illegal gains by criminals in order not to jeopardize their source (FATF, 2020). According to an estimation conducted by the International Monetary Fund (IMF), there is between 2% – 5% of the global economy is made up of laundered money, while this number estimated by the United Nations Office on Drugs and Crime (UNODC) is about 3.6% of the world GDP, equivalent to about US \$2.1 trillion (UNODC, 2011). Because of the illegal nature of the transactions, FATF even states that the precise amount of laundered money is impossible to obtain so there is no estimation from FATF in this regard (FATF, 2020).

Money laundering process

Typically, there are three stages in money laundering process, namely: placement, layering, and integration (Schneider & Windischbauer, 2008). In the first part of the process – placement – the launderer merges his illegal funds into the financial system with a number of small amount of cash via different accounts, or using as a payment method for purchasing valuable items. This first phase helps to keep distance launderers from the illicit sources of funds in order to avoid being detected. The literature support the idea that this first phase plays a pivotal role in detecting money laundering cases because the true nature and origin of illicit funds can be easily detected. In the light of that, in order to achieve effectiveness in money laundering prevention, the responsibility to keep records and report every major and suspicious transaction must be seriously taken into account.

The second phase – layering – is the time when the launderer attempts to carry out a number of legitimate transactions and movements of their funds across the global to disguise the true owner of those funds. The most common activities used in this phase include currency exchange, remittances, insurance transactions, casino, gambling, business activities through shell companies, or real estates purchase.

Finally, in the last phase – integration – the laundered funds are reinvested into the legitimate economy. Undoubtedly, it is difficult to detect the real source of income because those funds have a lawful appearance. In practice, these three phases can be independently separated, simultaneously, or may overlap.

Key international anti-money laundering regulations

A number of responses has been developed by the international community to deal with the issue of money laundering. The United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substance in 1988, also known as the Vienna Convention, was considered as the milestone in terms of anti-money laundering regulation. This convention sets out the recommendations for the criminalization of drug trafficking, and the establishment of the mechanism and authorized agencies in each national legislation, along with internal and international cooperation. Then in 2000, the United Nations Convention on Transnational Organized Crime, also known as the Palermo Convention, is considered as the main international tool to deal with transnational organized crime; This convention also takes the major step in fighting against human trafficking, arm trafficking and money laundering by extending predicate offenses for money laundering, requiring the obligation for financial institutions to register suspicious transactions, and establishing of the Financial Intelligence Units (FIUs) among the party members. In 1989, the most important instrument in fighting against money laundering was built with the establishment of the Financial Action Task Force (FATF), the inter-governmental body sets international standards to protect the global financial system against money laundering. Currently, there are total 40 + 9 recommendations issues by FATF.

4. Potential risks stemmed from mobile money

Mobile money threats are enabled during the operation of the global information and communication networks and how they operate (Filipkowski, 2008). The current literatures identify four money laundering risks arising from mobile money services.

4.1. Anonymity

The use of mobile devices is required to register with the mobile operators, so Solin and Zerzan (2010) argued that it may be impossible in practical terms to remain truly anonymous in the case of mobile usage. They stated that mobile services are linked unique to mobile numbers and customer's personal data, thus mobile money is less anonymous than cash services. However, money mobile is still believed to pose high risks when the proper systems are not in place. For instance, in some countries, there is no obligation to register for the usage of mobile service, so there is no personal identification activities. The criminal can make use of these chances to send and receive money without being disclosed the source of money. In addition, taking advantage of relaxed personal identification, the individuals may provide false documents if the verification procedure is weak. In this case, an individual can have access to mobile money service with ease or using false identification to commit crimes (Chatain, et al., 2009). Furthermore, Chatain, et al., (2011) also mention the situations when the registered accounts are handed over or stolen by the criminal gangs for conducting illicit transactions. This threat could create a higher risk in money laundering at the withdrawing phase when illicit money is sent to unknown devices that make it even much more difficult to trace the origin (Gow & Parisi, 2008).

4.2. Elusiveness

The second risk, namely elusiveness, which indicates the ability of the criminal to disclose data about the total, starting location, and destination of illicit money may pose the risk for anti-money laundering (Chatain et al., 2009). Solin & Zerzan (2010) argued that transactions conducted via mobile money are obviously traceable by checking the details in the providers' operation system in terms of telephone number, date, time and amount of transactions. However, there are evidences that prove the threats for money laundering. In specific, the use of multiple mobile money accounts upholds untraceable financial transactions by concealing the true origin of funds. Criminals will conduct a large number of small value transactions, both sending and receiving, with less conspicuous amounts in order to conceal the entire total of value, so they can avoid being detected. These small transactions are consistent and below to the reporting levels or general detection. In addition, these transactions make the layering phase become easier and disguise the true origin by doing sophisticated movements. Complex cross-border remittances pay the way for criminal to layer transactions. Making use of the sophistication of international laws and monitoring and detection systems, launderers may use this character for facilitating their criminal activities (Chatain et al., 2008).

4.3. Rapidity

The key character of mobile technology can make transactions much more quickly and practically worldwide than traditional transactions (Solin & Zerzan, 2010). While this point could offer a huge benefit for mobile money users, it also makes the layer phase in money laundering process much easier, especially in the case where there is lack of proper controlling system. Due to its speed of transaction, the illicit funds could be sent and withdrawn before any legal interference or interception is deployed (Ashta, 2017). Obviously, rapidity is considered the highest risk among the four when compared with cash deals when the detection and prevention system fails to response timely and practically.

4.4. Poor oversight

The lack of oversight is not an inherent risk, but it can worsen the other three existing risks (Chatain, et al., 2008). This risk emerges as a result of the fact that many money providers remain outside of the circle of anti-money laundering standards that other financial institutions must comply. The anti-money laundering regulations applied by the traditional financial institutions may not fully apply to the non-traditional financial providers. For instance, telecommunication companies whose primary business is the voice communication and mobile services may not fully fall under anti-money laundering regulations (Chatain et al., 2011).

The current literature proves that this lack of oversight risk often comes from the countries where the legal regulation systems fail to catch up with the change in the operation of financial market and mobile money providers. In addition, even when the mobile money services are treated in compliance with anti-money laundering regulation, the confusion arises in choosing the right authorities to monitor and inspect mobile money services (Whisker & Lokanan, 2019). As a result of these shortages, the criminals can exploit this shortage for money laundering activities (Gilmour, Hicks, & Dilloway, 2017).

5. Solutions

It is obvious that the effectiveness of anti-money laundering will be achieved when the regulators follow the risk-based approach. Mobile money providers fall within the scope of FATF's definition of a "financial institution" by virtue of the fact that they conduct money services, and should therefore be subject to the anti-money laundering measures imposed by

the FATF Recommendations in general. In the light of the above money laundering risks posed by mobile money services, this paper propose some solutions as follow:

Firstly, licensing and registration issue: Licensing and registration process are believed to the key to the effectiveness of anti-money laundering activity. FATF's Recommendation 23 makes specific provision for states to have appropriate licenses for financial institutions and stresses the need for proper supervision (FATF, 2019).

Secondly, customer identification: Customer identification plays a pivotal role in anti-money laundering regime. Customer identification is outlined in FATF Recommendation 5. According to this recommendation, financial institutions should conduct customer due diligence measures, including identifying and verifying their customers' identity when business relations are established. The aim of this work is to mitigate the anonymity threats by developing the customer's profiles and knowing customer's financial behaviour.

Thirdly, recording and reporting obligations: Recording the customer's transactions and reporting suspicious transactions are important in combating money laundering. The FATF Recommendation 10 gives advice that all necessary records on national or international transaction should be stored for at least five years. These types of information must be sufficient in order to facilitate the reconstruction of individual transactions or become the evidence for legal obligation in prosecution if necessary. The reporting obligation of suspicious transaction is mentioned at the FATF Recommendation 13, in which a financial institution is required to file a report when it suspects or has reasonable grounds to suspect the illegal origin of funds.

Fourthly, staff training and collaboration: The FATF Recommendation 15 requires the financial institutions to provide their staff with appropriate anti-money laundering training programs in order to keep update the developments in methods, techniques and trends in money laundering worldwide. Collaboration among financial service providers and regulators is stated in FATF Recommendation 36. Countries are advised to quickly, constructively and effectively provide the widest possible range of mutual legal and information exchange among regulators and foreign partners in connection to money laundering investigations and prosecutions.

6. Conclusion

Mobile money is bringing the advantages of the global financial infrastructure to legitimate users. However, criminals are also exploiting the weaknesses in the financial service system where mobile money service provides the platform to commit money laundering activities. This new environment has brought challenges for authorities in terms of crime prevention, detection, investigation and prosecution.

There are four main risk factors for anti-money laundering regimes arising from the development of mobile money services, namely anonymity, elusiveness, rapidity, and poor oversight. The money launderers can take advantage of these factors to commit crime through different money laundering processes. In order to mitigate these risks, a risk-based approach should be employed by financial institutions and regulatory authorities, ranging from licensing and registration process, customer identification, recording and reporting obligations, and staff training and collaboration.

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