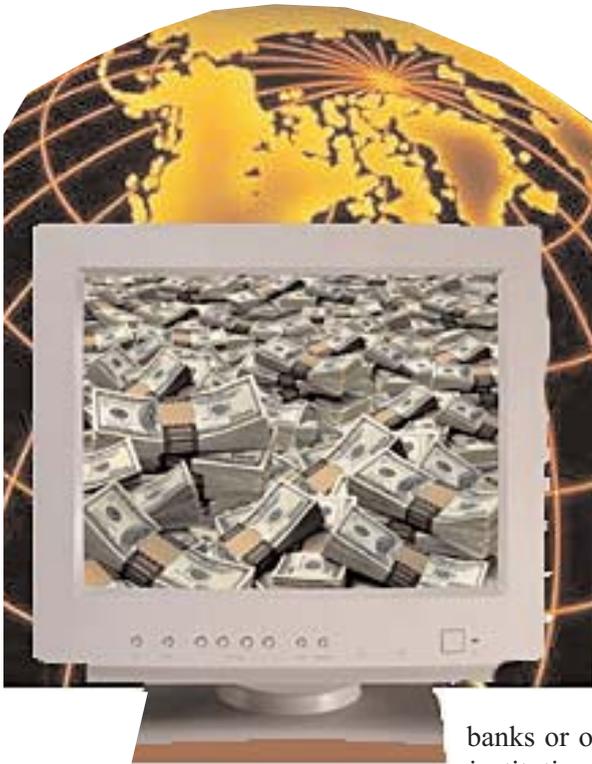


# Money Laundering Risk in E-Banking



**Anti-Money Laundering is the flavour of the season. This article focuses on the impact of E-Banking in pushing it, why it is treated as a great risk at present, and the role of Chartered Accountants in combating the menace, which is spreading fast.**



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**M**oney laundering is the deliberate participation in the finances of crime. It includes the various means by which criminal organizations, such as drug trafficking networks, sanitize ill-gotten gains and convert them into apparently clean assets.

Section 3 of the Prevention of Money Laundering Act, 2002 defines the offence of money laundering as involvement of a person in any process or activity connected with the proceeds of crime and projecting it as untainted property. **The three important stages in the money laundering process are:**

● **Placement:** It involves physical disposal of cash acquired

from illegal sources by depositing the cash in domestic banks or other kinds of financial institutions.

● **Layering:** It involves working through complex layers of financial transactions to distance the illicit proceeds from their source and disguise the audit trail.

● **Integration:** It involves making the wealth derived from crime appear legitimate.

**Criminals generally resort to money laundering to:**

- ▶ Hide or sanitize the property so the taxman does not get it
- ▶ Convert currency into a manageable and inconspicuous form

## Money Laundering Risk

Money laundering risk is the risk of non-detection of laundering of money through known or verified transactions by regulators, auditors

and financial service providers. Non-detection of money laundering is risky because of the following reasons:

- It allows drug traffickers, smugglers and other criminals to expand their operations. This drives up the cost of law enforcement and health care (for e.g., treatment of drug addictions).
- It has the potential to undermine the financial community because of the sheer magnitude of the sums involved. The potential for corruption increases with the vast amounts of illegally obtained money in circulation.
- Laundering diminishes government tax revenue and therefore indirectly harms honest taxpayers and reduces legitimate job opportunities.
- The perceived ease of entry to our country attracts an undesirable element across our borders, degrading our quality of life and

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raising concerns about our national security.

- Auditors may be charged with gross negligence in conduct of their duties on account of non-detection of laundered money as per the latest international regulatory initiatives.
- Bankers are subject to compliance, legal and reputation risk, owing to non-detection of fact that the bank account is being used as a tool to launder money.

### E-Banking: Tool For Money Laundering

Money laundering has reached new levels of sophistication with the advent of technologies that eliminate traditional face-to-face interaction with customers. A bewildering variety of electronic payment systems are currently being developed around the world, using the latest innovations in electronic banking.

These systems may prove attractive to money launderers for following reasons:

- ➔ Electronic transactions are untraceable and are incredibly mobile.
- ➔ They can easily be anonymous and may not leave a traditional audit trail.
- ➔ Electronic banking is based on disintermediation, which involves the transfer of financial value between entities without the intermediate involvement of an identifiable third party subject to governmental oversight.

➔ In the absence of intelligence information and highly technological tools, the originator of these transactions is unlikely to be detected.

*This poses a new challenge to the financial sector worldwide to combat the menace of money laundering by devising appropriate risk-based Anti-Money Laundering (AML) policies and procedures and ensure strict compliance of the same.*

### Forensic accounting CA's answer for AML

Forensic accounting is the integration of accounting, auditing and investigative skills to form an analysis, which will form the basis for discussion, debate and ultimately dispute resolution. Forensic accountants shall have the ability to respond immediately and to communicate financial information clearly and concisely in a courtroom setting. Forensic Accountants are

### Role of a Chartered Accountant in AML

Chartered Accountants as independent external auditors of a financial services entity are better placed in the regime of anti-money laundering because of the following reasons:

- An auditor is well qualified when it comes to spotting financial irregularities in an entity.
- They possess an intimate understanding of the business process and are thus able to recognize financial anomalies and inconsistencies that others might miss.
- They have the expertise (from the experience of devising internal control policies and procedures) needed to devise effective money laundering controls.

*Moreover, accounting professionals acting in the following capacities are responsible for ensuring the effective implementation of Anti-Money Laundering Compliance programmes:*

- Accountants in management positions who record and report entity transactions, such as chief financial officers, risk managers, compliance officers, etc.
- In-house financial systems consultants.
- Internal auditors responsible for operations and compliance auditing.
- Risk management practitioners and compliance specialists.
- Tax practitioners, especially in jurisdictions where filings connected with anti-money laundering laws are directed to tax authorities.

Hence it is imperative for the Chartered Accountants to understand the menace of Money Laundering and the importance of the policies against it while discharging his responsibilities in the above capacities with reference to a financial services entity.



**Given the competence of a Chartered Accountant in the related fields at present, forensic accounting offers a new area of practice for Chartered Accountants when it comes to detection of money laundering.**

trained to look beyond the numbers and deal with the business reality of the situation.

A Chartered Accountant with forensic accounting ability can be engaged in public practice or employed by insurance companies, banks, police forces, government agencies and other organizations. **A Forensic Accountant can often be involved in the following anti-money laundering activities:**

- Investigating and analyzing financial evidence to establish a suspicious transaction;
- Developing computerized applications to assist in the analysis and presentation of financial evidence;
- Communicating their findings in the form of reports, exhibits and collections of documents that assist the banks in submission of the suspicious transaction reports to the regulator; and
- Assisting in legal proceedings, including testifying in court as an expert witness and preparing visual



aids to support trial evidence.

As is evident, forensic accounting is a curious mixture of traditional skills of a Chartered Accountant. Given the competence of a Chartered Accountant in the related fields at present, forensic accounting offers a new area of practice for Chartered Accountants when it comes to detection of money laundering.

**Conclusion**

**As discussed above, the stage is now set internationally to have some form of anti-money-laundering or related asset-seizure-and-forfeiture statute. Such developments suggest that in the near future Chartered Accountants will be expected to make greater contributions to the fight against money laundering. Hence it is advisable that the member Chartered Accountants to deliberate on the issue and come out with recommendations on the way to attack the problem.**

**Popular International Sites on Risk Management**

**[www.riskworld.com](http://www.riskworld.com)**

This Website offers CAs news articles, briefs and reports on risk analysis, assessment and management, and archived content dating back to 1995.

**[www.riskcenter.com](http://www.riskcenter.com)**

Here you can read news items on equity markets, laws and regulations, and risk strategies and technology.

**[www.garp.com](http://www.garp.com)**

Sign up to become an affiliate member of the Global Association of Risk Professionals and get free access to all public areas of the group's site such as Today's RiskNews with articles about commodities, e-business, fixed income and operational risk.

**<http://riskinstitute.ch>**

Accountants can read up on "Lessons From the Collapse of Hedge Fund, Long-Term Capital Management" at the International Financial Risk Institute site.

**[www.gloriamundi.org](http://www.gloriamundi.org)**

Financial risk managers can find value-at-risk book reviews, discussion groups, answers to frequently asked questions, news and presentations here.

**[www.topves.nl](http://www.topves.nl)**

Willem Top, a risk management, risk control, safety management and loss control consultant, offers visitors to his site free advice on how to set up and implement risk and safety management systems.