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A Study on the Strategies of Transnational Banks to Distinguish and Prevent the Risks of International Money Laundering Activities

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Abstract

Because of the characteristics of transnational operation, transnational banks are often the first choice channel for money laundering. Therefore, in view of the increasing rampancy of traditional money laundering activities and the emergence of various new types of money laundering activities, the financial regulatory authorities in the location of the parent bank and branches of transnational banks usually require transnational banks to strengthen their ability to identify money laundering activities in their business and supervision. In addition, these banks are required to improve their compliance regulations and employee behavior standards in the course of business activities. Based on the requirements of this background, this article will provide specific countermeasures for transnational banks to distinguish and prevent money laundering risks from three aspects, those are the establishment of a compliance risk prevention system and the improvement of anti-money laundering activity recognition capabilities as well as the construction of compliance culture.

Keywords

Transnational bank, anti-money laundering, strategy.

1. Introduction

In the modern sense, money laundering refers to the behavior of concealing the source and nature of money through financial institutions to legalize the form of proceeds from drug-related crimes, organized crimes, terrorist activities crimes, smuggling crimes and corruption and bribery crimes, etc (https: // baike. baidu. com/ item/% E6% B4% 97% E9% 92% B1/ 6399?fr=aladdin). As we all know, money laundering activities has great harm to society, and to be more specifically, its negative influence can be concluded in five aspects. Firstly, money laundering transfers and conceals illegal funds for criminal activities, so that criminals can possess illegal funds, thus helping and stimulating more serious and large-scale criminal activities (According to China Anti-money Laundering Report 2016 and China Anti-money Laundering Report 2018, in 2016, there were 3370 cases suspected of money laundering, and 6842 suspects were arrested with the approval of Chinese procuratorial organs; in 2018, there were 3873 cases suspected of money laundering, and 7881 suspects were arrested with the approval of Chinese procuratorial organs. Money laundering crime is still in an expanding situation); Secondly, money laundering seriously endangers the healthy development of the economy, encourages and breeds corruption, destroys the social harmony, corrodes the country, and leads to social injustice; Thirdly, money laundering causes irregular capital and affects the stability of financial market; Fourthly, money laundering damages the legitimate income of the legitimate economy, damages the micro-competition environment of the market, and damages the effective operation and fair competition of the market mechanism (According to the latest data released by the people's Bank of China, since April this year, 92 cases of transferring stolen money from illegal banks have been solved nationwide, involving more than

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800 billion yuan, https://finance.sina.com.cn/china/20151106/015923692168.shtml); At last, money laundering destroys social stability, national security and poses a huge threat to people's lives and property. Therefore, in order to curb this increasingly rampant criminal activities, this paper will analyze the deficiencies in the current anti-money laundering activities of transnational banks, and propose specific strategies for the identification and prevention of money laundering activities of transnational banks.

2. Analysis on the Deficiencies of Transnational Banks in Anti-Money Laundering Activities

In recent years, the international anti-money laundering supervision has gradually increased, and the requirements for anti-money laundering compliance procedures have been continuously improved. Many transnational banks have been punished by regulatory agencies for failing to meet legal and compliance requirements during anti-money laundering activities (See: Y.M. Lai,Y.Q. Li, Y.B.Wang. Major anti-money laundering penalties and investigation cases in the United States and Europe in recent years and their implications for China [J]. Regional financial research, 2017 (B01): 60-62,'Citibank, Standard Chartered Bank, Credit Suisse Group, BNP Paribas, Bank of Tokyo Mitsubishi UFJ and other international well-known financial institutions, as well as four overseas branches of Bank of China Milan branch, Bank of China New York branch, industrial and Commercial Bank of China Madrid branch and Agricultural Bank of China New York branch were successively reviewed or fined by the international anti-money laundering regulatory agency from 2013 to 2016.'). According to the report of the regulatory agency and related research, the reasons for this status quo can be concluded in the following four aspects. Firstly, failure to investigate customers by anti-money laundering regulations, for instance, lack of investigation for customers' business nature, trading motivation, and sources of funds [1]. Secondly, failure to conduct an enhanced investigation of public political figures among clients. Investigators did not try their best to figure out customer identity, personal reputation, the legality of private funds, and a beneficial relationship with a foreign transaction object [2], etc. Thirdly, failure to provide valid proof that trade financing products are unrelated to the military industry (See China Anti-money Laundering Report (2018), the People's Bank of China, November. 8, 2019, http: // www. pbc. gov. cn/ fanxiqianju/ 135153/ index.html). At last, the new methods of money laundering are emerging continuously, and most of banks did not response it properly [3].

3. Countermeasures for transnational banks to distinguish and prevent money laundering risks

3.1. Construction of Compliance Risk Distinguishment and Prevention Managem-Ent Mechanism

According to the definition of compliance risk in the Compliance and the Compliance Function in Banks (See Introduction 3 of Compliance and the Compliance Function in Banks ,'The expression "compliance risk" is defined in this paper as the risk of legal or regulatory sanctions, material financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organisation standards, and codes of conduct applicable to its banking activities (together," compliance laws, rules and standards")',Basel Committee on Banking Supervision banks, April. 2005, https: // www. bis. org/ publ/ bcbs103.pdf) formulated by the Basel Committee of Banking Supervision and the Guidelines for the Compliance Risk Management of Commercial Banks (See Article 3 of Guidelines for the Compliance Risk Management of Commercial Banks, 'The term compliance risks as mentioned in these Guidelines refers to the risks of a commercial bank suffering from

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legal sanction, supervision punishment, great financial losses or reputation losses when it violates any law, rule or standard.' China Banking Regulatory Commission Dec. 23, 2017,http://www.ccpit.org/Contents/Channel_3386/2019/0902/1201249/content_1201249.htm) issued by China Banking Regulatory Commission, compliance risk refers to the risk that a bank may bear legal sanctions or regulatory penalties, major financial losses or reputation losses due to its failure to comply with legal provisions, regulatory rules, relevant self-discipline standards formulated by self-discipline regulatory organizations and codes of conduct applicable to its own business activities. Therefore, according to the definition, the construction of the distinguishment and the prevention of compliance risk management mechanism should be carried out at the same time in compliance with the laws and regulations, the relevant self-discipline standards established by the self-discipline organization and the establishment and improvement of the bank's internal compliance procedures and departments. However, for transnational banks, especially the branches banks, based on the characteristics of their cross-border operations, in order to distinguish and prevent potential compliance risks, their business activities not only shall meet the legal rules, regulatory provisions and the self-discipline standards of the place (The location of the parent bank can be a country or a region.,e.g., the parent bank of HSBC is located in Hong Kong SAR.) where the parent bank is located, but also the place where the branch is located. Therefore, for transnational banks, to build a compliance risk distinguishment and prevention mechanism, overseas branches of transnational banks should first accurately grasp the legal requirements and regulatory standards of the location of the parent bank and the location of the overseas branches, and the branches should actively connect with the local banking authorities to ensure the compliance of banking business activities. Secondly, branches should actively cooperate with the supervision of local banking and parent banking authorities, provide reliable financial and internal regulatory reports, establishing a compliance operation reporting system with the parent bank for daily reporting to increase the ability of distinguishing and preventing compliance risks [4].

3.2. Intensity the Examination of Anti-Money Laundering Activities

3.2.1. Improve the Ability to Identify and Investigate Customers' Identities

According to the requirements of 'three principles to initiate banking business' (KYC(Know Your Customer, KYB (Know Your Business) and CDD (Commercial Due Diligence).) of commercial banks,the three principles should be practiced from the beginning to the end in a complete banking business behavior.Although many banks are advocating and practicing these principles, they still need to refine it in the light of currently unsatisfactory situation of anti-money laundering.'Know Your Customer' requests for that when a bank establishes a business relationship with a customer, it shall carefully review the legality, authenticity and effectiveness of the customer's identity certificate, business situation, asset status and other information, and when establishing a business relationship with non-residents or overseas financial institutions, it shall fully perform the review responsibilities under the requirements of anti-money laundering, anti-terrorism financing(Combating the financing of terrorism through anti-money laundering) and international sanctions. As far as 'Know Your Business' principle is concerned, when handling business, the bank shall review the customer's basic transaction contracts, commodity types, investment targets, price terms, document requirements and other elements, reasonably consider the matching degree of cross-border business financing period and trade capital turnover period, track and monitor cross-border logistics, capital flow and document flow through business background investigation, and comprehensively grasp the authenticity and compliance of the whole process of customers' cross-border goods trade, service trade or cross-border investment and financing. In the aspect of 'Commercial Due Diligence', commercial banks should not only continuously carry out due diligence on the identity of

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customers and their transactions, but also regularly monitor and analyze the changes of customers and business indicators, focusing on those post-verification of large, high-frequency and abnormal transactions [5].

3.2.2. Strengthen Cooperation with Anti-Money Laundering Camps

The process of money laundering is extremely complex. Criminals, terrorists and other money laundering subjects often carefully cover up their illegal funds through various methods, means and items, Some of them are even assisted by professional auditing, accounting and legal professionals, and money laundering activities have the characteristic of transnationalism makes illegal funds often flow in several different countries' markets. The aforementioned reasons increase the difficulties of anti-money laundering work. Therefore, it is necessary to strengthen the cooperation among international financial institutions, financial regulatory institutions and anti-money laundering intelligence institutions to crack down on money laundering activities. At present, most countries and governments have joined organizations like Financial Action Task Force on Money Laundering and The Egmont Group Financial Intelligence Units and other anti-money laundering financial intelligence organizations, most governments and countries have also set up anti-money laundering intelligence agencies and anti-money laundering regulatory agencies, which makes them have certain identification ability and accesses to distinguish illegal money laundering activities. Therefore, transnational banks and their branches should actively cooperate with the local central bank, government and regulatory agencies to jointly combat money laundering activities. The specific methods they can take are as follows: First, tracking large amount transactions, high-frequency transactions and abnormal transactions, and report all kinds of abnormal and suspicious business information to the competent authority in a timely manner[6];Second, enhance cooperation and contact with other banks in the location, during the process of due diligence, for those customers who are suspected of involving money laundering activities ,banks with cooperative relationships should be allowed to review theirs credit status, identity status, business status of these customers in other banks.

3.2.3. Strengthen the Internal Examination of Banks

In terms of strengthening the internal anti-money laundering review. First of all, a perfect internal management control procedure is the cornerstone of the bank's internal control management system. When formulating specific internal review operation procedures, transnational banks should strengthen the prevention and control of key risk links, clarify the regulatory requirements and standards for anti-money laundering and anti-terrorist financing in the location of branches, and ensure prudent and compliant business development[7]. Secondly, establish a systematic and institutionalized anti-money laundering risk pre-inspection and routine inspection mechanism, carry out risk pre-inspection on suspicious transactions, funds and businesses of customers through the risk pre-inspection mechanism, check the daily business activities through the routine inspection mechanism, and report the problems found in the inspection process in time, so as to make it as seamless as possible. Finally, strengthen the ability of abnormal data analysis and business continuous management and tracking[8]. Establish a large amount money and suspicious transaction monitoring and tracking report system, adjust the customer risk level, business access threshold and risk prevention and control strategy according to the actual situation, and effectively improve the bank's internal anti-money laundering review ability[9] .

3.3. Cultivate Compliance Awareness and Build Compliance Culture

The construction of risk compliance culture and the cultivation of employees' compliance awareness are the basis for efficient and effective risk compliance management mechanism. Therefore, in order to effectively operate the compliance system of transnational banks and prevent compliance risks, transnational banks could improve their employees' compliance

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awareness through the following measures: linking the staff's salary and performance rewards with whether their operation behavior conforms to the compliance requirements of the bank's risk compliance regulations; carrying out compliance publicity and education for the staff, holding a series of lectures on compliance topics, etc.

4. Conclusion

At present, in the new situation of financial service globalization and diversification, it is an unavoidable task for financial institutions to prevent illegal money laundering, and it is also the social responsibility of banks to implement the prevention of money laundering risk. Besides, nowadays, with money laundering becoming more and more rampant and criminals using new methods and ways to cover up their criminal activities, illegal money-laundering behavior is also becoming more and more difficult to trace. Therefore, transnational banks should improve their ability of prevention and identification of anti-money laundering activities in their daily work, and combine the above measures closely according to the actual situation of the bank's location to prevent illegal money laundering activities.

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