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

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Abstract. According to the United Nations Office on Drugs and Crime (UNODC) forecast, the amount of money laundered globally amounted to 2–5% of the global GDP. The money laundering process has changed over time, and the use of electronic money has increased over the years. Previous research has shown that the arrival of electronic money attracts many people to find other money laundering methods using electronic payment. The Financial Task Force has shown commercial websites and internet payment systems' vulnerability. However, since electronic money is still in its infancy, its development must be limited to prevent money laundering. Therefore, this paper shows how electronic money was used in money laundering in Indonesia. The method used was a systematic review; the journals reviewed were from 2015 to 2022. The result shows that electronic money has a role in money laundering, especially in the placement stage. Indonesia still needs to find the correct code to stop money laundering in the digital era.

Keywords: electronic money · money laundering · anti-money laundering

1 Introduction

The money laundering process has changed over time, and the use of electronic money has increased over the years [1]. This statement is supported by the news article (The Jakarta Post, 2022) based on The Financial Reports and Analysis Centre (PPATK); the number of suspicious financial transactions reported increased 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 electronic money use is slowly increasing, even if cash is still the preferred method for criminals to launder money.

News article by Hendartyo & Silaban [2] Bank Indonesia stated that in 2021 the value of electronic money transactions was Rp 305.4 trillion and predicted that in 2022 it would increase by 17.13% to Rp 357,7 trillion, meaning that the use of electronic money would increase rapidly. Changes in consumer behavior to shop and do transactions through the internet and the role of electronic money indeed need to be understood. On the other hand, electronic money also attracts certain people to use it as an alternative method for money laundering [3].

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

2 Literature Review

To understand how electronic money works, it is important to comprehend the nature of money as a tool to barter [1, 4]. Furthermore, money becomes the beginning of crime due to people getting greedier [5].

Information technology development has led to the development of electronic money. Berentsen et al. [6] further explained the electronic money mechanism that uses a reloadable plastic card with a microprocessor, which is relatively easier to misuse. Technology advancement also made fund transfer easier globally, triggering the misuse of criminal acts, including money laundering [7].

Money laundering crime turns illegal money into legal [1]. The Financial Crimes Enforcement Network (FinCEN) described 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 money, for example, to another 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. Nevertheless, it can also mean that the bank can track them; therefore, they must continue to the second stage, layering. Layering means hiding the paper record or any record attached to them; this is the hardest part since, nowadays, banks also 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. Technology development, on the other hand, has made opening a bank account easier, even without coming to the bank in person. It makes it possible for money launderers to misuse the innovation in banking services to commit a crime [8]. Therefore, tracing money laundering acts without using a particular computer system is almost impossible. Wronka [9] emphasized that digital technology, especially in the banking sector, has widened the opportunity for money launderers to do their acts more easily. Gilmour [10] explained that money launderers could escape the government's anti-money laundering procedures using "technology-enhanced money laundering."

3 Research Methods

This study follows a systematic review from Petticrew and Roberts (2006). This study draws on qualitative data for a systematic review that is inspired by the Systematic Reviews in the Social Sciences, a Practical Guidebook from (Petticrew & Roberts, 2006). They identify regions of ambiguity and places where little or no relevant research has been conducted but where additional investigations are required. Systematic evaluations also highlight places where there is much 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. This study's research question is: how has the knowledge regarding electronic money usage in money laundering 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 [11]. The other benefit of being a full member of FATF is gaining the trust of international investors [12]. Other than that, Indonesian Financial Transaction Reports and Analysis Center-PPATK (2020) demonstrated that the circulation amount of electronic money in Indonesia kept increasing over the year. These data are also supported by PPATK, which stated that the number of reports on suspicious transaction cases increased from 2020 to 2021 while the number of cases of cash transactions decreased. 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 of the review. The inclusive criteria are 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 when Indonesia was excluded from the FATF blacklist to the present year).
4. Minimum outcome: money laundering or digital currency using electronic money.
5. Study area: Economics, Econometrics and Finance and Business, Management, and Accounting.
6. Q1 and Q2 tier journals, since the data samples on Q1 only are too small.
7. Any studies outside the aforementioned criteria were not included in the review.

4 Results 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 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 results are 33 articles. Since the database excluded books, book chapters, and indexes, the results are down to 19 journal articles, 12 are Q1 tier, 6 are Q2 tier journals, and 2 are unidentified. So, the articles will continue to the next part are 17 articles. The second electronic database used 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 fields) in the first row and the second row is "Indonesia" (all fields). The date range is from 2015 to 2022; the access type is the "only content I have access to"; the results are 68 articles. There are 4 articles that the study area is not Economics, Econometrics and Finance and/or Business, Management, and Accounting. So, the total is 64 articles from the total 81 articles found based on the keywords; surprisingly, only 5 articles meet the criteria 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 have been implemented, the results are usually unsatisfactory [13]. Another journal from Lukito [14] analyzed the responsibilities of lawyers and professional advisers following Indonesian law and focused on their responsibilities; the author concluded that lawyers and professionals have a central role in criminal justice and financial concerns more than 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, a study done by Fauzi et al. [15] explained that there is some disadvantage in Indonesia law in preventing criminals; the law in Indonesia has so many weaknesses, one of them being that the minimal amount of suspicious transaction is 100 billion Rupiahs while, and if they got caught they will only serve the jail time for maximum 20 years and penalty for maximum 5 billion Rupiahs. Also, once the criminals are captured, they are often not the 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. [16] explained that Indonesia has the potential for fintech growth as an Islamic country; the author also explains that Indonesia's market size for fintech is not far behind Saudi Arabia, Iran, UAE, and Malaysia; Indonesia is on the fifth place. However, even if there is possible growth of Islamic fintech in Indonesia, some challenges still need to be overcome.

It can be concluded that even if the method of money laundering is still the same, which involves three stages of placing, layering, and integrating, the placing step using electronic money is different. Launderers no longer need to place the money into a financial institution since the money is already in the account. The system is widely known as Electronic Fund Transfer (EFT), 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, which would make the placement stage harder to trace. It is mentioned in one of the articles above that the law in Indonesia has so many weaknesses; one of them is that the minimal amount of suspicious transactions is 100 billion Rupiahs which is considered low.

The rise of electronic money or digital currency in Indonesia is rapid. Therefore, there is a need to figure out how these issues can hurt economic policy, as well as trying to figure out who and where the criminals launder the money. Money laundering control can only be made to fit if there is an explanation of how 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 behavior of financial crime. There must be more than just banning new innovative technology, such as digital currency, to the problem. However, all this knowledge can never be gained if there is no transparency among the issues; as mentioned in one of the journals above, there is a problem with data sharing, abuse of power and so on could be an obstacle for economic policy.

The study reviewed the thread of mobile money in three stages: placement, layering, and integration. In the placement stage, since mobile money is already in virtual form, this could be a threat because it can be an oversight. The multiple accounts can expose the risk of anonymity to avoid detection. For the layering stage, since it is mobile money, it can be transferred anywhere and done rapidly. Law enforcement is also unlikely to investigate because of the speed, volume, and ability to perform international remittances.

5 Conclusion

Electronic money shortens the three stages of money laundering: placing, layering, and integration into two stages: layering and integration. Reducing stages of money laundering by using electronic money makes money laundering easier and more accessible, which is dangerous.

This study shed light on the literature in money laundering research regarding the stages of conducting money laundering. The technological advancement in the banking sector and banking service innovation are prone to misuse for committing money laundering. Hence, researchers need to redefine the money laundering stages by multi-discipline researchers to formulate the necessary prevention actions by the authorities and the other related parties.

The limitation of this study relies on the data that is based in the Indonesian context, which makes the conclusion not generalizable for other contexts. Future research might be conducted in another context to enrich the result. Hence, a better definition of money laundering using electronic money can be gained.

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