

Prevention, Detection and Combating Money Laundering (ML)

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Money laundering is the transfer of illegally generated funds into the legal financial and economic cycle. Preventing, detecting and combating ML is a task for society as a whole and a multidisciplinary task for various state and non-state actors.

With regard to ML, drug trafficking, prostitution and human trafficking, illegal gambling and auctions, illegal trade in objects of art, precious stones, precious metals and weapons, corruption, terrorist financing, illegal real estate trading, accounting fraud, insider trading and market manipulation represent some of the most important fields criminal and terrorist organizations are engaged in.

A new development is the anonymous trading by state and non-state actors of virtual or so-called cryptocurrencies (Bitcoin, Ethereum, Ripple, etc.), especially for the purpose of financing terrorism or undermining extraterritorial sanctions.

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He worked in various responsible positions: Chief Criminal Director of the Bavarian State Police (OC, AML, CT), 1975 - 1994; Director R&D at Europol, NL, 1995 - 2000; Chairman of EU Artificial Intelligence Research Projects; Chief of WEU Balkans Mission 2001; Head of EU Missions in Albania 2002 - 12/2007. Other qualifications include: Professor of International Strategic Management 2005; Chartered Management Institute, London, 2005; Advisor on "Intelligence", European Parliament, 2011; Speaker on Intelligence at International Security Conferences.



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Facts and Motivations

Damage Potential	<p><i>"The damage to the economy is immense. As to the extent of money laundering, there are only approximate estimates which are difficult to verify in view of the large number of unreported cases. But if you look at the few studies that do exist on the subject, you find that the total volume of money laundering in Germany's financial and non-financial sector is well over 50 billion euros and probably reaches the order of magnitude of more than 100 billion euros a year. The fourth money laundering directive also points out: Money laundering and terrorist financing are threatening the soundness, integrity and stability of credit institutions and can seriously damage other financial institutions as well, and by that, lead to a decrease in confidence in the financial system." (Oct. 15, 2019, interview Dr. Pöttsch, BaFin).</i></p>
Threat Potential	<p>With the high economic attractiveness of the location, the economic complexity of the German economy, and the high number of transactions that can be anonymized (e.g., due to the high cash intensity) the National Risk Analysis (NRA) ranks the money laundering threat for Germany on the second highest level of a five-point scale provided by the World Bank .¹</p>
Improvements	<p>Intensifying international cooperation as well as the strategic exchange of information within the framework of European and international bodies such as with the:</p> <ul style="list-style-type: none">• Financial Action Task Force on Money Laundering – FATF; and the• Sub-Committee on Anti Money Laundering (AMLC), a subcommittee of the Joint Committee of European (Financial) Supervisors (ESAs). <p>Also:</p> <ul style="list-style-type: none">• Strict implementation of the amended EU money laundering directives and national money laundering laws and strategies;• Strict application of the FATF Universal Procedures to combat money laundering and terrorist financing in accordance with the FATF methodology.• Prevention improvements in the area of money laundering and terrorist financing through rapid AI-based detection of new patterns of activity, modi operandi, typologies, phenomena and procedures.• Increased staffing of the Financial Intelligence Unit (FIU).• Improve IT equipment by using AI-assisted data fusion and analysis techniques.

¹ Strategie zur Bekämpfung von Geldwäsche und Terrorismusfinanzierung, BMF, 12/2019

- Expansion of IT networking among all authorities active in the area of money laundering (interdepartmental steering committee ML/TF).
- Improve IT links between governmental money laundering authorities, such as the FIU, and non-governmental actors in the business and financial sectors.

Need For Action

Compliance

The expansion of the group of obligated parties and their reporting obligations resulting from the past and forthcoming amendments to the law and new risk assessments, among other things in the area of real estate trading and the financial sector require the adequate adaption of corporate compliance rules of the companies concerned.

In addition, strict compliance with international standards on money laundering prevention is equally required.

Communication Strategy

Information sharing between federal and state regulators and private sector AML actors should be improved on the technological and operational level, including the increased use of secure communications.

Expansion of the FIU's Competencies

The central anti-money laundering office should have access to all relevant national and international databases. For this purpose, the appropriate file formats must be created or adapted.

Methodology

Risk management (risk-based approach); adaptation of risk priorities in the SAR system; application of international ML control strategies.

FIFI Capability Enhancement

In the FIFI project, typical ML use cases will be used to demonstrate the benefits of online AI-supported data fusion, semantic data analysis in conjunction with automatic multilingual NLP/NLU (Natural Language Processing/Understanding) procedures for customer-oriented optimization in the fields of analysis and evaluation capabilities of governmental and non-governmental actors active in the area of trade-based money laundering.

Tasks	<p>By using highly innovative AI-based technologies to combat ML/TF, the FIFI project is to develop ML-typical use cases using AI-supported innovative data fusion, analysis and evaluation procedures to be developed, tested and evaluated.</p> <p>The goal is to contribute to the development of risk-oriented prevention strategies, to discover new patterns, typologies and methods of ML crimes, and to technologically optimize the exchange of information between the state and non-state actors involved. For this purpose, the Project will integrate new algorithm-based analysis and evaluation methods developed in the fields of semantic analysis, Multilingual Natural Language Processing (MNLP), Multilingual Natural Language Understanding (MNLU), Geographic Information Systems (GIS) as well as analysis and evaluation methods employed in SOCMINT (Social Media Intelligence).</p>
Target Group	<p>All anti-money laundering and counter-terrorism authorities and international institutions; all companies in the financial and non-financial sectors with ML-relevant obligations and tasks.</p> <p>The use cases reflect actual ML cases from the non-financial sector, such as cigarette smuggling, supply chain crime, trade fraud, and others.</p>
Directly Affected	<p>The entire financial and non-financial sector, as well as all governmental and non-governmental agencies involved in preventing, combating and detecting ML crimes.</p>
Branches	<p style="text-align: right;"><i>Financial Sector, Governmental</i></p> <p>National and international ML supervisory authorities, Financial Intelligence Units (FIUs), Counter ISIS Finance Group (CIFG), FATF, EM-PACT5.</p> <p style="text-align: right;"><i>Financial Sector, Private</i></p> <p>Banks, insurance companies, credit and financial institutions, agents, insurance intermediaries.</p> <p style="text-align: right;"><i>Non-Financial Sector</i></p> <p>Real estate agents, legal and patent attorneys, notaries, members of the tax advisory professions, certified accountants, income tax assistance associations, gallery owners, art warehouse owners in duty-free areas, auctioneers, goods dealers.</p>