



## **IMPROVING THE SYSTEM OF COMBATING MONEY LAUNDERING IN THE BANKING SECTOR**

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### **Abstract**

*This article discusses the three-tier structure of the international system for combating money laundering and the financing of terrorism (AML / CFT). The characteristic of each level of the AML / CFT system is given. The role of banking internal control in countering the legalization of illegal income is determined. A recommendation has been developed to improve the internal control system in countering the legalization of illegal income in the banking sector. According to analysis the best way to improve this system is to meet the principles of complexity, productivity, integration, regulation, legality.*

*Keywords: Money laundering; legalization; counteraction; illegal income; international system; national system; internal control*

### **INTRODUCTION**

The main goal of the national “anti-money laundering” system is the stability of the financial system and economy to the risks and threats of money laundering, terrorist financing and financing the proliferation of weapons of mass destruction. In turn, increasing this sustainability strengthens the integrity of the financial sector and contributes to its security and safety.

At the same time, international community countermeasures to criminals significantly limit the possibilities of using illegal proceeds. In this regard, criminals are extremely in demand in various ways of giving money a legitimate form of origin - the so-called “dirty” money laundering operations.

Today, according to experts, annually laundered funds is already 1.6 trillion. dollars and the activity itself has become an independent, highly profitable and rapidly growing sector of the shadow economy. Moreover, the overall damage to the economy and society is obviously much more significant due to the presence of washing schemes in many economic crimes. Legalization of income is closely related to such phenomena as capital flight, corruption, the use by various companies and banks of offshore jurisdictions to conceal the source of income and tax evasion.

Against this background, the purpose of the study is to improve the system of combating money laundering in the banking sector of Uzbekistan.

## REVIEW

At present, the world banking community is more than ever faced with the problem of combating the laundering of proceeds from crime. This problem is one of the most discussed at many international meetings devoted to the development of the modern economy. However, despite this, accurate data on the amount of legalized proceeds of crime are not available. Some experts believe that it exceeds 2 trillion. US dollars. So, according to the International Monetary Fund (IMF), this amount is 2% of world GDP, that is, about 2.1 trillion. US dollars.

In such conditions, the creation of an effective national system of combating money laundering is one of the acute and urgent problems of any state and the entire international community.

As you know, the international system of combating money laundering and the financing of terrorism (AML / CFT) has a three-level structure. The first level of the international AML / CFT system is represented by the external environment, which consists of institutional legal standards generally accepted in countries and recommendations that determine the organization of national AML / CFT systems (FATF recommendations, Wolfsberg principles and many others).

In recent decades, the problem of money laundering and terrorist financing has become increasingly international. Most countries need to coordinate efforts and concerted actions to combat this criminal activity not only at the national but also at the international level. One of the measures for the development of international cooperation in this area was the construction of a unified organization system and common standards for the so-called legal field or the external environment of the international AML / CFT system. This was attended by long-existing international organizations (UN, Council of Europe, International Monetary Fund, World Bank, Basel Committee on Banking Supervision), and specialized international institutions such as the FATF Financial Action Task Force on Money Laundering, hereinafter referred to as the FATF); Eurasian Group on Combating Money Laundering and the Financing of Terrorism (EAG);

Egmont Group of Financial Intelligence Units; Wolfsberg Banking Group; Asia-Pacific Anti-Money Laundering Group (ATG), as well as various regional anti-money laundering groups.

The work of these organizations to establish common rules, standards and recommendations forms the basis of international cooperation in the fight against money laundering and the financing of terrorism. At the same time, the FATF is the central element of the international AML / CFT system.

The second level of the international AML / CFT system is the national AML / CFT system, in which state authorities (including specialized authorized bodies) act as elements. In the Republic of Uzbekistan, such a body is the department for combating tax, currency crimes and money laundering under the Prosecutor General of the Republic of Uzbekistan. The Department is a specially authorized state body on countering the legalization of proceeds from crime and the financing of terrorism.

In the field of combating money laundering and terrorist financing, the functions of the department are:

- exercise of control over operations (transactions) with cash or other property as provided by law;
- coordination of the work of organizations engaged in operations with cash or other property, and bodies involved in countering the legalization of proceeds from crime, and the financing of terrorism;
- organization and implementation of analysis and elaboration of information received from credit and other financial organizations on operations (transactions) with cash or other property of legal entities and individuals, in order to identify their possible involvement in laundering illegal incomes and financing extremism (terrorism);
- analysis of the forms and methods used in the legalization (laundering) of proceeds from criminal activity, as well as for providing financial and other support to terrorist organizations, and materials on individuals and legal entities in relation to which there is information about their involvement in terrorist activities;
- ensuring control over the fulfillment by legal entities and individuals of the requirements of the legislation on counteracting the legalization of proceeds from crime, and the financing of terrorism;
- Implementation in accordance with international treaties of the Republic of Uzbekistan of interaction and information exchange with authorized bodies of foreign states in the field of combating the legalization (laundering) of proceeds from crime and the financing of terrorism.

The basis of the national AML / CFT system is national legislation, which also determines its organizational and functional structure. So, according to the established practice

in most countries, control and supervisory authorities establish restrictions on the types and limits of financial transactions, develop rules for the activities of business entities (financial intermediaries), requirements for capitalization, standards and indicators, etc.

The third level of the international AML / CFT system is the AML / CFT subsystem of financial intermediaries, the main of which are banks. Their tasks include proper verification of customer transactions, timely identification of suspicious income to their accounts and write-offs from accounts, and the submission of relevant information to authorized bodies. As practice shows, the activities of the organizers of "washing schemes" are present in many areas of the economy, but the key is credit and financial (in particular banking), which serves as the main channel for the movement of illegal money.

Today, an important element of the system of internal control of credit organizations is the control over the functioning of the AML / CFT system. In turn, for the banking sector, one of the main tools for monitoring the implementation of measures aimed at AML / CFT is the internal control system.

In our opinion, for effective organization, the system of internal control of the banking sector of the Republic of Uzbekistan needs to solve the following problems:

Due to the lack of special programs, the process of identifying facts and signs of doubtful and suspicious transactions is carried out manually by internal control officers. This state of affairs may adversely affect the completeness of control over suspicious transactions of bank customers.

In this regard, the automation and integration into ABT (Automated Banking Systems) of procedures for identifying dubious and suspicious transactions according to the criteria and signs established in chapter 4 of the "Internal Control Rules to Combat Money Laundering and the Financing of Terrorism in Commercial banks "and the internal rules of commercial banks themselves on this issue.

Improving the control process will reduce the risk of non-detection, reduce the time it takes and will facilitate the effective identification and suppression of dubious and suspicious transactions.

The relevant competent authorities have a special List of persons participating or suspected of participating in terrorist activities or the proliferation of weapons of mass destruction, formed on the basis of information provided by government bodies engaged in the fight against terrorism, the proliferation of weapons of mass destruction, and other competent authorities of the Republic of Uzbekistan, as well as information received through official channels from the competent authorities of foreign states and international organizations nations. However, commercial banks do not have access to

the List database. This circumstance limits the activities of commercial banks in carrying out their tasks established by law. While one of the main tasks of the system of internal control of commercial banks is to identify among participants in operations those who are involved in or suspected of participating in terrorist activities or the proliferation of weapons of mass destruction by checking the List (According to paragraph 8 of paragraph 3 of Chapter 1 of the current Regulation). In this regard, we consider it necessary to provide commercial banks with access to the database of the List of the corresponding authorized state body.

In the context of large-scale reforms in the field of tariff and monetary policy, as well as liberalization of currency regulation, in our opinion, a review of certain criteria and signs of doubtful and suspicious transactions is required.

For example, a Transaction is considered doubtful if one of the following criteria and signs is present: the client's request for cash withdrawal previously received to his account during a period not exceeding 3 banking days from the date of receipt, in an amount equal to or greater than 100 times the minimum salary; (According to paragraph 48 of Chapter 4 of the current Regulation).

In order to formalize the measures taken, the Internal Control Service must provide special journals to all of its units (involved in receiving, analyzing and transmitting messages about dubious and suspicious transactions) and responsible employees. This journal should reflect all information about the operation (serial number and date of entering information in a special journal; name of the client (indicating a unique client code); type, amount and date of the operation; information about the client's counterparty; name of the unit that provided information about the operation ; information about the measures taken for the operation, including the date and number of transmission of the message, etc.).

The special journal should be laced up, numbered and the number of pages, the date (day, month, year) of the beginning of the journal and the signature of the head of the Internal Control Service are indicated on its back.

We consider it expedient to introduce the maintenance in a special order of special journals in electronic form.

Also, in our opinion, it is necessary to consider the organizational issues of the internal control system.

In particular, when developing a system of internal control, economic benefits can be obtained from the use of a control mechanism. It should be comparable to the costs of their development. For this, it is necessary to conduct quantitative and qualitative

assessments in order to ensure an appropriate balance between the costs of implementing the internal control system and the economic benefits that can be obtained as a result of the implementation of the system.

The organizational structure of the internal control system depends on a number of factors, such as the organizational structure of the bank, its size and nature of activity, the specific area of activity in which this or that method is applied, etc. Therefore, it is impossible to build a universal system of internal control without taking into account these conditions.

## CONCLUSION

In this regard, the internal control system of a modern bank, in our opinion, should meet the following principles:

- complexity: cover all types of activities of the bank, with particular attention should be paid to the analysis of financial innovations;
- productivity: to reveal facts of fraud and other offenses, the internal control system for them is adapted to prevent them;
- Integration: into the risk management system;
- Regulation: establish the rights and obligations of participants in the system;
- legality: do not violate the requirements of the law.

System should also dwell on the analysis of the implementation by credit organizations of the principles of “Know Your Client” and “Due Diligence”, “Follow Money”, as the main components of conducting customer identification procedures.

In our opinion, each lending institution should independently develop its own strategy, policy and internal control rules for AML / CFT purposes, which, along with international and internal regulatory documents, should take into account economic, political, geographical, organizational and legal and other factors that influence on the activities of a credit institution, as well as taking into account the direct specificity and scope of activities of a particular credit institution.

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