

Threats of banks participation in the criminal proceeds legalization in the field of environmental protection

Kirill Ameleshin^{1,*} and *Gennadiy Pryakhin*¹

¹Chelyabinsk State University, Kashirin Brothers 129, 454001 Chelyabinsk, Russia

Abstract. Every year, dozens of banks are revoked in Russia, and the main reason for revoking the license is the violation of legislation in the field of countering the legalization of proceeds from crime and the financing of terrorism (hereinafter referred to as AML/CFT). In this regard, it is increasingly important to identify banks that have an unstable financial condition, are potentially aimed at withdrawing funds, and are involved in dubious transactions aimed at legalizing criminal funds. This article is aimed at showing what tools the participants of the monetary sphere can use to analyze credit institutions for participation in dubious transactions with the purpose of money laundering. The results of this work will be a comparison of the current little-known and not widely used coefficients with the author's indicator, which should show the bank's ability to operate effectively during the period of mass outflow of funds. Based on the results of applying these coefficients, you can make sure that the bank is reliable and that your own savings are safe, all of which has a positive impact on the economic security of the state.

1 Introduction

The fight against this ever-growing crime, with multiple sources and origins, has been the center of attention of the biggest countries in the world [1]. In Russia, at the national level, one of the main problems is the credit and financial sphere and the ongoing migration of shadow, including criminal, income from one financial sector to another. In the context of sanctions, as well as the upcoming economic transformations in connection with the Decrees of the President of the Russian Federation, the issue of ensuring the economic security of the country does not lose its relevance.

Both money laundering models known to researchers, i.e. foreign one (dirty cash deposited to with banks) and the Russian one (illegally rejected non-cash funds of the budget or large companies' money are legalized through cashing), imply the process of losing money trails [2], during which excess profits are split so as to overcome anti-laundering procedures [3].

The phenomenon of money laundering that was first associated with the crime of drug trafficking developed a lot since the early 1900s to become a major threat to the world's

*Corresponding author: kirill.ameleshin@gmail.com

economy today [4]. Under the term "legalization (laundering) money", the author's definition will be used, which differs from the existing ones in that it describes the process itself that takes place in the economy, as well as connects the economic and legal basis of this term.

Money laundering is the process by which large amounts of illegally obtained money (from drug trafficking, terrorist activities, or other serious crimes) appear to originate from a legitimate source.

The Concept of the development of the national system for countering the legalization (laundering) of proceeds from crime and the financing of terrorism (hereinafter referred to as AML/CFT) defines the main directions for the development of the national system:

A) formation of the state policy and regulatory framework in the field of AML/CFT;

B) improving the mechanism of participation in the activities of the national system of organizations engaged in transactions with cash and other property, and specialists;

C) reducing the level of crime related to the legalization (laundering) of proceeds from crime, corruption, the financing of terrorism and the proliferation of weapons of mass destruction;

D) expanding the participation of the Russian Federation in international cooperation in the field of AML/CFT;

E) improving the performance of the national system.

The limited success of the Russian anti-money laundering law stems largely from the fact that Russian banking system is structurally weak [5]. In this regard, Rosfinmonitoring in the credit and financial sphere in 2019 conducted about 4 thousand financial investigations, including against more than 120 organizations in the financial sector - for their "involvement" in conducting suspicious transactions, information about which was received from the Bank of Russia and law enforcement agencies. It is worth noting that most of the organizations being audited were banks.

A bank is a credit institution that has the exclusive right to carry out the following banking operations in aggregate: attracting funds from individuals and legal entities to deposits, placing these funds on its own behalf and at its own expense on the terms of repayment, payment, urgency, opening and maintaining bank accounts of individuals and legal entities. Thus, banks occupy an honorable place in the credit and financial sphere of Russia, their financial stability and efficiency is a catalyst for market growth, the availability of banking products for the population, and their absence entails such risks as legal and reputational.

2 Materials and methods

Currently, if the bank is a member of the deposit insurance system, then the funds of individuals, regardless of citizenship, that are in deposits and in accounts in the bank, are subject to insurance, including:

- term deposits and demand deposits, including foreign currency deposits;
- current accounts, including those used for the calculation of the Bank (plastic) card;
- funds on the accounts of individual entrepreneurs;
- funds in escrow accounts for settlements on real estate purchase and sale transactions

for the period of their state registration.

Thus, if an insured event occurs, that is, the Bank's license is revoked in accordance with the order of the Bank of Russia, the maximum amount of compensation is 1,400,000 rubles. If the depositors are acquaintances or relatives and friends, the relationship can be explained by "personality trust." If the depositors are strangers, but they have complied with their duties of care, the deposit relationship can be explained by "system trust"[6].

It is worth noting that banks are under close monitoring by Supervisory bodies (CB and Rosfinmonitoring), but even with these circumstances, the volume of the volume of the Russian shadow economy was 20.7 trillion rubles (more than the entire Federal budget

revenues in 2018). Economists have been searching for the optimal ratio of cash in circulation [7]. According to financial intelligence estimates, since 2015, the annual profit of the illegal sector has ranged from 20 to 30% or from 18.9 to 24.3 trillion rubles. Econometric modeling of money laundering through the demand for cash is actively [8].

In 2020, the Bank of Russia revoked licenses from 15 banks, which is less than in 2019 (the number of reviews – 24), and significantly less than in 2018 (the number of reviews – 57). However, the suspension of the clean up in the credit and financial sector was associated with the spread of coronavirus infection.

This article is aimed at showing what tools the participants of the monetary sphere can use to analyze credit institutions for participation in dubious operations with the purpose of money laundering.

Three methods for analysis are proposed for consideration, one of which is the author's.

3 Results

1) The "vacuum cleaner" mode

The largest case in the Russian banking system occurred in 2017, namely, the commercial bank "Ugra". According to the Bank of Russia, Ugra's activities were aimed at attracting public funds and placing them in assets of unsatisfactory quality."

The peak of the Bank's activity occurred from January 1, 2013 to January 1, 2016, when the assets of the bank "Ugra" increased 38 times. This entire "vacuum cleaner" mode implies that a certain Bank is conducting an aggressive marketing campaign to attract money from the population.

This can be clearly seen in the following graph:

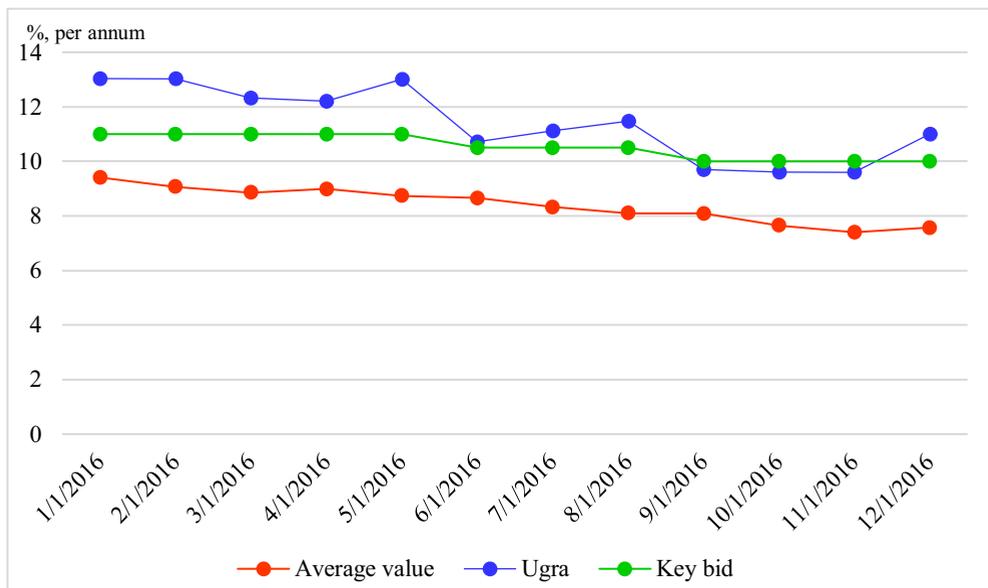


Fig. 1. Comparison of interest rates on borrowed funds.

"Ugra" attracted funds from the population at a rate much higher than the weighted average interest rates throughout Russia, which encouraged depositors to carry money to this Bank, since no supervisory measures were applied to it, and the yield is much higher.

Thus, the "vacuum cleaner" mode is activated at a time when the bank is already in an unstable financial situation. At this point, the management decides to take desperate

measures, namely, lures depositors with rates above the market, and then places the raised funds on related companies in order to further cash out these funds.

In this regard, you should be vigilant and check the profitability of deposits and deposits in other credit institutions, as well as check whether the Bank participates in the deposit insurance system, and remember about the maximum amount of insurance compensation.

2) Capital adequacy ratio

The bank's equity (capital) adequacy ratio (hereinafter referred to as the N1 standard) regulates the bank's insolvency risk and defines the requirements for the minimum amount of the bank's equity required to cover credit, operational and market risks.

This is the main standard that all credit institutions are required to comply with, and it is considered the most important indicator of a bank's reliability. Ordinary investors probably do not even know about this indicator and its value, although it is fundamental.

For clarity, we can consider two examples: in one case, we will consider the H1 standard for existing banks, and in the second case, we will consider banks in the state before and at the time of revocation of the license.

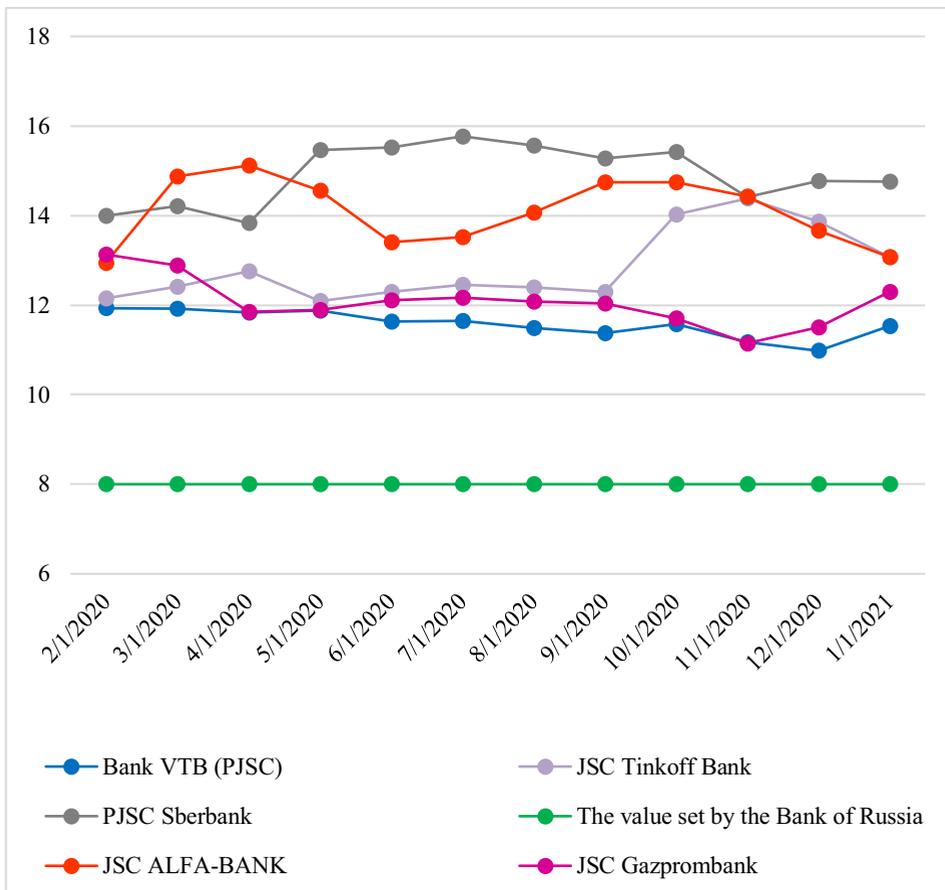


Fig. 2. N1 for banks from the top 20.

It is clearly seen that the Banks from the top 20 maintain this indicator at a stable level, about 11-16%, which is an almost flawless indicator of reliability and stability. Such banks conduct clean and transparent activities, regularly conduct checks of counterparties and depositors for participation in the shadow sector of the economy.

In the second case, the indicator of the N1 standard for banks whose licenses were

revoked during 2020 is presented for consideration. The N1 standard for banks that are at risk usually show high N1 indicators – this is due to the fact that Banks are already in a rather unstable position and do not think about placing funds. The accumulation of large amounts of cash on the balance sheet may already indicate the potential possibility of replacing them with illiquid assets or a potential withdrawal of funds.

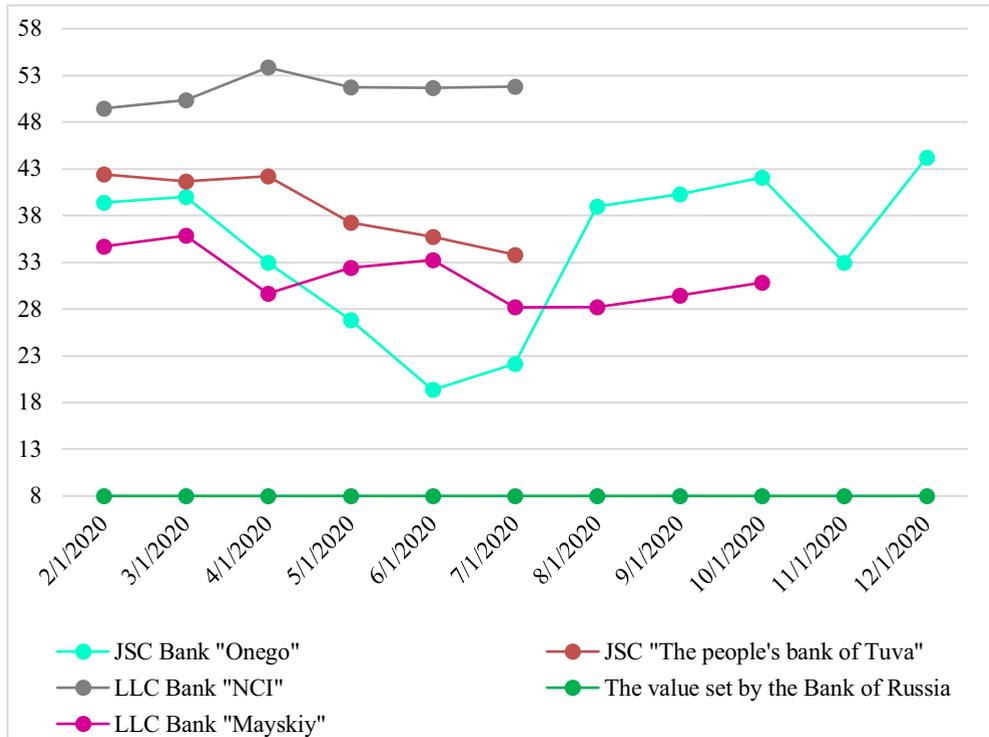


Fig. 3. N1 for banks for banks whose licenses were revoked by the Bank of Russia.

Thus, this indicator indicates that the bank is only gaining money supply and does not place them anywhere, which can potentially indicate the intention to withdraw them.

3) Cash outflow indicator

The authors propose to consider an approach for calculating the cash outflow indicator (hereinafter referred to as the SLM). The calculation of this indicator is intended to show the bank's ability to operate effectively, during a period of mass outflow of funds, since the inability to repay obligations to customers (creditors) leads directly to bankruptcy.

The formula for calculating the SLM indicator can be presented as follows:

$$SLM = \frac{OFL+IRP+OLE+OP}{Assets} \tag{1}$$

where,

OFL-unstable funds of individuals,

IPR – unstable funds of individual entrepreneurs,

OLE-unstable funds of legal entities,

OP - outflow of other funds,

Assets – a set of working assets according to the bank's financial statements.

Table 1. SLM indicator for banks from the top 20.

Bank	PJSC Sberbank	JSC ALFA-BANK	PJSC Bank VTB	JSC Tinkoff Bank	JSC Gazprombank
SLM	3%	7%	5%	12%	7%

Table 2. SLM indicator for banks whose licenses were revoked by the Bank of Russia.

Bank	JSC Bank «Onego»	LLC Bank «NCI»	LLC Bank «Mayskiy»	JSC «The people's bank of Tuva»
SLM	73%	57%	75%	62%

Thus, the lower the value of this indicator, the more confidence in its financial stability:

Values above 50% indicate a potential negative background, which may indicate non-core investments of the bank or a difficult financial situation.

Values above 70% can be considered as a potential involvement of a credit institution in conducting questionable operations aimed at potential withdrawal of funds from the bank or participation in money laundering operations.

4 Discussion

At the present stage of the development of the economic system, there is a rapid growth of legalized criminal funds in the legal economy, which can become a serious threat to the stability of the national economy. The process of money laundering itself has both short-term effects and long-term effects that have a negative impact on the real economy, the financial sector, the political sector and public problems.

Given the slew of corporate scandals and other materially harmful misjudgments in money-laundering compliance, banks might need to seriously review their role and obligations in the economy [9].

In the first version of the 40 FATF Recommendations, countries were to consider the possibility and usefulness of a system in which banks and other financial institutions and intermediaries account on all transactions in national and foreign currencies above a fixed amount to a central national agency that has a computerized database available to competent authorities for use in money-laundering cases.

It also needs to be noted that banks cannot be allowed to operate in a lawless business environment, which makes money laundering an international and national security issue [10]. In our view, in order to have an anti-money laundering effect, it is necessary to develop and strictly implement policies at both the national and international levels, which should be implemented in close cooperation and constant communication between the responsible institutions. At the same time, each commercial bank should develop its own anti-money laundering policy, which contains adequate measures to counter these crimes and their application to curb relations between credit institutions and criminals.

The measures proposed by the author will significantly increase the resistance of credit institutions to the legalization (laundering) of criminal proceeds, as well as increase the financial security of the individual, society and the state.

5 Conclusions

According to the results of the article, it can be noted that there are several ways by which you can verify the reliability of the bank. This can save money for depositors, as well as attract even more attention to the problems of money laundering, since the bank is both a controlling body and part of the system for countering money laundering, but at the same time, it is impossible to conduct dubious operations and cash-out operations without its

participation. The emergence of additional indicators and methods to identify threats to the participation of banks in crimes related to money laundering should decriminalize the credit and financial sector to a greater extent and reduce the amount of money in the shadow economy.

References

1. R. Al Sabri Halawi, *Journal of Money Laundering Control* **22(3)**, 527-542 (2019) <https://doi.org/10.1108/JMLC-11-2018-0067>
2. M.V. Karataev, *Banking* **4**, 79-85 (2011)
3. V.S. Davydov, Ya.I. Gilinskii, *Investigator* **200(3)**, 23-29 (2019)
4. R. Al Sabri Halawi, *Journal of Money Laundering Control* **22(3)**, 527-542 (2019) <https://doi.org/10.1108/JMLC-11-2018-0067>
5. D. Defossez, *Journal of Money Laundering Control* **20(4)**, 367-385 (2017) <https://doi.org/10.1108/JMLC-09-2016-0041>
6. C. You, *Journal of Money Laundering Control* **23(2)**, 457-476 (2020) <https://doi.org/10.1108/JMLC-11-2019-0090>
7. T. Khiaonarong, D. Humphrey, *Cash Use across Counties and the Demand for Central Bank Digital Currency* (IMF Working Paper, 2019)
8. G. Ardizzi, C. Petraglia, M. Piacenza, F. Schneider, G. Turati, *Journal of Money, Credit and Banking* **46(8)**, 1555-1590 (2014) DOI:10.1111/jmcb.12159
9. P. Yeoh, *Journal of Money Laundering Control* **23(1)**, 122-135 (2019) <https://doi.org/10.1108/JMLC-05-2019-0040>
10. N. Mugarura, *Journal of Money Laundering Control* **23(4)**, 899-912 (2020) <https://doi.org/10.1108/JMLC-11-2019-0093>