Money laundering
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Illegal arms sales, smuggling, and the activities of organised crime, including for example drug trafficking can generate huge sums. Embezzlement, insider trading, bribery and computer fraud schemes can also produce large profits and create the incentive to "legitimise" the ill-gotten gains through money laundering.
Money laundering is the processing of these criminal proceeds to disguise their illegal origin. This process is of critical importance, as it enables the criminal to enjoy these profits without jeopardising their source.
When a criminal activity generates substantial profits, the individual or group involved must find a way to control the funds without attracting attention to the underlying activity or the persons involved. Criminals do this by disguising the sources, changing the form, or moving the funds to a place where they are less likely to attract attention.

Scale of the problem

Money laundering occurs outside of the normal range of economic statistics. As with other aspects of underground economic activity, only rough estimates can be made to give some sense of scale to the problem.
The International Monetary Fund, for example, has stated that the aggregate size of money laundering in the world could be somewhere between two and five percent of the world's gross domestic product.
Using 1996 statistics, these percentages would indicate that money laundering ranged between US Dollar (USD) 590 billion and USD 1.5 trillion. The lower figure is roughly equivalent to the value of the total output of an economy the size of Spain.

The Process

Initial stage is also known as Placement stage. The launderer introduces his illegal profits into the financial system. This might be done by breaking up large amounts of cash into less conspicuous smaller sums that are then deposited directly into a bank account, by purchasing a series of monetary instruments (cheques, money orders, etc.) that are then collected and deposited into accounts at another location.
The second – or layering – stage. In this phase, the launderer engages in a series of movements of the funds to distance them from their source. The funds might be channelled through the purchase and sales of investment instruments. The launderer might simply wire the funds through a series of accounts at various banks across the globe. The launderer might disguise the transfers as payments for goods or services, thus giving them a legitimate appearance.
After successfully processing through the first two phases of the money laundering process, these are then moved to the third stage – integration – in which the funds re-enter the legitimate economy. The funds are invested into real estate, luxury assets, or business ventures.
Money laundering activity is usually concentrated geographically according to the stage the laundered funds have reached. At the placement stage, for example, the funds are usually processed relatively close to the under-lying activity; often, but not in every case, in the country where the funds originate.
With the layering phase, the launderer might choose an offshore financial centre, a large regional business centre, or a world banking centre – any location that provides an adequate

financial or business infrastructure. At this stage, the laundered funds may also only transit bank accounts at various locations where this can be done without leaving traces of their source or ultimate destination.
Finally, at the integration phase, launderers might choose to invest laundered funds in still other locations if they were generated in unstable economies or locations offering limited investment opportunities.
Various factors of the success of money laundering operations include:
The more successful a money laundering apparatus is in imitating the patterns and behaviour of legitimate transactions.
Deeply embedded illegal activities within the legal economy and lower degree of their institutional and functional separation.
Lower ratio of illegal to legal financial flows through any given business institution.
The higher ratio of illegal "services" to physical goods production in any economy.
The business structure of production and distribution of non-financial goods and services is dominated by small and independent firms or self-employed individuals.
The greater the facility of using cheques, credit cards and other non-cash instruments for effecting illegal financial transactions, the more difficult it is to detect money laundering.
Contradiction between global operation and national regulation of financial markets.

Effects of Money Laundering

The International Monetary Fund has listed various macroeconomic problems as a consequence of money laundering which include:
Inexplicable changes in money demand,
Prudential risks to bank soundness,
Contamination effects on legal financial transactions,
Increased volatility of international capital flows and exchange rates due to unanticipated cross-border asset transfers.
Economies with growing or developing financial centres, but inadequate controls are particularly vulnerable. Launderers, who tend to move their networks to countries and financial systems with weak or ineffective countermeasures, will exploit differences between national anti-money laundering systems. Postponing action is dangerous. The more it is deferred, the more entrenched organised crime can become.
As with the damaged integrity of an individual financial institution, there is a damping effect on foreign direct investment when a country's commercial and financial sectors are perceived to be subject to the control and influence of organised crime.
Organised crime can infiltrate financial institutions, acquire control of large sectors of the economy through investment, or offer bribes to public officials and indeed governments.
The economic and political influence of criminal organisations can weaken the social fabric, collective ethical standards, and ultimately the democratic institutions of society. Money laundering is inextricably linked to the underlying criminal activity that generated it. Laundering enables criminal activity to continue.

Addressing the problem

A great deal can be done to fight money laundering. This includes increasing awareness of the phenomenon – both within the government and the private business sector – and then to provide the necessary legal or regulatory tools to the authorities charged with combating the problem.
Some of these tools include:

Making the act of money laundering a crime;
Giving investigative agencies the authority to trace, seize and ultimately confiscate criminally derived assets;
Building the necessary framework for permitting the agencies involved to exchange information among themselves and with counterparts in other countries.
It is critically important that financial institutions play their role in dealing with the problem. This means
Establishing financial transaction reporting systems,
Customer identification,
Record keeping standards
A means for verifying compliance.

Conclusion

As international economy becomes more and more open in its structure with a lot of deregulation going on fighting Money Laundering becomes all the more important. The integrity of the banking and financial services marketplace depends heavily on the perception that it functions within a framework of high legal, professional and ethical standards. A reputation for integrity is the one of the most valuable assets of a financial institution. Money launderers showing a very high level of adaptability to the changing regulations and counter measures makes it all the more important that all actors involved in our national economy join hands to fight this crime.