

IMPACT OF MODERN FINANCIAL TECHNOLOGIES ON THE STRUGGLE AGAINST MONEY LAUNDERING AND TERRORIST FINANCING

¹Zuy Anastasia Sergeevna, ²Khaitbaeva Nargiza Ismailovna

Tashkent State University of Economics¹, Tashkent State University of Economics Assistant of the Department of Banking and Investments²

ANNOTATION

Today, the world economy is developing in all directions, but there are also cases of financing various terrorist groups. Such financial activity is not actually beneficial to society. This article also provides analytical views and comments on the impact of modern financial financing technology on the fight against money laundering and terrorist financing.

Keywords: *FATF, new technologies, Electronic government purchases, AML/CFT.*

Thanks to the development of new technologies, the world around us is changing quite rapidly. Some of the old risks are becoming less relevant and new ones are replacing them. Therefore, it is quite predictable that the development of financial innovations inevitably affects the activities for combating the laundering of criminal income and terrorist financing (AML/ CFT). In this article, we are trying to analyze their mutual influence and its consequences.

Global standard about AML/CFT – the recommendations of Financial Action Task Force (FATF) contain separate recommendation about new technologies (Recommendation15). Financial institutions are required to conduct ML/TF risk analysis prior to new product launches, including new transfer mechanisms, or the use of new or emerging technologies. Initially, business processes should include measures to control and mitigate these risks. However, in Republic of Uzbekistan the financial organizations has not yet been formally implemented it at the level of the law. The FATF Recommendation15 is relatively new and appeared in 2012. Before this recommendation, institutions were advised to pay attention only to technologies that are associated with anonymity¹. The FATF realized that risks are associated not only with anonymity around the mid-2000s but they understand that it is also related to new modern technologies.

In 2017, The FATF launched the project on interaction with innovative organizations. This emphasis on innovation is based on three reasons. The first is massive spread of new financial technologies, and not only in developed countries, but in developing countries too. New tools have ceased to occupy a narrow niche and have become truly massive. Second reason is increasing of availability of financial services directly depends on growth of innovation. In many countries crowding out cash and escape from the shadow economy became top-priority tasks, and the state understands that it is impossible without innovation. Thirdly, thanks to innovations, significant changes are taking place in society that can be used to build a safer economy with minimal risks of AML/CFT. Below we consider the main types of risks and their possible downside.

NO GEOGRAPHIC RESTRICTIONS

Cash is still means of payment, mainly limited in daily circulation to one state or a union of states. Thanks to the development, new technologies appear as payment tools that can be used in any country - cards, e-wallets, etc. This cross-border exploitation is viewed by the FATF as a source of risk. Cases when the recipient and sender of money are in different countries, more difficult to investigate as it requires interaction of different

¹ International Standards for Combating Money Laundering, Terrorist Financing and Financing the Proliferation of Weapons of Mass Destruction / Trans. from Russian - M.: Veche, 2012 .-- 176 p.

regulators. Money can also get in high-risk areas such as Somalia or North Korea. Uzbekistan borders with Afghanistan, Kazakhstan, Kyrgyzstan, Tajikistan and Turkmenistan. Locations of most of the southern and southeastern borders are in mountainous areas. In total the facilitation of the conditions for cross-border movement create conditions for the illegal movement of goods and cash, the spread of radical and extremist ideologies. In terms of AML/CFT the financial system of Uzbekistan is characterized by low-risk level integration into world financial markets, and the presence of a functioning internal control system. Large share of cash payments, significant volume "Shadow" economy, relative instability of the national currency exchange rate, dependence on external cash flows, the presence of facts of cross-border import and export of cash have significant impact on the degree of economic vulnerabilities. Serious cash flow vulnerabilities exist in relation to exchange foreign currency and large amounts of money transfers from citizens of Uzbekistan working abroad and at risk of involvement in criminal and extremist activities.²

In the world where national boundaries become more and more permeable, cross-border movement of payments, goods, labor is becoming more common. Revealing and minimizing related risks are one of the most pressing tasks for services financial monitoring of financial organizations and stimulate divisions financial intelligence, law enforcement and supervisory authorities of states are increasingly interact with each other.

HIGH SPEED OF OPERATIONS

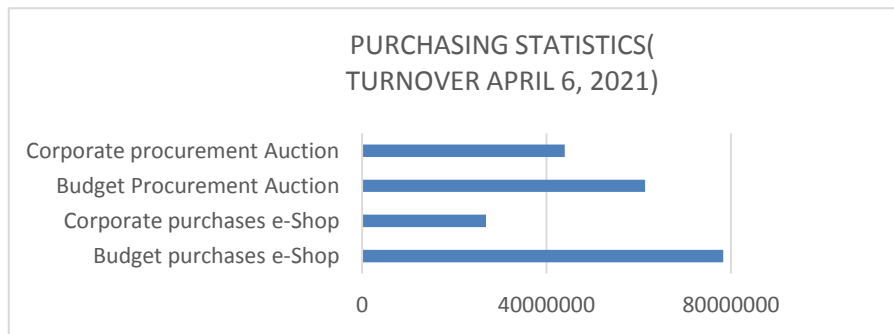
Instantaneousness is another characteristic of the modern economy. Requirements of consumers to service speed is unprecedented. Thanks to the massive availability of Internet messengers, clients communicate instantly. It is logical that people expect the same speed of money transfer as it is happens in sending messages through instant messengers.

The high speed of settlements is undoubtedly convenient for consumers: faster you can receive a product or service, transfer money to relatives and friends. It is profitable for business as well: decreasing in the level of accounts receivable, capital turns over faster. In terms of AML/CFT, the increase of the speed of settlement means new requirements for the efficiency of monitoring systems. The bank no longer has hours, or even days, to check senders and recipients in the sanction lists, analyze the risk of the operation and compare it with other transactions and so on. Full procedure remains only for a few seconds. If you miss it, the consumer can go to competitors who know how to do this procedure much faster.

Therefore, combating with money laundering and terrorist financing becomes an increasingly high-tech challenge: analysis should be carried out instantly. In fairness, it should be said that the risks of using cash funds in legalization schemes proceeds of crime, as well as moving funds intended for the financing of terrorism using cash is also noted in the above national valuation reports risk as high.

ELECTRONIC GOVERNMENT PURCHASES

² National assessment of the risks of money laundering and terrorist financing in the Republic of Uzbekistan. (Public report) Tashkent 2019.



In Uzbekistan, there was a certain percentage of public procurement transactions that remained in the shadows. To carry out the tender, state customers place announcements and the results of procurement procedures on the information portal: <http://dxarid.uzex.uz/ru/tender2/>. Undoubtedly, the UZEX system is a positive innovation of the existing e-procurement system. UZEX increases the attractiveness of public procurement for the private sector and significantly reduces corruption risks. Despite the positive and dynamic development of e-procurement the statistics shows that some parts of purchasing go through non-e-procurement. Looking at the chart, we see significant drop in the indicator - corporate purchases through online shopping (see graph).³

Thus, increasing the availability of financial services and gradual increase in non-cash turnover is one of the prerequisites for increasing effectiveness of AML/CFT measures and ensuring transparency of the economy. Decision of this task is closely linked to the modernization of financial sector. In general, the essence of laundering proceeds with crime remaining practically unchanged. Only the forms and tools were changed. To replace legalization through laundries and beauty salons come with more complex schemes – resold cash by travel companies, the grounds for incoming and outgoing payments to hide VAT through one-day firms, money is steadily withdrawn from bank cards. At the end of this chain, as a rule, there is cash or an account in a foreign jurisdiction.

Significantly, changes have taken place in the area of terrorist financing. If large criminal groups with large money turnover carried out earlier terrorist activities, now tactics of terrorists have changed. Large-scale attacks are being replaced by terrorist attacks prepared by lone individuals for small amounts ("low-budget terrorism"). The problem is that the financial activity of terrorists is not always differs from the financial activity of law-abiding citizens.⁴ New technologies functionally equally used by both law-abiding citizens and criminals. It is traditional and associated with general development market: the same functionality can be used for both legitimate purposes and illegal actions. Therefore, the priority is to isolate one consumer group from another. Again for this an understanding of typologies and use of complex analytical systems is required. Most likely, it will be impossible to prevent the use of financial products by criminals: excessive tightening of control can lead to de-risking, affecting massive clients. However, even in these conditions it is possible to identify suspicious activity more accurately, which is the focus of the FATF.

CONCLUSION

Financial technology stopped to be a niche trend since they become a daily life of consumers. Cards, e-wallets, Internet transfers, contactless payments – these and other products are used by hundreds of millions of

³ Schedule compiled by the authors. <http://xarid.uz/purchasesstat> (information presented on 06.04.2021)

⁴ Emerging Terrorist Financing Risks// FATF. October 2015. Pp. 24-25

customers. For them, these are not innovations but ordinary services. Financial industry reflects on the changes that our life is undergoing. Our state borders have become more mobile and permeable. We interact less in person due to various channels of instant remote communication. Finally, our requirements for the speed of receiving services have increased. It would be strange if all these financial services remained the same like twenty years ago. These changes become the benefit for consumers: at least they have made their life easier. Additionally, it cannot fail the influence of the AML/CFT measures implemented by financial institutions and regulators.

The fact that AML/CFT activities are not changing point wise but systematically, is confirmed by the latest documents of the Financial Action Task Force on Money Laundering. FATF more and more pays attention to new technologies, they appear in the focus of attention of FATF more and more. The challenge at this stage is to focus on how the benefits of innovation could be used to increase the transparency of the economy. Accordingly adapt the arsenal of AML/CFT measures that we have to changing circumstances.

The introduction of generally accepted standards on combating money laundering into national legislation will yield a positive result only in the case of active cooperation of the authorized bodies of foreign states with each other. The analysis shows that today banks in Uzbekistan are not yet ready to assume responsibility in accordance with new AML/CFT standards, therefore, the construction of a new model of financial monitoring should be based on a carefully verified methodology. All drafts of changes must be coordinated not only with state bodies, but also involve representatives of the business community in the discussion.

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