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**FINANCIAL MONITORING OF FUNDS AS A TOOL FOR  
ANALYZING CONSUMPTION EXPENDITURES**

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**Abstract**

One of the most relevant and priority problems in the contemporary world is combating money laundering and terrorist financing. This issue has always been under close observation in the Russian Federation. Recently, more and more attention has been paid to the development of basic methods of financial monitoring applying modern technologies, particularly in commercial banks, both in our country and in world practice. The monitoring process in the world practice of developing countries is closely related to the concept of banking fraud which is central to operational risk. The term “fraud” is an ambiguous one. It is associated with crimes of various categories depending on the context. Fraud in the field of tax evasion with the help of banking transactions is called questionable transactions in relation to the Russian banking sector. Questionable transactions within the framework of legalization of funds are considered in the article, an analysis of the structure of cash withdrawal operations in the banking sector of Russia is carried out, and the main functions of financial monitoring are described as a tool to counteract questionable transactions. The existing methodology for the qualification of questionable transactions in Russia is not rigorous and there are transactions of individuals among the dubious ones for the purchase of goods and services that are carried out indirectly. The authors tried to measure the acquisition volume of such goods and substantiate the relationship of spending money indicators with the volume of population expenditures and savings, and the purchasing dynamics of goods and services.

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## 1. Introduction

All banking activities are controlled by the Bank of Russia and regulated by instructions and federal laws in the Russian Federation. Commercial banks exercise control over all operations carried out by both individuals and legal entities. With the development of non-cash payments and the improvement of contemporary electronic means of payment, commercial banks began to draw special attention to the circulation of funds in accounts, transactions for the implementation of transfers, and foreign exchange transactions of individuals. Primarily, an increased interest is caused by the annual growth of questionable transactions fulfilled in order to legalize funds, using the accounts of individuals.

## 2. Problem Statement

Legalization (or laundering) of funds is giving illegally obtained funds a legal status and hiding the source of their receipt or formation. It should be noted that money laundering is a serious economic crime aimed at concealing the true origin of funds which are generally associated with corruption, tax evasion, the activities of terrorist groups, and other types of organized crime. Ordinary financial transactions or economic operations are used as a front for corruption. This is treated as questionable transactions.

Today, the basis of the Russian Federation legislation in the field of combating the money laundering obtained by criminal means and the financing of terrorism is the Federal Law of 07.08.2001 No. 115-FZ “On Counteracting the Legalization (Laundering) of Proceeds from Crime and the Financing of Terrorism” (hereinafter – Federal Law No. 115-FZ). The list of transactions subject to mandatory control is also established by the Federal Law No. 115-FZ.

The main tool for identifying and preventing suspicious transactions in a commercial bank, within the framework of the organization of the internal control system, is the constant financial monitoring of ongoing transactions. These functions are frequently performed by specially created departments in commercial banks. Consider financial monitoring in more detail, what it is for, and how it can affect the money transfers of individual customers.

## 3. Research Questions

Financial monitoring involves observing and collecting information about transactions carried out by customers to study ongoing financial processes, make decisions on combating money laundering, and preventing such actions at the internal level. In other words, financial monitoring in commercial banks is the control of the funds turnover in customer accounts. Russian commercial banks practice a two-tier financial monitoring system that includes.

Mandatory financial monitoring. It is a set of control measures carried out by commercial banks in relation to operations (transactions) with monetary funds and other property which are subject to mandatory control in accordance with the law.

Internal financial monitoring. It is a set of processes in commercial banks when performing customer operations which identifies transactions that are subject to mandatory monitoring, records them, and transmits information to the federal service.

The subject of financial monitoring is questionable transactions of two types: firstly, the transfer of the organization's current account to the accounts of individual entrepreneurs or the individuals to their debit or credit cards under the pretext of conducting legal business transactions; secondly, the transfer of an asset into cash. In the first case, the operation is illegal, since it involves the valid transaction replacement that carries an object of taxation with transactions not having tax consequences for organizations. In the second case, they are considered to be absolutely legal operations. However, the imperfection of banking data processing methods often puts operations on the actual purchase of goods and services in the category of questionable through channels that are inaccessible to legal entities in Russia. The volume of such transactions and causal relationships with the real expenses of the population and enterprises are practically not examined.

#### **4. Purpose of the Study**

The purpose of the paper is to study data dependence on the volume of questionable transactions recorded by commercial banks with the real expenses of the population for testing the hypothesis about the incorrect classification of questionable transactions approved by the Central Bank of Russia.

#### **5. Research Methods**

The authors relied on general scientific research methods such as analysis, synthesis, deduction, as well as on statistical research methods, in particular, correlation analysis when performing the study.

#### **6. Findings**

The volume of transactions with cash withdrawal signs decreased by 1.8 times in 2019. Analyzing the structure of cash withdrawal operations in the banking sector in 2019, it can be noted that 60 % of all questionable transactions accounted for the funds issuance operations to the individuals.

In general, the volume of such transactions amounted to 32 billion rubles in 2019. This is followed by the issuance to legal entities (14 billion rubles) and individual entrepreneurs (2 billion rubles). For the same period a year earlier, the volume of cash withdrawal operations through the individuals' issuance amounted to 53 billion rubles, to legal entities – 42 billion rubles, to individual entrepreneurs – 4 billion rubles (Official website of the Central Bank, 2020).

The cash withdrawal use of current accounts of legal entities or individual entrepreneurs in schemes has become quite risky since the control over the economic activities of private companies by banks is annually increasing; and few people want to venture their current accounts blocking which can cause suspension of activities due to questionable transactions. That is why the use of cash withdrawal schemes for individual accounts has become a widespread fraudulent circuit in which companies funds are withdrawn to individuals' debit cards, followed by cashing out in self-service facilities.

Cash withdrawal from accounts of the individuals through bank cards is carried out by purchasing valid bank cards or through paperwork with the help of a bank employee (accomplice) to the requisites of deceased people or expired non-existent documents. The meaning of these operations is to split the amounts since, according to the current legislation of our country, commercial banks are required to

report all actions with financial amounts over 600.000 rubles to Rosfinmonitoring. The use of real and legal bank accounts can be attributed to another scheme for cash withdrawal of dubious origin through bank card accounts. The essence of this cashing scheme is to provide law breakers with a bank card or its requisites for a certain fee. In this case, the bank card can be used only once, due to the high risk degree of blocking the card by commercial banks. The above mentioned transactions refer to the first group of cash withdrawal transactions (Edronova, 2016).

In order to counteract the cash withdrawal using bank cards of individuals, commercial banks need to:

- implement regular monitoring of the funds crediting to the individuals bank accounts in the case of their cashing out on the day of enrollment, or the next day. In this case, commercial banks must request documents from customers on performed transactions. In cases when the customer's account is replenished with transfers at a certain frequency followed by cashing out and the purpose of the “loan repayment”, it is essential to request a credit contract, as well as bank payment orders confirming that the loan was actually transferred in cash. The account should be blocked if the customer does not provide the required documents;
- set tariffs and limits for withdrawing funds. In the case of combating cash withdrawal, it is necessary to introduce a tariff for withdrawing cash on crediting operations from third-party commercial banks which may be accompanied by a certain amount of the limit. For instance, an advanced commission fee may be charged for withdrawing funds transferred from the account of a legal entity from a third-party bank in the absence of the required documents. This measure will lead to a refusal to open accounts and cash out funds in a bank that has such tariff conditions.

Consider cash withdrawal operations related to group 2 in more detail. There is an opinion that in our country the population prefers cash while using a bank card as a tool for cash withdrawal through self-service means, however, this is not the case. In Russia, the number and volume of transactions with bank cards has been steadily increasing since 2008, when the Central Bank just begun to collect statistics.

In 2018, the indicators numerically grew to a high record: the number of payments for goods and services using bank cards – by 35 %, to 32.3 billion transactions, and the volume – by 27 %, to 24.8 trillion rubles. In 2019, the volume of transactions with bank cards in numerical terms continued to grow by 27 %, to 24.8 trillion rubles which is confirmed by the Central Bank statistics of the Russian Federation (Official website of the Central Bank, 2020).

The largest Russian commercial banks confirmed the trend to popularize cashless payments in 2019: the volume of transactions increased by 30 % in Gazprombank, by 23 % in Promsvyazbank, by 20 % in MKB, by 18 % in UBRR. Commercial banks note a decrease in cash withdrawals in self-service facilities (Ilina, 2020).

The national payment card system processed 14.8 billion interbank transactions on bank cards of all payment systems in 2019 which is 1.4 times higher than the same indicator in 2018 and almost twice higher the 2017 indicator. This can really be called a record growth (Kazarnovskii & Koshkina, 2019).

Thus, in recent years the share of cash turnover in the economy of our country has been steadily decreasing. Moreover, the Bank of Russia intends to speed up the process of cash refusal among population and at the same time tighten the control over citizens' payments. The launch of the fast

payment system of the Bank of Russia testifies to this. This innovation is designed to significantly simplify the individuals living who often make non-cash transfers. The fast payment system of the Bank of Russia allows transferring funds to individuals, being informed only about their phone number. Convenient and fast payments are becoming a necessity both for the population and for organizations in the context of the active growth of e-commerce and the digital interaction development between market participants.

In our opinion, the introduction of such technologies as the fast payment system of the Bank of Russia, in addition to speeding up payment transactions of individuals, is designed to create a completely cashless society while strengthening control over all transfers made by both legal entities and individuals. Receiving funds and making transfers within fast payment system of the Bank of Russia will expand the control sphere over the finances of citizens. Besides, supervisory authorities will identify and prevent questionable cashless transactions more thoroughly, as well as determine the source of funds' origin.

Thus, the annual reduction in questionable transactions carried out in the banking sector of Russia, and cash withdrawal by non-cash way with new technologies implementation, such as the fast payment system of the Bank of Russia, suggests that the activities of control and supervisory authorities can be called very effective. Despite this, commercial banks continue to draw special attention to building an internal control system in the framework of combating money laundering, developing their control regulations and procedures which often adversely affect the customers. Primarily, temporary blocking and suspension of transactions for the transfer or cash withdrawal by individuals is under consideration until the source of the funds' origin is clarified. Commercial banks can suspend any transaction that has raised their doubts, and ask for supporting documents. Therefore, customers are forced to endure inconvenience and waste time establishing their case.

Therefore, customers are forced to endure inconvenience and waste time establishing their case. The Supreme Court of the Russian Federation confirmed the right of commercial banks not to issue funds from customers' accounts if they cannot explain the expediency of operations and the origin of money. In addition, the position of the Supreme Court was determined at the same time: Federal Law No. 115-FZ grants the right to commercial banks independently, in compliance with the requirements of internal regulations, to classify transactions of their customers as questionable, entailing the use of internal organizational measures that allow the bank to protect its interests in terms of legality observance of this organization activities operating on the basis of a license (Kunitsyna & Nagornykh, 2016).

If a commercial bank determines that the performed operation is similar to illegal cash withdrawal or a transit scheme, then a check is launched. The bank can apply for clarifications both to the customer and to the federal tax service. If the explanations are unconvincing or insufficient, the account or the amount on the customer's account is blocked.

No doubt, the mechanism effectiveness for countering illegal financial flows is possible only if the financial system puts a barrier to the economic activity of criminal elements. For example, commercial banks have the right to refuse in opening accounts, deposits or conducting transactions for customers whose integrity is questionable (Loskutov & Ivanov, 2017).

Identifying suspicious transactions is a complicated and expensive task for commercial banks. The Central Bank of the Russian Federation constantly provides them with methodological support, for

instance, identifies the main signs of questionable transactions, and also brings banks with information about persons who were previously denied banking services due to hesitations in their good faith.

However, the determination of questionable transactions taking place in the current legislation does not quite accurately reflect the causal mechanism of withdrawing funds from payment cards of individuals. It is also based on distrust of the banking system and the traditional craving for the unwillingness of individuals to demonstrate their real costs and acquisitions, as well as the storage of savings in structures other than financial, including abroad. The authors conducted a study of the relationship between the amounts of spending money from individuals' payment cards and data on consumption expenditures in support of the hypothesis. A simple data comparison is shown in Table 01.

**Table 1.** Data comparison on issuance from payment cards and consumption expenditures (Statistical Bulletin of the Bank of Russia, 2016–2020)

Year	Issuance from payment cards, billion rubles.	Data on consumption expenditures, billion rubles.	Population savings growth	Difference (gr. 2-gr. 3-gr. 4)
1	2	3	4	5
2015	384	48336	4816	-52768
2016	368	49556	4759	-53947
2017	152	52392	3813	-56053
2018	100	55987	2472	-58359
2019	57	59664	2412	-62019

According to the table, the total amount of issuance from payment cards has a tendency to fall sharply, starting from 2017, while consumption expenditures are increasing, and the growth rate of savings is falling. Data on the payments comparison of transfers abroad by years also have a similar tendency. The illustration is presented in Table 02.

**Table 2.** Data comparison on issuance from payment cards and consumption expenditures (Statistical Bulletin of the Bank of Russia, 2016–2020)

Year	Withdrawal of funds abroad, billion rubles.	Growth rate (+)/decrease (-), billion rubles.
1	2	3
2015	501	-
2016	200	-301
2017	96	-104
2018	73	-23
2019	66	-7

The authors make an assumption, based on Tables 2 and 1 that the difference dynamics in 2015–2018, illustrated in Table 1 is explained by the withdrawal of part of the individuals' funds abroad for various purposes. Correlation analysis of data variables was carried out using the SPSS Statistics Subscription Trial software product to test the hypothesis. The rationale for the use of paired correlation coefficients is due to the presence of a certain organic unity between the studied features based on a measurement system since the data have been obtained on the ground of statistical observation methods by the Central Bank (Nagumanova et al., 2019). Pearson's correlation coefficient is basic in SPSS and can be applied for variables with nominal and partially ordered interval scales. Pearson's correlation

coefficient gives reasonably accurate results in distributions that are not abnormal (Kadochnikova et al., 2019).

The formula for calculating the r-Pearson coefficient:

$$r_{xy} = \sum (X_i - X_m) \cdot (Y_i - Y_m) / (N - 1) \cdot \sigma_x \cdot \sigma_y \cdot \quad (1),$$

where:  $X_i, Y_i$  – values of two variables,

$X_m, Y_m$  – mean values of two variables,

$\sigma_x, \sigma_y$  – standard deviations,

$N$  – number of observations.

Table 03 demonstrates all the variables used to test the hypothesis.

**Table 3.** List of variables used to build a regression model

No.	Variable name	Variable type
Y	Cash withdrawal from payment cards	dependent
$X_1$	Consumption expenditures	independent
$X_2$	Savings growth	independent
$X_3$	Withdrawal of funds abroad	independent

As a result of the program, we obtained a matrix of the values of pairwise correlation coefficients presented in Table 04.

**Table 4.** Matrix of pairwise correlation coefficients

	Y	$X_1$	$X_2$	$X_3$
Y	1	-0.93269	0.952704	0.826315
$X_1$	-0.93269	1	-0.962	-0.75923
$X_2$	0.952704	-0.962	1	0.75251
$X_3$	0.826315	-0.75923	0.75251	1

The value of the correlation coefficient obtained on the basis of the software product, in an amount very close to one, indicates the presence of such a tight but multidirectional connection between the two studied phenomena that it turns into a functional one. We can conclude that there are close relationships between the studied variables based on the matrix analysis. Accordingly, the volume of cash withdrawals cannot be qualified as questionable since there is a strong functional dependence between the volume of withdrawals and the dynamics of savings (the correlation coefficient is 0.95). That is, the individuals keep most of the withdrawn funds but do not transfer them in the future, bypassing taxation, to legal entities for remuneration payment. The obtained result demonstrates a reduction in the structure of payments abroad of funds from the individuals' personal cards. This trend is primarily due to the control strengthening in the system of work with foreign structures on the part of tax authorities and banks.

## 7. Conclusion

The relationship between the cash withdrawal from the individuals' cards and the dynamics of consumption expenditures, savings and the volume of purchasing goods, works and services abroad has been substantiated in the course of the study. As a result of the analysis, the strongest dependence is

traced from the side of the savings increase, and the weaker one is from consumption expenditures and the volume of purchases abroad (the proximity degree of the correlation coefficient value to one). Thus, the individuals save the bulk of the funds classified as questionable by the Bank of Russia, and then spend directly on the needs of their households and savings, afterwards on the purchase of goods, works and services abroad. Therefore, these amounts of withdrawals from the individuals' accounts and payment cards cannot be fully qualified as questionable.

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