The Development of Money Laundering Knowledge in Relation to the Electric Money

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**Abstract.** According to the United Nations Office on Drugs and Crime (UNODC) forecast, the amount of money that has been laundered globally amounts to 2- 5% of the global GDP. The process of money laundering has changed over the time and the use of electronic money has increased over the years (Madinger, 2012). Previous research has shown that the arrival of electronic money attracts many people to find other methods of money laundering using electronic payment (Quan & Long, 2018). The Financial Task Force has shown how vulnerable commercial websites and internet payment systems are, but since electronic money is still in its infancy the development needs be a limitation to prevent money laundering. Therefore, this paper will show how electronic money is used in money laundering in Indonesia. The method that will be used is systematic review, the journal that will be reviewed is from 2015 to 2022. The result shows that electronic money do have a roles in money laundering especially in placement stage, and Indonesia seems to still have not find the right code to stop money laundering in digital era.

**Keywords:** electric money, money laundering, anti-money laundering.

1. Introduction

The process of money laundering has changed over time and the use of electronic money has increased over the years (Madinger, 2012). This statement is supported with the news article released by (The Jakarta Post, 2022) based on The Financial Reports and Analysis Centre (PPATK) the number of cases of suspicious financial transactions reported are increasing from 68.057 cases in 2020 to 73.000 cases in 2021. While the number of suspicious cash transactions has dropped from 2,7 million cases in 2020 to 2,4 million cases in 2021. The decreased number of suspicious cash transactions reported could indicate that the use of electronic money for transactions are slowly increasing even if cash is still the preferred method for criminals to launder the money.

News article by (Hendartyo & Silaban, 2022) Bank Indonesia stated that during 2021 the value of electronic money transaction is Rp 305,4 trillion and predicted that in 2022 it would increase 17,13% to Rp 357,7 trillion, meaning that the use of electronic money would increase rapidly. Changes of consumer behavior to shop and do transactions through the internet and the role of electronic money indeed need to be understood. On the other side, the existence of electronic money also attracts certain people to use it as an alternative method for money laundry (Quan and Long, 2018).

As electronic money comes with some advantages and disadvantages, the knowledge of how it is used as a method in money laundry is still limited. Hence, this study investigates upon how the knowledge regarding the electronic money usage in money laundry has been developed in the relevant literature. The systematic review upon relevant scientific articles in study provides the important insight in explaining the reason of why electronic money makes money laundering practices easy which is important in developing the knowledge of how to prevent it.

1. Literature Review

To understand how electronic money works, it is important to comprehend the nature of money as the tool to barter (Madinger, 2012; Davies, 2003). Further, money becomes the beginning of crime due to the situation where the people is getting greedier (Weatherford, 1997).

The information technology development has led to the development of electronic money. Berentsen, et.al. (1997) further explain the mechanism of electronic money that use the reloadable plastic card with microprocessor, which it relatively easier to be misused. The technology advancement also made the fund transfer easier across the globe, which is triggered the misuse for criminal acts including the money laundry (Kurniawan, 2012).

The money laundry crime is basically making the illegal money, legal (Madinger, 2012). The Financial Crimes Enforcement Network (FinCEN) describes that money laundering has three stages, in Indonesia, a module published by PPATK in 2018 money laundering is classified into three types: placement, layering, and integration and both are the same. This stage is the same, in the placement stage, they need to convert the form of money for example convert to other currency, this can be done by depositing the money with a different account. Once the money gets into the bank that money can simply mix with other money. But it can also mean that the bank can track them, therefore they need to continue to the second stage, which is layering. Layering means hiding the paper record or any record that is attached to them, this is the hardest part since nowadays banks also will keep the record. The last stage is to integrate, this stage will need the money launderer to do things so that the money they are getting is legal. The technology development, on the other side, has made the process of opening a bank account easier and even without coming to the bank in person to do it. It makes the money launderer possible to misuse the new innovation in banking service to commit a crime (Sarigul, 2012). Therefore, tracing money laundry acts without using a particular computer system is almost impossible. Wronka (2021) emphasises that digital technology, especially in banking sector, has widen the opportunity for the money launderers to do their acts more easily. Gillmour (2020) explains that the money launderers could escape the government anti-money laundry procedures using “technology-enhanced money laundry”.

1. Research Methodology

This study uses systematic review by following Petticrew and Roberts (2006). This study draws on qualitative data for a systematic review that is inspired by the book Systematic Reviews in the Social Sciences a Practical Guide by (Petticrew & Roberts, 2006). They are a means of identifying regions of ambiguity and identifying places where little or no relevant research has been conducted but where additional investigations are required. Systematic evaluations also highlight places where there is a lot of bogus confidence. Systematic reviews are literature reviews that follow a set of scientific methodologies that expressly strive to reduce systematic error (bias), primarily by aiming to locate, assess, and synthesize all relevant research (of any design) to answer a specific issue. Research question in this study is: how the knowledge regarding the electronic money usage in money laundry has been developed in the relevant literature?

This study investigates Indonesia as the study context. The reason is from a news article of a statement made by the Ministry of Indonesia, Indonesia’s economic growth would need to be supported with a strategic policy and law, but the fact that Indonesia is still trying to be a full member of FATF and the only country among G20 member that is not a full member would make Indonesia participation to create international economic policy in FATF limited (Liputan6.com, 2021). The other benefit of being a full member of FATF is gaining trust from the international investor (Suprianto & Djailani, 2021). Other than that, Pusat Pelaporan dan Analisis Transaksi Keuangan (2020) demonstated that the circulation amount of electronic money in Indonesia keep increasing over the year. This data is also supported by PPATK who stated that the number of reports on suspicious transaction cases that increase from 2020 to 2021 while number of cases of the cash transaction has decrease. The use of electronic money or digital currency is growing in Indonesia, so it is important to study whether electronic money in Indonesia can help the practice of money laundering become easier.

The determination of the type of studies that needs to be included in the systematic review to answer the research question is based upon the inclusion or exclusion criteria on the review. The inclusive criteria is as follows:

1. Type of study: Randomized controlled trials, uncontrolled studies, cohort studies and empirical studies in journal articles.
2. The context of the study: Indonesia
3. Year: 2015 – 2022 (from the year where Indonesia was excluded from FATF blacklist to present year)
4. Minimum outcome: money laundering or digital currency using electronic money
5. Study area: Economic, econometric and finance and Business, management and accounting
6. Q1 and Q2 tier journals, since the data samples on Q1 only are too small.

Any study that was outside the aforementioned criteria was not included in the review.

1. Findings and Discussion

In this systematic review, the keywords that are used to find the articles are: “money laundering using electronic money; Indonesia” or “electronic money laundering” in find articles in these terms, with the year range in between “2015 – 2022”. The result shows 70 articles, and then refined the subject areas which are Economics, Econometrics and Finance and Business, Management and Accounting and the result are 33 articles. Since the database excluded book, book chapters and indexes the results are down to 19 journal articles, 12 articles are Q1 tier and 6 Q2 tier journals and 2 articles are unidentified. So, the articles that will continue to the next part are 17 articles. The second electronic database that is use is Emerald Insight <https://www-emerald-com.pustaka.ubaya.ac.id/insight/> on the advance search choose journal articles and case study and in search terms use the keyword “money laundering using electronic money” (all field) in the first row and in the second row is “Indonesia” (all field). The date range is from 2015 to 2022 and the access type is the “only content I have access to”, and the result is 68 articles. There are 4 articles that the study area is not Economic, econometric and finance and/or Business, management, and accounting. So, the total is 64 articles. From the total 81 articles found based upon the keywords, surprisingly only 5 articles that meet the criteria as elaborated in the previous section.

From those 5 journals in that table, it can be concluded that Indonesia’s lack of policy and regulation could give room to money laundering crime. Anti-money laundering is a contentious topic in Indonesia, and although preventative steps has been implemented the results are usually unsatisfactory (Lukito, 2016). Other journal from Lukito (2019) analyse the responsibilities of lawyers and professional advisers following the Indonesian law and focus on their responsibilities, the author concludes that lawyers and professionals have a centre role in criminal justice and financial concerns more than that they have a great responsibility for the national economy, they must be a safeguard against the potential of being targeted by the economic or financial criminals or client. Therefore, the role of these legal professionals is critical.

Furthermore, Study done by (Fauzi et al., 2018) explain that there is some disadvantage in Indonesia law to prevent criminals, the law in Indonesia has so many weakness, one of them is the minimal amount of suspicious transaction is 100 billion rupiah while, and if they got caught they will only serve the jail time for maximum 20 years and penalty for maximum 5 billion rupiah. Also, once the criminals are captured, they are often not the real perpetrator. The law of financial data can solve this by sharing data, but in Indonesia sharing data systems are limited, there are four reasons for those limitations.

The last journal from (Muryanto et al., 2022) explained that Indonesia has a potential in fintech growth as an Islamic country, the author also explains that Indonesia market size for fintech is not far behind Saudi Arabia, Iran, UAE and Malaysia; Indonesia is on the fifth place. But even if there are possible growth of Islamic fintech in Indonesia there are still some challenges that needs to be overcome.

It can be concluded that even if the method of money laundering is still the same which involves three stages from placing, layering, and integrating; the placing step using electronic money is different. Launderers do not need to place the money into a financial institution anymore, since the money is already in the account. The system is widely known as an (Electronic Fund Transfer) EFT, it is a general term for an electronically processed payment where funds are transferred digitally from one account to another. With this system, the money already existed in the launderers accounts, this would make the placement stage harder to trace. It is mentioned in one of the articles above that the law in Indonesia has so much weakness, one of them is the minimal amount of suspicious transaction is 100 billion rupiah which is considered low.

The rise of electronic money or digital currency in Indonesia is rapid and therefore there is a need to figure out how these issues can hurt the economic policy; as well as trying to figure out who and where the criminals launder the money. The money laundering control can only be made to fit if there is an explanation of how the electronic money works in money laundering especially in Indonesia, with the fast economic growth in Indonesia and the massive digital world that keeps getting innovative cannot stay behind. The innovative world of technology might change the behaviour of financial crime and banning the new innovative technology such as digital currency is not the answer to the problem, but all this information of knowledge can never be gained if there is no transparency among the issues, as mentioned in one of the journals above that there is a problem with data sharing, abuse of power and so on could be an obstacle for the economic policy.

The study reviewed the thread of mobile money in three stages which are placement, layering and integration. In the placement stage since the mobile money is already in virtual form this could be a threat because it can be an oversight and due to the multiple accounts, it can expose the risk of anonymity to avoid detection. For the layering stage, since it is mobile money it can be transfer to anywhere and it can be done rapidly. It is also said that because of the speed, volume, and the ability to perform international remittance law enforcement will be unlikely to investigate it.

1. Conclusion

The use of electronic money shorten the three stages of money laundering which are placing, layering and integration into two stages which is layering and integration. The reduction of stages to the money laundering by using the electronic money makes money laundering easier and more accessible, which is dangerous.

This study shed lights to the literatures in money laundry research regarding the stages of conducting the money laundry. The technology advancement in banking sector and banking service innovation are prone to the misuse for committing money laundry. Hence, there is a need of redefining the money laundry stages by researchers from multidiscipline in order to formulate the necessary prevention actions by the authorities and the other related parties.

Limitation of this study relies on the data that is based upon Indonesia context, which makes the conclusion not generalisable for other contexts. Future research could study might be conducted for other context to enrich the result. Hence, better definition of money laundry using the electronic money can be gained.

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