

The Positive and Negative Role for Banks in Money Laundering Operations

Naim Salameh Al-Qadi^{[a],*}; Aiman Abu Al Haj^[a]; M. Mousa Matar^[a]; Mashhour Hathloul^[b]

^[a] Amman University College, Finance and Credit Department, Al-Balqa Applied University, Amman, Jordan.

^[b] Amman University College, Bussniss Administration, Al-Balqa Applied University, Amman, Jordan.

* Corresponding author.

Received 28 March 2012; accepted 5 August 2012

Abstract

Talking about Money laundering operations increased worldwide due to the increase of organized criminal group's activities in various fields. Therefore, such phenomenon has occupied a significant position in the global policy agenda, in addition to other issues such as international terrorism. It is worthwhile to be mentioned that money laundering operations form a heavy burden on different countries in the world, which in their turn are looking for the best means to fight and limit them. It is well known that banks are one of the most important pillars of money laundering and its fighting at the same time, since most of money laundering is made through banks, which makes them perfectly suitable means to do such operations. Therefore, Central Banks in most world countries set several control procedures to increase control on commercial banks in order to reduce the spread of such phenomena.

Key words: Banks; Money laundering

Naim Salameh Al-Qadi, Aiman Abu Al Haj, M. Mousa Matar, Mashhour Hathloul (2012). The Positive and Negative Role for Banks in Money Laundering Operations. *Canadian Social Science*, 8(5), 13-23. Available from <http://www.cscanada.net/index.php/css/article/view/j.css.1923669720120805.1742> DOI: <http://dx.doi.org/10.3968/j.css.1923669720120805.1742>

INTRODUCTION

The crime of money laundering has been known for several decades in the United States of America. It has been associated mainly with the drug trade and to a lesser crimes

of bribery, tax evasion and political activities, and after the events 11 September (2001). Transfer of funds and using it by terrorist organizations have become a global problem that caused many countries in the international community to enact many laws and legislation to stop and reduce them.

Banks are considered one of the most important circles where illegal money laundering takes place and that is because of the complexity of these banks in banking operations, speed and overlap, which confirms the central role in the discretion of the illegal funds from illegal sources and to giving them the status of legitimacy. Banks can have a more obvious role especially with the progress of banking operations and the use of modern technological methods, since the modern electronic services can be used in a manner contrary to the law, taking into account that the majority of these operations are done automatically and their supervision needs effort, time and costs, let alone to its contradiction with banking secrecy and of course this increases the difficulty of banking supervision. Specialists estimate that the total illegal money which is subject to laundering around the world is ranging from 1.5-2 trillion dollars a year, as the global financial studies confirm that between 50%-70% of the amount of money laundered annually is being laundered in global banks, and that 25% of them are inside the financial markets in New York, London and East Asian countries, and there are some reports that estimate the amount of money laundered in the year 2009 as 5.1 billion (International Conference for Combating Money Laundering, 2011).

In addition, the study published by K.M.B.G. International for Economic Studies and accounting audit, which included 224 banks in 55 countries shows that the senior officials of the banks in the world have become more focused on measures to combat money laundering, and that spending has increased in North America by 71%, and in the Middle East and Africa 70%, Russia 60%, and Central and South America 59%, and in Europe 58% and Asia 37%.

The institution emphasizes that the proportion of senior officials who are interested directly in measures

of money laundering was in the year 2007 about 71% compared to 61% during the year 2004, where a commitment to the standards of anti-money laundering and compliance with legislation for combating it has become a top priority for officials in the banks.

1. THE IMPORTANCE OF THE STUDY

The importance of the study is to show the seriousness of the crime of money laundering that is the cause of the collapse of national economies and the negative social effects of this crime, as well as to study ways and means used in the implementation of money laundering operations, and the relationship and the role of commercial banks -- as a tool most commonly used -- in the fight against the crime of money laundering,

2. THE OBJECTIVES OF THE STUDY

This study aims mainly identifying the relationship between banks and money laundering operations through the following:

- Identifying the concept of the crime of money laundering, its origin and its historical development.
- Shedding light on the study of the stages of money laundering operations and the means and methods used in their implementation.
- Statement of the effects caused by the crime of money laundering on economic, social and political aspects
- Means and methods that can be used in combating the crime of money laundering.

3. THE PROBLEM OF THE STUDY

The main problem of the study is summarized in answering the following questions:

1. What is the crime of money laundering?
2. What are the stages of money laundering operations and the means and methods used in its implementation?
3. What are the effects caused by the crime of money laundering on economic, social and political aspects?
4. What are the means and methods that can be used in combating the crime of money laundering?

4. LITERATURE REVIEW

The study of Natalya (2009) analyzed anti-money laundering legislations that were created by the Russian Organization for financial institutions in order to test the compliance of banks.

The study used comparative analysis based on data collected from in-depth study of the legislation governing financial institutions (banks), as well as interviews with practitioners and monitoring banking practices. The study found that the practice has shown non-compliance with

financial institutions to the rules against money laundering. The results of the study raised questions about the lack of desire or the ability of financial institutions to comply with the rules governing the money laundering operations.

The study of Dan (2009) tried to estimate the costs of implementing anti-money laundering laws in Sweden, which showed that the costs incurred by the banks in Sweden report annually 400 million Swedish Krona.

The study was based on interviews with a sample of employees of banks and banking statistics. The study also found that there is a significant shortfall in the legal systems of Sweden. For example, banks do not have the right to freeze the funds in suspicious transactions.

There is also a shortfall in the legislation governing the banking system that makes it possible for companies that are not serious in the transfer of funds on behalf of the criminals to use the normal banking system, the "retail".

In addition, the legal sources of regulatory authorities overseeing the functioning of banking are not enough, and cannot extend its control over the functioning of banking operations and taking appropriate legal action fast enough. Also, the high costs incurred by private banking institutions under the current laws do not meet the purpose for which such legislation was set, compared to the high amounts incurred by the banking systems, especially in light of poor results, which indicates a lack of legislative competence and their inability to prevent money laundering operations.

The Study by Sanusi (2008), examined the concept of money laundering, according to Islamic law and the most common methods of money laundering involving numerous cash deposits in different branches of banks. The study relied on primary data obtained from the Holy Quran, the Sunnah and the writings of some Muslim scholars.

The study found that Islam has given considerable attention in the market, business and economic system. And that Islam forbade the unjustified consumption and the embezzlement of money, since they create layers of parasite in the community, financial crimes and the concept of money laundering were classified as part of the Islamic criminal law, which was treated through many of the Quran texts and the Sunnah.

The study of Vaithilingam and Nair (2007) aimed to look at the factors that support the spread of money laundering, and used the experimental method to study the relationship between the infrastructure of information and communication technology and the quality of human finance capital, the efficiency of the legal framework, the ethical behavior of companies, and the ability to innovate in the spread of money laundering in developed and developing countries.

Based on the experimental, strategies and key policies to reduce the spread of money laundering operations results were studied. The study found that the legal framework effectively with management companies have reduced the spread of money laundering activities. The study also found

that the ability of high innovation contribute negatively to the spread of money laundering activities.

The Study of Mitch *et al.* (2007) aimed to analyze the effects of the new monetary constraints imposed by the Financial Action Task Force (FATF) on money laundering, where the Financial Action Task Force sets 25 criteria based on its Forty recommendations (now 49) to combat money laundering and terrorist financing.

A total of 23 countries were on the list of countries and regions of non-cooperative because of not complying to most of these standards, where many of the criteria are relating to additional tightening or regulating for the banking industry and financial secrecy in these countries.

The countries regulating the banking and financial sector launched secrecy constraints, by enacting more stringent laws of confidentiality and the closure of loopholes in existing laws.

The study used a theoretical model that provides secret accounts to examine the impact of changing secrecy laws on deposits and interest rates and the accumulation of money and credit. The study found three different sets of results acceptable, depending on the reactions of banks with respect to the size of their deposits.

5. THE CONCEPT OF MONEY LAUNDERING

The term of money laundering in the Black's Law of Lexicon means an investment or other transfer to flow funds from illegal sources into legitimate channels so that it is impossible to know the original source as is the case in drug deals, hostage-taking, gambling and human trafficking, and smuggling of alcohol and drugs, smoke and weapons and tax evasion and other illegal activities. As a result, the market of smuggling have grown to include, illegal employment, electronic piracy, trafficking in human beings and human organs, and works of art and monuments, weapons, and toxic substances, and uranium.

The process of money-laundering includes a series of multi-specialized deals designed to disguise the source of financial assets so that these assets and funds can be used as a legitimate sources resulting from legitimate business operations (Agarawal & Agarawal, 2005, p.772).

The roots of the term money laundering go back to the early past twentieth century, when the Mafia in the United States used a number of washing machines to serve customers for small amounts in addition to funds resulting from the illegal trade. And thus money is cleaned, legitimized without doubt in the great amounts coming from illegal financial resources.

And since then the use of this term started in the United States of America by the security authorities and to this day, and became indicating all sources of funds derived from illegal and illegitimate sources (Gafai & Mary, 1997, p.5).

Despite this, the concept of money laundering, appeared only after Water Gate Scandal, in the United

States of America during the seventies, where there was a need then to reveal the details of this issue, which required following the flow of funds generated by illegal activities, and the financial sources, in order to identify the perpetrators and those involved in it (Kamil, 2002, p.161).

The money laundering refers to all processes and procedures that are taken to the purpose of changing the status of the funds that are obtained illegally to look as if they had been acquired from legitimate sources, and that is by creating fake projects, or purchasing of assets or funds of losing companies or falling projects, or opening accounts and depositing money in banks in countries that are not rigid to know the source of these funds, such as banks in Switzerland, Panama and Monaco (Al Arian, 2005, p.39).

Some defined the crime of money laundering as "hiding and disguising the true nature of the funds illegally acquired by fake physical processes in order to make it look legitimate, as it is a crime based on the industry of false reality and making it real" (Al Khatib, 2005, p.19).

The Egyptian law No. 22 for the year 2001 defined the crime of money laundering "as any behavior involving the illegal money acquisition, possession, disposition, management, saving, exchanging, depositing, or annexation, investment, transport, transfer or manipulation of its value or if it was earned from of the offenses set forth in part 2 of this law." Also the Jordanian legislator in Article (99/b) of the instructions issued by the Central Bank of Jordan regulating the anti-crime of money laundering No. 10 for the year 2010, defined the crime of money laundering as "Hiding the true source of illegal funds obtained from illegal act, or giving false statements about this source by any means, and the transfer of money or replacing it for the purpose of concealing or disguising the source of illegal funds, or possession or using or employing it by means to buy movable or immovable funds or carrying out financial transactions."

Hence, we find that all the legislation consider that the crime of money laundering is based on hiding the source of all money coming from illegal source, and that is by the use of all financial transactions to enter it in the legitimate economic cycle in order to conceal the sources derived from it.

And thus money laundering is a crime committed or by the institutional organization that includes a number of professional individuals who work within a structured framework according to a strict system for the distribution of roles and taking leadership positions, according to precise, complex and confidential structure.

It is a crime that shall arise on fake industry to seem like actual and real, where the main objective is to convert cash from illegal and illegitimate to other forms of assets, including helping to secure the flow of this illegal revenue so that it can later be used or invested in new legitimate business that eliminate any suspicions about it without the risk of expropriation by the government authorities and security services (Al Faouri & Qteishat, 2002, p.70).

6. THE EMERGENCE OF THE PHENOMENON OF MONEY LAUNDERING

The phenomenon of money laundering goes back to the end of the thirties and early forties of the twentieth century, when the mafia networks in the United States, particularly in major cities such as Chicago and New York tried to buy projects and shops with their illegal money and then merge these funds with a profit of projects to show these funds as if the result of legitimate sources in order to hide the source of all governmental authorities (Qaliouby, 2007, p.9).

Recently, money laundering activities have grown and become a problem and a global phenomenon that adversely affect the stability and economic, social and political security for the countries of the world, making it of a broad internationally and domestically (Bosworth-Davies & Saltmarsh, 1994).

And With the tremendous development witnessed in the telecommunications sector and the spread of the Internet and the use of banks for electronic computing system the geographical border does not constitute an obstacle in the face of money laundering operations, prompting the international community to step up for the need for concerted efforts and cooperation in the fight against this phenomena.

7. STAGES OF MONEY LAUNDERING

Money laundering does not go according to one format or pattern, and varies from one process to another in order to camouflage the sources of those funds and achieve the inability to follow the sequence of sources.

However, money laundering is done according to three separate stages, through which the transfer of funds goes through cash checks, or money orders, and is then introduced into the financial system, and then goes through a series of legal and complex transactions, that often includes crossing that money for national borders, which makes the process of follow-up by law enforcement agencies difficult and complex. Finally this money is integrated into the legal financial system, having gained the character of the money ostensibly legitimate and legal (Wasserman, 2002, p.9).

The Process of Money Laundering Taking Place in Three Stages

First -- Placements: Of suspicious money. Is disposed at this stage, through the deposit in banks and financial institutions or buying real estate or stocks or bonds, or traveler's checks or participation in investment projects whether real or fake, then selling these assets and transferring funds outside the borders of the country in which they were deposited (Sarayreh, 2005, p.13). This stage enables money launderers of camouflaging

regulating authorities to track the origin of money, and cut the connecting point between the money that was entered into finance circle on the one hand, and on the other hand, the money obtained from illegal sources, where the aim of this phase is to use illegal funds and investing it within the financial cycle.

Second -- Layering: At this stage illegal money is entered to the banking sector, in order to separate these funds and their activities and their original illegal sources. to this end, a set of complex successive processes is used to hide the source of funds, and in this stage it is difficult to detect the sources of these funds because of the use of easy-to-convert funds like insurances and bank checks, stocks, bonds and payment transactions through the account, where the foreign bank opens an account at a local bank and the bank's clients in foreign withdrawal and deposit in that account to manage their illegal activities and to purchase assets of high value and then re-sell them (Al-Khatib, 2005, p.14).

And With technological development money launderers are using modern electronic means to camouflage their illegal activities, and erase the criminal effects resultant since the electronic processes are fast and have the ability to hide the name and remove any effects of accounting resulting from these illegal activities (Sheikh, 1422, p.5), the aim of this stage to conceal the sources of illegal money.

Third -- Integration: At this stage funds that had been laundered is integrated with funds that are legal, with payment of taxes by, disclosing in the statements and periodic financial sheets and the final published circulated ones, particularly the balance sheet and income statements, accounts of income, expenses, profits and losses, and operating trading and accounts, in order to gain the status of legitimate and legal.

These companies are interested in publishing all the information for the relevant financial statements and the budget widely in general and specialized newspapers, where a detailed and a convincing explanation for the source of this money are provided, which are ostensibly legitimate (Khudairi, 2003, p.57).

The aim of this stage is to show the illegal money and funds as legal and legitimate, and entering into the financial cycle.

8. METHODS OF MONEY LAUNDERING

Methods of money laundering can be divided into:

First - the conventional methods: -

Including many of the activities and methods, like:

A. Smuggling:

The money launderers smuggle illegal money out of the country, and then re-enter it legitimately through fake projects, to appear as a result of legal activities outside the country (Al-Mubarak, 2003, p.34).

B. The exploitation of economic weakness:

Money launderers exploited the need of states that suffer from economic problems to foreign investment, by entering their money to these countries and the establishment of fake projects and then closing out these projects, and to pull their money out of these countries, so that this money looks as a result of the projects that took place in those countries, so this money may be legalized, and far from any legal accountability (Tabtabai, 1998, p.292).

C. Counterfeit bills:

This method uses the import and export operations between the two states having economic exchange, as the money launderers do exaggerating and falsifying of invoicing of goods that are exchanged between the two countries or the issuance of fake invoices, without real exchange between the two countries. Such operations of international trade are often done through by letters of credit, which constitutes a legal cover to the source of illegal funds (Qashqoush, 2003, p.60).

D. Collusion with the banks' workers:

Money launderers resort to buy off some bank employees by bribing them rewardingly in return for allowing them to deposit their illegal funds in the banks without checking the sources or application of instructions for this. This makes it easier to hold transactions or banking operations without government control due to the banks not inform the regulatory state authority according to the instructions and the laws governing banking activities (Shafi, 2001, p.172).

Secondly - modern methods: -

Many of the banks offer financial services and banking by modern electronic methods because of technological developments, and this helped money launderers to take advantage of these techniques and developing of methods of money laundering and the abandonment of the conventional methods as much as possible to avoid the banking supervision and the impossibility of tracing sources of Illegal money (Hamdani, 2005, p.11).

These methods include:

A. Internet Banking:

Anyone can use the Internet to create a virtual bank or store, or to exchange currency or establish fake companies in countries that "turn a blind eye" on the operations of money laundering. In these virtual facilities money is processed online, which is easy to transport from one place to another using the Internet, and away from the control of the Executive government agencies and the specialized legal legislations related to banking operations, which makes the internet banks, an ideal and easy-to-the-money laundering (Barakat, 2007, p.35), especially that the internet banks are only Virtual figures not subject to the control of legislation and Laws relating to regular commercial banks that give central banks authority to control and restrict their bank activities, due to lack of physical existence in the traditional sense, and its presence outside the spatial and legislative jurisdiction,

which gives central banks the authority of banking supervision and organizing activities and the right of prosecution, upon the commission of any violations of the law (Tawfiq, 2001, p.158).

B. Electronic Banking Services:

After the tremendous development witnessed by the world of electronic communications, modern electronic banking services are heavily used in the implementation of money laundering operations, particularly in the two phases of placement and integration like electronic funds transfer, paying bills, where it became the most common and easiest way to carry out money laundering (Al Kusoos, 2002, p.41), making it a global phenomenon beyond the borders of one state, and calling for concerted international efforts to fight it.

C. Electronic-Cash or Money:

Electronic money is one of the most modern methods used in money laundering, for the impossibility of tracking it, its theft and speed of movement, and not being subject to the jurisdiction of the temporal and spatial bank Legislation of the States, for the absence of physical space specific and effective in the traditional sense, where the funds may be transferred freely, without obstacles or without resorting to the services of banks and financial intermediaries, making it outside the banking supervision authorities (Al Faouri & Qteishat, 2002, p.92).

In addition, electronic money shall not be subject to the standards of traditional legal money imposed on exporting countries, and this requires the existence of a compulsory legal protection suitable to the exported money value, making this money subject to the issuance and conversion without any control or specific legal standards and taking it outside the jurisdiction of central banks.

D. Credit Cards:

Credit cards can be used in money laundering operations; as these cards help in the transfer of money charged on the card anywhere in the world, in addition to that the card that offers the possibility to add any additional amounts on them.

It is known that the dealer who handles or accepts to deal with the electronic card payment contacts the card issuing bank for settlement of value on them; they become in this case electronic means easily and effectively for money laundering operations (Al Hamdani, 2005, p.12).

Credit cards enable owners use them as means of payment in several countries without the need to take the risk of carrying money. This method is to deposit large sums of money in the balance of the card, so that the account will remain a creditor and the money launderer can draw cash wherever in the world.

E. Virtual Casinos:

There are web sites designed to provide all types of gambling, and these clubs are run by people from their homes or their small offices. These casinos are means of money laundering (Barakat, 2007), for the difficulty of tracing its actual existence and being out of spatial

jurisdiction for certain countries, because there are no geographical boundaries, where the launderers resort to virtual casinos and get coins and play coupons for cash, which are later replaced by checks drawn on banks so they appear as if funds resulting from the profit of gambling.

F. Mondex technology for money laundering:

It is a technique used in cyberspace that allows users to convert illegal funds through a modem or over the Internet with secure encryption to ensure the money laundering operations, without leaving traces that can be used to identify the perpetrators.

This technology is characterized by being away from government banking sector or traditional banking services and easily going beyond the limits of geography, which makes the process of tracking impossible, and is a legal problem to the traditional legislation, which makes it imperative for countries to reconsider their legislation to keep pace with technological developments and the holding of international conventions to address this phenomenon (Taher, 2002, p.89).

G. The effects of money laundering states:

Money laundering and financial crimes have great economic, social and political consequences in different countries. They try to weaken the financial systems as a result the smuggling of money out of the country, which leads to weakening the savings rate and the decline rate of real investment in the national economy and high rates of unemployment (Al Kusoos, 2002, p.59), which endangers the social and economic development of these countries.

Financial institutions are the preferred means to carry out money laundering (Masciandaro, 1999, p.227), because of its efficiency and low cost of the financial transactions, and because of the complexity and overlapping of the bank operations at banks.

They are also a focus of concentration of capital, which provides funding for economic projects, and when investor confidence in financial institutions is shaken and weakened, a negative impact on foreign direct investment is next, which in turn distorts the long-term economic growth, because of lack of investor confidence in the local economy (Masciandaro & Portolano, 2003, p.313).

Money laundering operations result in unequal competition with actual investors whether local or foreign, as they affect the price of the return and exchange rate and lead to capital movements, and affects the stability of international financial markets, and threatens the collapse of the national markets, and lead to the devaluation of national currency and raise of prices (Arian, 2005, p.61).

In addition, the influence of money laundering on the social aspects and work on the disruption of the social environment and increase the gap between the rich and the poor and tearing the national blend and lack of cohesion and social solidarity, thus contributing to poor distribution of national income and the proliferation and spread of criminal offenses and lack of loyalty to the homeland and negative feelings among the citizens (Al Kusoos, 2002, p.63), making it cast a shadow on the social aspects.

Money laundering effects extend to include the

political aspects, as some of these funds are channeled to the financing of terrorist organizations that work to undermine security and stability and confidence in the systems of the state, and inciting sectarian, ethnic and religious clashes, and to harness social networking tools, using that money in the areas of media and newspapers to convert the facts and distort the image of the ruling regimes (Al Rabea, 2005, p.49).

Also, money laundering operations lead to the arrival of some of the owners of illegal capital to local and parliamentary councils, and giving them the possibility to enjoy legal immunity and reduce the possibility of legal prosecution, and to participate in the development of legislation and policies that serve their interests, thanks to their potential in spending on the election campaign and pay bribes and to influence the votes of the electorate. (Al Arian, 2005, p.51).

9. THE ROLE OF BANKS IN MONEY LAUNDERING

The phenomenon of money laundering is a serious challenge facing banks, economic and even political system of any country, due to its negative effects on economic activities and the destruction of the ingredients and production incentives and increasing rates of inflation and groups' control, which lead many economic, social and political activities.

It is worth mentioning that those responsible for anti-money laundering work, intelligibly and regularly follow up the development of modern technologies and channels available to the banks, particularly after the widespread use of computerized technology for banks in the banking operations around the world (Bseiso, 2002, p.15).

Banks are one of the most important institutions that are used in money laundering operations, given the advantages enjoyed by when compared to other institutions.

These advantages are convenient, accessible and safe for money launderers to use banks and to access to International payment system which offers them the ability to transfer money through modern electronic methods instead of using the traditional methods. Thus, the U.S. Federal Reserve Council describes banking institutions and their staff as a strong defense line against money laundering (Johnson & Desmond, 2002, p.8).

Masciandaro (2003, p.319) studied the relationship between banks and money laundering and found a way to assess the involvement of banks in money laundering, where he examined the relationship between the Italian banking system and the legal and illegal economies of the country, and by using the gross national product to represent the legal economy, and the percentage of money laundering to represent the illegal economy, and bank deposits as an indicator of activity within the banking system.

He noted that the banks accept the money from the

legal economy in the form of deposits, daily deals, and at the same time accepting money illegally on the assumption that this money has not been reported as suspicious transactions, and then these doubted deposits enter to the financial system, and with the instructions of money launderers and complex operations turn to financial transactions to be integrated into the legal economy.

The process of money laundering includes activities within the banking system starting from the deposit on the counter to use the international payment system (Agarawal, 2005, p.775).

Despite the importance of banking legislation in the provision of an oversight role on banking operations and extending its control over economic activities, there are six major factors that contribute to providing an ideal environment for money laundering: the role of private commercial banks as lawyers for the client, the powerful clients who have a strong balance sheet, the secrecy culture of the company, the secret terms of reference, the culture of the company's lax controls and the nature of industry rivalry (Agarawal, 2005, p.778). They are explained as:

1) The staff of private banks, as a defense line for clients.

The staff of private banks is the main axis in the system of commercial banks being trained on customer service, opening accounts and transfer money around the world using complex financial systems and confidential tools. Policies of commercial banks encourages their employees to build and develop personal relationships with customers, and visit customers' homes, attend social events, and arrange their financial affairs etc., in order to win and attract the largest number of customers.

As a result, grows among workers in the commercial banks a sense of loyalty to their customers for personal and professional reasons, and causes them to ignore or forget or exceeded the warning signs, which may lead the staff of commercial banks in the over-use of their personal relationship breach legal banking restrictions, harnessing their professional expertise in crossing the so-called "Red line", which limits the provision of banking services for special operations of the legal restrictions, which aim to extend government banking supervision and prevent money laundering (Agarawal, 2004, p.773).

2) The powerful customers.

It is known that some customers of commercial banks are wealthy and may have the influence they can to affect financially or politically on such banks and legal and financial centers, which makes these banks eager to meet their demands and to refrain from some embarrassing inquiries to them about the source of their money and ignore some legal banking restrictions, giving these customers a suitable environment for money laundering operations.

3) The culture of secrecy.

Use of secrecy in private banks is to cover the accounts and transactions. For example, private banks establish routinely "Shell and Trust" companies to protect the

identity of the beneficial owner of the bank account. Also, private banks open accounts under symbolic names and refer to clients using the official names for transactions in the coded account deals, and thus sometimes the banking secrecy form a legal impediment to disclose the identities of the perpetrators of crimes of money laundering.

4) The secret terms of reference.

Some banks have secret business abbreviations and set criminal restrictions on disclosure of information relating to bank customers.

5) The culture of lax control.

Private banks operate according to the culture of conflict at times with controls on money laundering and often the problem starts with the bank employee responsible for the initial implementation of the controls of anti-money laundering because they are responsible for checking the background of potential clients and monitoring of existing accounts and opening of accounts, expansion of deposits for the client.

The main problem shows in the conflict of roles required of the employee, for example, asking him to establish personal relationships with the client, and at the same time monitor his accounts for suspicious activities and inquire about specific deals, which that it is difficult to implement. Therefore, some private banks resorted to deal with this problem by developing systems to review the banking activities by a third party like monitors or audits, yet that monitoring is inadequate and ineffective, for the inability of the third party to know all the banking subtleties, especially when it comes to system qualities of confidentiality.

6) The rivalry.

Another factor in the weakness of attention to money laundering is the ongoing competition between the private commercial banks to attract customers due to high profitability. The competitive pressures and the expansion are factors discouraging private banks to impose strict controls to combat money laundering, which may limit the new business, or cause the transfer of existing customers to competing institutions, due to the importance of the speed factor in current operations. In addition to the general factors mentioned above, the actual products and services provided by the bank work to create opportunities for money laundering operations.

The Actual Products and Services Provided by the Bank Work to Create Opportunities for Money Laundering Operations

A. The numerous accounts:

In most cases the bank customers have several accounts in several banks or branches of one bank, such as personal current accounts, money market accounts, credit card, and others on behalf of the company to protect one or more accounts and multiple investments, including the common funds, and stock debentures and term deposits.

In fact, banks encourage customers to open multiple accounts at multiple locations with multiple names, and they do not collect information on these accounts,

this of course provides the opportunity and the suitable environment for money laundering operations as a result of the complexity of controls on all these accounts that have multiple sources.

B. The secret products:

Most banks offer a number of banking products and services that protect the ownership of the client for funds that pass through the banking operations.

These include the protection institutions (Offshore and Shell) and the accounts of a private name and symbols used to refer to the customer or transfer of funds and banking transactions, which makes the customer's name and all banking operations and relevant information protected, and away from the government supervision of banking.

C. Movement of the money:

current accounts in banks include large sums of money and those accounts increase bank possibility for money laundering by providing an attractive field to money launderers who wish to transfer large sums of money without attracting attention, in addition to that, most banks offer products and services to facilitate speed and confidentiality and the difficulty of tracking the movement of funds.

D. The Credit:

Bank Service includes expansion in granting credit to customers and urging the bank staff to persuade customers to deposit their money in the bank to be used as collateral for large loans. this practice create opportunities for money laundering by allowing the deposit of questionable funds and replacing it with clean money through the loan, which helps in the creation of fake economic activities and expand the circle of fake bank accounts movements (Agarwal, 2005, p.776).

10. THE ROLE OF BANKS IN THE FIGHT AGAINST MONEY LAUNDERING

Because the banking system is the most effective way to legitimize the illegal funds, it is natural that money laundering activities are directed to the banks, in order to conduct a series of banking operations to achieve this goal, such as exchange and money transfer by many types of developed banking operations in this area, particularly in light of developments in electronic information systems.

From here, emerged the role of experts combating the crime of money laundering through their giving a greater role for the banking system in the control operations, as rule (19) of the recommendations of the Financial Action Task Force to combat money laundering imposed on financial institutions establishing procedures, controls and programs to combat money laundering, and to give the bank special importance to the technical training of staff to detect and control the laundering and how to report them, in addition to developing the skills of workers in the field of combating money laundering (Al Rabea, 2002, pp.113-114).

In spite of the efforts to combat money laundering

internationally, regionally and locally, and the enactment of many of the international legislation to combat the crime of money laundering, yet the degree of corruption and the enormous resulting profits as well as the great power and influence made in the continuous growth, with the accompanying negative effects on individuals, peoples and communities. So why did not these efforts give the desired results? And why is still a tremendous and growing amount of money laundered?

The first step required to combat money laundering is the fight against financial and administrative corruption, and this means that real fight not ostensible one, and that is appropriate banking legislation tare set o enable central banks to extend their control more effectively over private banks, and monitor their implementation and their application to all banking sectors, without exception, and forcing the banking system to the application of the instructions and legislation on banking and economic activities, and imposing sanctions on the bank that does not abide by Dan (2009).

As banks are the main gateway for money laundering and with the many tools used in its implementation on the one hand, they are also the agency responsible for addressing the challenge and deal with money laundering, on the other hand, which is why it is incumbent on the banking sector as a whole, starting from the central monetary authorities and all banks and financial companies and jointly with all institutions and official authorities to address and face this phenomenon, which threatens, in fact the national economy, and targets economic, social and political development, and enhances the bank's success in combating money laundering as well as performance of the banking sector; so instead of contributing to the dissemination of such economic crime, banks tends to development based on optimum utilization the energies of productivity.

Financial institutions play a major role in combating the crime of laundering by assisting the specialized authorities in the detection of money laundering crimes, especially if we consider that the majority of the money laundering operations is rarely outside financial institutions.

In addition, banks are the target and the main tool in money laundering, for its substantial role in providing various banking services and the difficulty of tracking the sources of funds.

Banks usually have evidence guidelines on money laundering activities and things that must be observed and taken care of and subject to more scrutiny when done by a customer.

It should be noted, that the evidence guidelines issued by the banking, regulatory and legal organizations and bodies do not include usually all the activities and methods used in money laundering operations, as a result of the growing and changing money laundering activities from day to day and its evolution, and that this evidence is

not far from the reach of the hands of money launderers, which requires focusing more on behaviors in the policy of protection against money laundering, related to e-business (Arab, 2002, p.476)

Behaviors in the policy of protection against money laundering

A. Verifying the customer between the real world and virtual world:

Verifying is the first and most important element of ensuring not pit falling in of money laundering activities, both for the client as a natural or moral person, as any failure to so help money launderers on the force of the gap, and freedom from legal accountability, particularly that the absence of the personal information needed to combat the laundering operations money makes tracking the sources of financing and illegal money channels that take place to legitimize money is impossible (Al Eid, 2002, p.24).

B. Beware of a client who conceals information or provides insufficient information:

Analytical studies of worldly money laundering activities report have shown that the biggest deals of money laundering could have been exposed by the bank once the pursuit of what appears from the lack of accuracy of the information provided by the customer of the bank, whether that information relating to his personality, activity or work. Therefore, this element is one of the first indicators that can indicate the presence of illegal operations and contribute to the detection of offenses relating to money laundering (Al Eid, 2001, p.31).

C. Money laundering activities often contrast activities for which dealing began:

Evidence guidelines usually suggests taking caution from the change of the activities of customers, and activities that do not fit with their business routine, and require scrutiny, as it is known that the owners of capital seek to take advantage of every opportunity to make a profit as a result of the lack of clarity parameters of investment activities and swinging projects between failure and success as well as trends of change in the investment climate (Taher, 2002, p.87), but this fact does not prevent the bank to stand on the activities of its customer finance, especially with regard to its banking operations, like the issuance of money orders by electronic means, in huge amounts without the clarity of the source or from a source that does not fit with the nature of client activity, or the trend of client to finance projects or activities suddenly differently from his normal activities.

D. Adopting the policy of periodic reports on the banking activity and analyzing its outputs:

There are a large number of reports dictated by the activities of supervision on banking and other required by evidence guidelines to combat money laundering, despite the commitment to organize the reports of all kinds, yet there is disregard for policy analysis and to draw conclusions on them and continue to read the real changes between a change and another. In this context, the reports on deposits and withdrawals, and the reports of outside fund and clearing

house, and the reports of transfers with the statement of sources and specifically the first bank that received money from the client, and the reports of credit and lending, and other help in the detection of suspicious transactions that hide behind money laundering (Arab, 2002, p.477).

11. INTERNATIONAL EFFORTS TO COMBAT MONEY LAUNDERING

Countries are trying hard to attract foreign and domestic capital, and encourage the flow of investment to it, and provide them with benefits and guarantees such as the laws of secrecy in order to settle in the host country, but on the other hand they maintain reputation and financial fight against money laundering, and therefore emphasizes control on financial business and obliges them to follow the certain legal rules to protect the financial system and prevent being exposed to money laundering operations. Most of the world is facing today the problem of reconciling the sides of the equation represented in desire to attract local and foreign funds for investment and anti-money laundering (Faouri & Qteishat, p.2002).

The United Nations was the first international organization to adopt the Charter of the fight against illegal moves in the drug trade and narcotic trade (Vienna Convention) Act 1988, as this agreement is an international instrument aimed at combating money laundering arising from the illegal drugs and narcotics trade.

This convention included legal provisions binding on all states, and began for all states, and working under its provisions began after it has been ratified by more than 130 states (Abdel-Aal, 1994, p.194).

Later, the Financial Action Task Force (FATF) was established in 1989 from the top of the group of 7 in Paris, to implement and monitor effective programs to combat money laundering at the international level.

The group of 40 recommended monitoring money laundering by providing a basic framework for all parties involved in efforts to combat money laundering.

These recommendations were modified in 1996 to coordinate and implement the laws of money laundering in international financial centers, and these recommendations included the basis for action in the fight against money laundering and shall each country follow-up and control the application of these recommendations and prepare its own calendar and another jointly with other countries.

In 2003 and after the events September 11 (2011) and with the growing danger of the phenomenon of money laundering and the evolution of mechanisms in the implementation of banking operations, this organization has adopted eight new recommendations to become 40 + 8 (Al Rabea', 2005, p.113).

These recommendations are interested in highlighting the importance of the need not to abuse bank secrecy laws in order to implement these recommendations, as these recommendations identified the general framework for combating money laundering as well as the role of the legal

framework and the role of the financial system, and how to monitor and discipline financial institutions, the procedures resorted to at the absence of a legal framework to combat money laundering, as well as setting the procedures that limit money laundering and strengthen the bonds of the aspects of cooperation (Al Faouri & Qteishat, 2002).

The documents anti-money laundering Focused on financial institutions to take necessary measures in the fight against money laundering, as well as measures to combat the transfer and saving of money originating from criminal activity, which were adopted by the Committee of Ministers of the Council of Europe on 27 June 1980, and the statement of the Basel Committee 4 adopted by the Basel Committee on banking regulations and supervisory practices in December 1988, and the recommendations of the Financial Action Task Force (FATF), and the Guidance Council on 10 June 1991 to prevent the use of the financial system for the purpose of money laundering, and Directive no. 2001/97/EC of the European Parliament and the Council, which all confirm that financial institutions must be committed to combating money laundering, such as customer identification, record keeping and reporting of suspicious transactions (United Nations).

THE FINDINGS

Money laundering operations occur in various countries around the world, particularly those countries undergoing economic reform. It should be noted the presence of a strong relationship between the crime of money laundering on the one hand and financial and administrative corruption, on the other, and this crime has become a global phenomenon.

Money laundering operations help criminal organizations in damaging the economic, commercial, and financial structures, while the advanced banking technology has helped in spreading this phenomenon especially electronic banking and modern banking services so as to make it difficult to detect money laundering.

Money laundering operations are represented in the recycling of funds resulting from illegal actions in the areas and channels of legal investment in order to hide the true source of these funds and to show as if generated from a legitimate source, and examples of these illegal actions are funds obtained from drug trade, slavery, prostitution and weapons. Money laundering operations go through well-known methods, as the owners of illegal funds deposit in banks or transfer funds between banks to merge with the legitimate money and hide their original sources, or this money may be transferred from the local banks to international banks that have many branches in the world, then foreign banks do the same process of transferring other funds through its various branches, and then the owners withdraw their money from banks to buy assets, or to affiliate in international companies.

Statistics and economic reports refer to the growing

phenomenon of money laundering dramatically, where economists estimate the amount of money that is laundered annually to a trillion dollars, which is equivalent to 15% of the total value of world trade.

As a result of the seriousness of this phenomenon, an international, regional and local effort was exerted, and many legislations, laws and regulations that limit the spread of this phenomenon were enacted. Most of these regulations and legislation focused on commercial banks, including Jordanian banks, given the role played by banks in helping to spread this phenomenon or limit it, the fact that banks are the most or media or institutions active in this regard.

REFERENCES

- Abdel-Aal, M. A. (1994). The Crime of Assassinating Money and Means to Combat in the Egyptian Law. In Dar Al-Nahda Al Arabyah (Ed.) (2nd ed.). Al Resalah Foundation, Beirut.
- ACAMS Money Laundering. Retrieved on 1/6/2012 from <http://www.moneylaunderingconference.com>
- Agarwal J. D. (2005). International Money Laundering in the Banking Sector, *Finance India*, 18(2), 767-779.
- Agarwal, J.D. & Agrawal A. (2004). International Money Laundering in the Banking Sector, *Finance India*, 18, 767-779.
- Ajeel, T. K. (n.d.) The Crime of Money Laundering: A Study in Nature and Its Penalties, *Journal of Nazahah and Shafafyah*.
- Al Tabtabana, A. (1998). The Phenomenon of Money Laundering and Its Impact on the National Economy, *Journal of Law*, (3).
- Al Eid, H. (2001). Banks Guide to Face Money Laundering, *Journal of Banks in Jordan*, January.
- Al Eid, H. (2002). Money Laundering in Private Banking Services, *Journal of Banks in Jordan*, August.
- Al Faouri, A. F., & Qteishat, E. M. (2002). *The Crime of Public Money Laundering and Leal Nature* (1st ed.). Dar Wael for Publication.
- Al Hamdani, I. R. (2005). The Effect of Using of Banking Technology in the Phenomenon of Money Laundering and International Efforts to Combat It, A Work Sheet Submitted to the Fourth Scientific Conference, Leadership, Creativity, Business Strategies in the Face of the Challenges of Globalization, Philadelphia University (15-16-2005), Amman, Jordan.
- Al Khatib, S. (2005). *Anti-Money Laundering Operations*, Mansha'at Al Maarif, Alexandria.
- AL Kusoos, R.N. (2002). *Money Laundering Crime of the Century (Comparative Study)* (1st ed.), Dar Wael for Publishing and Distribution, Amman.
- Al Mubarak, M. I. (2003). *Money Laundering: Criminalization and Combat*, Dar Ikremah Press House, Damascus.
- Alzlamy, B. A. (2001). The Role of Electronic Money in the Money Laundering Operations, *Journal of Damascus University of Economic Sciences, Legal*, 26 (1), 543-562.
- Arab, Y. (2002). The Reality of the Risks of Money Laundering Crimes and International Trends to Combat It with the Statement of Plans for Banks to Address These Crimes. *Journal of Banks in Jordan*.
- Al Rimawi, L. M. (2003). Money Laundering Regulation in

- Jordan: A Positive Example of a Middle Eastern Country Earnest, *Journal of Money Laundering Control*, 17(1), 15-18.
- Barakat, I. M. (2007). The Importance of Disclosure of the Risks of Financial Transactions Relating to Money Laundering in Commercial Banks: An Analytical Study in the Light of the Theory of Social Responsibility. Research presented to the Scientific Conference of the **Seventh Annual Risk Management and the Knowledge Economy Axis VII: Risk Management and Accounting**, University of Zaytuna Jordan, Amman - Jordan April 16 to 18.
- Bseiso, F. (2003). The Palestinian Financial Bottom-Pattern Development and Creative Development, Work Sheet Submitted to the Conference of the Development of Sector Ghazzaah After the Israeli Withdrawal, Held at the Islamic University, Trade College from February 14 to 13.
- Bosworth-D. R. & Saltmarsh G. (1994). *Money Laundries: A Practical Guide to the Legislation*, Chapman & Hall, London.
- Directive 2001/97/EC of the European Parliament and of the Council of 4th December, 2001, Amending Council Directive 91/308/EEC On Prevention of the Use of the Financial System for the Purpose of Money Laundering, *Article 2, (A) (3)7*.
- El-Arian, M. A. (2005). *Money Laundering and Mechanisms of Control*, Alexandria, Dar Al Jami'a Al Jadeeda for Publication.
- Financial Action Task Force (FATF) on Money Laundering (2003, 20th June). *The Forty Recommendations, Recommendation 12*.
- Gafia R. & Mary D. (1997). Money Laundering, *Express Journal*, 5.
- International Harmonization of Economic Regulation. Retrieved on 15/5/2012 from <http://www.fatf-gafi.org/dataoecd/25/61/33635879.pdf>
- Johnson, J. & Desmond L. Y. C. (2002). Money Laundering: Has the Financial Action Task Force Made a Difference? *Journal of Financial Crime*, 10, 1.
- Kamil, S. S. (2002). *Anti-Money Laundering Legislation in Egypt*, Cairo, Dar Al Nahda AL Arabyah.
- Khudairi, M. A. (2003). *Money Laundering*, Cairo, Arab Group of the Nile.
- Magnusson D. (2009). Costs of Implementing the Anti-Money Laundering Regulations in Sweden, *Journal of Money Laundering Control*, 12 (2), 101-112.
- Masciandaro, A. (1999). **Money Laundry: The Economic of Regulation**, *European Journal of Law & Economic*, 7, 225-40.
- Mitch V. Z., Mikhail I., Makarenko, G. T., Alexander N. K., Dulacha B., Yulia C., Alistair M. B. & Helen K. (2007). The Anti-Money Laundering Activities of the Central Banks of Australia and Ukraine, *Journal of Money Laundering Control*, 10 (1), 116-133.
- Qushoush, H. H. (2003). *The Crime of Money Laundering in the Scope of International Cooperation*, Cairo, Dar Al Nahda Al Arabyah.
- Rubaie, Z. S. (2005). *Money Laundering: Disaster of the Time and Mother of All Crimes* (1st ed.). Kuwait, Al Falah Press.
- Sarayreh, M. (2005). *The Problem of Money Laundering and the Role of Banks to Combat It*, Mutah University, Jordan.
- Sanusi M., (2008). Money Laundering with Particular Reference to the Banking Deposit Transactions an Islamic Perspective, *Journal of Money Laundering Control*, 11(3), 251-260.
- Shafi, N. A. (2001). *Money Laundering*, Publications of the Human Rights of Galilee, Beirut.
- Sheikh, F. A. (1422). International Efforts to Combat Money Laundering, *Journal of Security and Life*, 228, Twenty-Year, Jumada the First.
- United Nations Convention Against Transactional Organized Crime and the Protocols Thereto (2004). *Article 7: Measures to Combat Money-Laundering*, (1) (A).
- Vaithilingam, S. & Nair, M. (2007). Factors Affecting Money Laundering Control. 40 (3), 352-366.