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## **THE FINANCIAL ASPECT OF MONEY LAUNDERING OPERATIONS**

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### **Abstract**

This article reports on the issue of financial transactions related to the legalization (laundering) of income criminally obtained. It focuses on the nature and structure of such financial transactions, taking into account national peculiarities. The review of the basic peculiarities of the mentioned interactions has been carried out in terms of quantitative indices, the opinions on the reliability of their values, and also the reasons for their decrease have been given in the paper. The analysis of classification and the specific scheme of the specified operations in the Russian Federation were carried out. The basic models (by the number of phases) used for operation performing on legalization (laundering) of incomes received by a criminal way were defined. The characteristic of phases with the account of the application of the concept of management of the movement of incoming and outgoing financial (money) flows was made. The research analyzes significant problems in organizing the system of counter illicit financial flows. The analysis of regional peculiarities of money laundering operations, based on the peculiarities of organization of economic relations, peculiarities of financial operations inside the territory of subjects, the economic activity of population and financial organizations registered in the Khabarovsk region was carried out.

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## **1. Introduction**

The basis for the development of any modern economic system is clear market relations that are free and clear from external negative influence. One type of such impact is financial transactions related to money laundering. In the modern globalization process and intensified integration processes of capital movement, control over the financial activity of market relations subjects becomes one of the priority trends of financial control activity of the state. First of all, the main responsibility of implementing preventive measures of financial control is on financial institutions (banks, insurance companies), which are the first link in fighting against legalization (laundering) of proceeds criminally obtained.

It should be realized that the stability and reliability of the state financial system, its investment prospects and publicity to foreign investors depend on the efficiency of implementation of means of control and supervision of these organizations and state financial control services. It is explained by the fact that many legalization operations taint the country's reputation and, as a result, capital outflow. Thus, it undoubtedly affects the rates of economic development. In addition, such impact may result in preconditions for long-run political and economic crises; disrupt the interaction between economic entities, which causes criminalization of social and economic processes.

## **2. Problem Statement**

The problem of illegal money laundering operations has a great negative impact on the Russian economy. Over 2017 to 2020, questionable transactions involving illegal money laundering were identified for a total amount of RUB 915 billion. It should be understood that, based on Russian legislation and regulatory acts of supervisory authorities, the notion of 'shady transaction' can be interpreted extremely broadly. In particular, these transactions can include any transactions carried out by customers of credit institutions that seem uncommon and make neither apparent economic sense nor obvious legitimate purpose. They may be conducted to withdraw capital from the country, finance grey import, fund transfer from non-cash to cash, and the following tax avoidance, as well as financial injection of corruption and other illegal acts.

A wide interpretation of this phenomenon leads to excessive pressure on regulatory authorities of financial institutions. On the one hand, it leads to excessive control of the financial activity of the subjects, preventing their regular operation. While on the other hand, it allows using any other schemes of money laundering that do not match the definition of the current classifier of shady transactions.

It should be noted that the emerging negative dynamics of reducing the number of financial transactions referred to money laundering through the withdrawal of funds and cash-out transactions in the total amount of 573 billion rubles from 2016 to 2020. There is reasonable doubt in the academic community, which on the one hand, is justified by the desire of financial organizations to minimize possible negative impacts by oversight bodies, avoiding the outflow of customers, and on the other hand, the constant development of new schemes, methods and techniques of making criminal capital legal.

## **3. Research Questions**

In the course of this study, the subject area of financial transactions related to money laundering is examined. Statistical indices of these illegal financial transactions are assessed. The types of financial transactions related to money laundering are analyzed

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

Particular attention within the study of the research subject is paid to solving such tasks as research of classification and type scheme of financial transactions connected to legalization (laundering) of proceeds in the Russian Federation; examination of classification of financial (money) flow models in the Russian Federation connected to legalization (laundering) of proceeds in the Russian Federation; exploring the problematic areas of organization of effective financial control system of transactions connected to legalization (laundering) of proceeds in the Russian Federation. Besides, the assessment of the impact of government policy on the growth of financial transactions related to money laundering; as well as analyzing regional specifics (using the Khabarovsk Territory as a case study) of financial transactions related to money laundering.

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

The scientific study uses general scientific research methods, among which the following can be emphasized:

1. Analysis technique used to study the nature of origin, peculiarities of financial transactions on money laundering, its quantitative assessment and impact on the economy of the Russian Federation.
2. Synthesis technique (carried out with the analysis technique concurrently), which makes it possible to assess national and regional special aspects of financial transactions on money laundering, as well as the development of the main prerequisites for their actualization.

#### **6. Findings**

As a result of the conducted research, it is found out that the trends similar to global ones in the way the structure of financial transactions for money laundering develops prevail in the Russian Federation. The vector of activity of the subjects is aimed at cashing out of funds, as well as their further withdrawal outside the jurisdiction of the Russian Federation (which determines the active use of offshore territories, preventing further control over the movement and legalization of financial resources).

The classification and typology of transactions related to money laundering in the Russian Federation may be presented as follows (Feofilova et al., 2020; Frunza, 2015; Ionina, 2019; Kopytina, 2020; Nizovtsev et al., 2021; Raza et al., 2020; Sukhoterin et al., 2017; Zali & Maulidi, 2018; Zhubrin & Lavronenko, 2018):

- 1) Generation of negative financial (cash) flows to form the structure of assets or starting (setting up) delinquent accounts (accounts with no further flow of funds);
- 2) Establishment of sham companies for financial transacting, allowing the integration of illegal capital into the economic turnover through a process of mixing;

- 3) Siphoning off financial (money) resources abroad;
- 4) Imitation of business transactions aimed at confirming the validity of the proceeds criminally obtained;
- 5) Performance of business transactions with no clear economic substance;
- 6) Commercialization of grey import;
- 7) Application of cyber-technologies for money laundering operations.

The given classification and type scheme of financial transactions on money laundering in the Russian Federation is actualized through the following models:

1) Two-phase legalization model is characterized by drafting a zero balance of financial flows, through the generation of numerous incoming flows containing illegal financial resources (Phase 1), followed by the outflow of resources to make them legal or withdraw them to offshore zones (Phase 2).

2) A three-phase legalization model (based on the 2-phase model). In the 3rd phase, the subject integrates the financial resources withdrawn earlier (legalized) into national and cross-national high-yield projects. In addition, these projects are made up by or controlled by the entity, which, given the high risk of high-yield projects, makes it possible to ensure legally that the amounts are written off to economic loss (diseconomies).

3) Four-phase legalization model is a modification of the three-phase model. In this model, there is a transboundary transfer of financial resources and funds, which makes the process of controlling their movement much more complicated. It should be noted that the 4th phase is floating and can be integrated before any of the previous phases.

While studying the phenomenon of money laundering, we can conclude that this phenomenon is primarily directly dependent on the value of such values as the number of short-lived companies; the size of the gainfully employed population; the value of the migration rate. To assess the hypothesis, let us compile Table 1, which shows the dynamics of these indices from 2015 to 2020.

**Table 1.** Analysis of indices affecting the money laundering process

<b>Year</b>	<b>Amount of funds with indices of money decriminalization (money laundering), RUB bn</b>	<b>Number of detected fly-by-night firms, thousand units.</b>	<b>Gainfully employed population, million people</b>	<b>Migration rates, million people</b>
2016	721	700	76,5	4,706
2017	422	650	76,4	4,773
2018	249	309,5	76,2	4,912
2019	177	186,9	76,176	4,749
2020	130	120	74,9	4,120

Having conducted a multiple correlation analysis of these indices, we can conclude that a strong impact on the growth of the money laundering rate is caused by the presence of sham companies, through which illegal schemes are implemented (the correlation coefficient value is 0.92, the link is strong). In terms of assessing the impact of the number of gainfully employed population on the value of the money

laundering indicator, we should note a moderate link (correlation coefficient value of 0.65), which indicates the need to clarify the impact of certain categories of the gainfully employed population on the growth of the amount of finance laundering.

Assessing the impact of migration (external migration) indicator, it is necessary to state a weak link between this indicator and the process of money laundering (the correlation coefficient value is 0.35). The weak correlation can be explained by the fact that it is necessary to estimate the migration flow indicator relative to the number of financial transactions carried out by the mentioned categories of persons (in particular, special attention should be paid to estimate the value of the indicator of financial transfers performed by labour migrants).

Drawing attention to the problem areas of the anti-money laundering system, it should be noted that, according to the report of The Federal Financial Monitoring Service of the Russian Federation 'National Risk Assessment of Money Laundering' (O realizatsii..., 2019) the risks of legalization (laundering) of proceeds criminally obtained pose a particular threat to the Russian economy and the financial system in particular in the credit and financial field through fraud with credit funds and funds in all types of accounts, deliberate or sham bankruptcy of financial institutions, illegal banking activities; in the field of budget relations (including fiscal field) through fraudulent activities fraud by misappropriation or embezzlement of federal funds and monetary assets (stealing), as well as tax offences, in particular, illegal VAT-charge and tax evasion by corporations.

In terms of classifying the types of such transactions, it is reasonable to differentiate them by the following properties to assess their risk level: financial transactions associated with the transfer of money abroad in the banking sector; financial transactions associated with the cashing-out of money in the banking sector.

The key problem of the anti-money laundering system should be the problem of developing the existing system of financial control of the money laundering risk management process in Russia based on developing and improving methods of identifying sham firms; developing and improving methods of financial evaluation of current money (financial) flows in the anti-money laundering system; developing risk assessment methods for a financial transaction with its classification as a money-laundering operation, which will allow financial institutions to strengthen the set of measures to manage and mitigate the risks identified by national or sectoral money laundering risk assessments.

Assessing the part of the state's impact on the growth or reduction of the number and amount of transactions related to money laundering, it should be noted that the state supervision and control system should encourage financial institutions to improve voluntarily their control bodies (build active compliance systems) that prevent the implementation of these illegal transactions (Ermakova & Akhnuanova, 2014), paying special attention to money laundering risk management (Rose, 2019). Furthermore, it is necessary to avoid harsh unjustified sanctions in case of breaking the internal compliance system, so that the financial institution does not tend to hide the detected errors of its internal control system. It should be noted the importance of maintaining a sound "capital amnesty" policy.

A particular example of such a policy in Russia is the policy on capital legalization, which has allowed an amnesty procedure to be implemented for capital previously withdrawn from circulation in Russia or concealed by its owners. Following the mentioned policy, the state provided an opportunity for

persons who had carried out illegal capital transactions to be exempted from liability for tax evasion (except for some cases), customs payments, as well as liability for violation of legislation in the field of currency regulation and control on condition of a voluntary declaration of assets and bank accounts (deposits). On the one hand, implementation of the given measures enabled to legalize officially the previously withdrawn monetary funds and financial assets, having generated prerequisites for a transparent financial market in the RF, having actualized additional sources of the future RF budget revenues in respect of the legalized capital during taxation. On the other hand, a drawback of that kind of policy implementation was the problem of low methodological efficiency and the unpreparedness of the internal control system of financial organizations to assess and classify financial transactions related to the movement of previously 'withdrawn' capital.

Drawing attention to the regional aspect, namely the specifics and amounts of money laundering in the Khabarovsk Region, it can be noted that from 2017 to 2020 (taking into account the continued dynamics of 2018 (Preduprezhdenie..., 2018), ambiguous financial transactions corresponding to the specified illegal activities were detected in Khabarovsk Region for a total amount of more than 11 billion rubles. Moreover, these transactions have certain peculiarities:

1) Prevailing business entities of one-day-actors in a structure of financial transactions, registered or located in hard-to-reach places (outside urban agglomerations), which in a large territory of the entity complicates greatly the process of control over all aspects of financial activities of the organization;

2) Business activity growth in Khabarovsk Region, which, hence, increases the amounts of shady transactions (Delovaya..., 2021);

3) an increase in the share of transactions related to the transfer of financial resources abroad, which is directly related to the growth of the external migration indicator (between 2017 and 2020, 30,132 migrants arrived in Khabarovsk Region, the total number of financial transactions related to transfers abroad amounted to over 750 thousand units) (Chislennost..., 2021);

4) The practical absence of simulated financial transactions involving financial institutions (banks and insurance companies), which is explained by the absence in the segment of regional financial institutions, which may be involved in the process of money laundering;

5) The prevalence in the structure of financial and economic transactions without clear business sense, transactions performed by legal entities;

6) A significant number of transactions related to 'grey import' due to the close cross-border relationships with the People's Republic of China (the dynamics of transactions in 2020 show a decrease, which is explained by restrictive measures related to COVID-19, as well as by the changes in the ruble exchange rate against the RMB (Yuan) and the US dollar).

## **7. Conclusion**

The problem of financial transactions on money laundering is one of the urgent problems of the modern financial system. Significant negative economic and social consequences of these financial transactions harm the development of both the economy and society, reducing the balance of both macro- and microeconomic systems, being a source of financing illegal actions against the state and society.

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