MONEY LAUNDERING IN THE OFFSHORE FINANCIAL CENTERS

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Abstract:
The Offshore Financial Centers were originally known as "tax havens" and later became "banking havens". Offshore banking activity is practiced with non-resident clients and usually very rich. In the global economy, Offshore Financial Centers offer many advantages, but their main characteristic is the banking secrecy. Keeping the banking secret and the development of money laundering operations' may encourage illegal and criminal activities. During the years 2007-2010 we see an interesting evolution of the banking assets in the world's main centers offshore. Money laundering mechanism is complicated and sophisticated. In the last years, there is a general national and international preoccupation about money laundering.

Keywords: *money laundering, offshore financial centers, banking secret, global economy, illegal and criminal activities.*

JEL classification: *E42, G21*

1. STAGES AND METHODS OF MONEY LAUNDERING

Money laundering is a process through which is given a semblance of legality to some illegal profits obtained by criminal groups who, without being compromised, subsequently benefit of the obtained amounts. Illegal arms sales, contraband and organized crime activities can generate huge amounts. Embezzlement, insider trading, bribery, and computer fraud, can make large profits and create facilities in terms of legitimacy of unlawful earnings obtained by money laundering.

Money laundering is a dynamic process that requires:

- movement of funds derived from crimes;
- concealing the traces of money to avoid any legal investigation;
- money availability for criminals, with hiding the occupational and geographical origin of the funds.

The illegally obtained cash must be introduced by any method into the financial system. Introducing cash into the financial system is achieved by traditional banking operations of forming deposits or bank transfers and through the credit system, which provide a vital mechanism for money laundering.

The methods used in the money laundering process are complex and sophisticated. They can range from buying and selling a luxury item of great value, to passing the money through a complex international network of legal businesses and through "shell" companies. These "shell" companies exist only as legal entities without holding commercial activities or conducting businesses.

The money laundering process is accomplished in three stages, namely:

- *placement*, stage that involves the separation of cash obtained from the illegal activity;
- *stratification*, which is the movement process of money between different accounts in order to disguise their origin;

- *integration*, stage involving the reentry of funds in the legal economic circuit.

The vulnerable points identified the money laundering process targets placing cash in the financial system and its transfer across borders, as well as transferring cash into and from the financial system.

The money laundering methods most commonly used are:

- money laundering through cash transactions;
- laundering money through bank accounts that do not reflect normal banking activities, but are used only for deposits or withdrawals;
- laundering money through bank transfers, frequent and of high values to and from offshore companies;
- money laundering through foreign operations, when transactions do not justify the customer's regular activity;
- money laundering through credit operations, when customers actually do not need credit, or return it unexpectedly fast from unknown sources;
- money laundering through transactions related to investments.

International money laundering involves removing money outside the country of origin and filtering them through financial centers with strictest secrecy legislation, making them non-traceable. They are directed to banks from "financial havens".

2. FISCAL PARADISES AND OFFSHORE FINANCIAL CENTERS

"Fiscal paradises" are countries with low taxes, which require a banking secrecy jurisdiction.

Tax havens have the following main characteristics:

- lower taxes or total lack of the income tax;
- financial and banking secrecy and ensuring commercial information protection;
- important role of the banking activity;
- promotional advertising through which are publicized the fiscal advantages offered in order to attract foreign investors.

"Fiscal paradises" are generally small states with political and economic stability which favor the development of financial activities. Are considered fiscal paradises: Bahamas Islands, Panama, Andorra, Liechtenstein, British Virgin Islands, Cayman Islands, Cyprus, Bahrain, Luxembourg, Monaco, Switzerland and so on.

An important role in money laundering is played by offshore destinations or centers. The money arrived in the offshore center may enter directly or indirectly into the banking system through a discreet process and under the protection of confidentiality of their origin. There are countries that are prepared to facilitate the receipt of money, regardless of their source.

Offshore financial centers target very wealthy non-resident customers from around the world and multinational companies. They have regulations that require banking secrecy and are located in areas with high tourism potential.

Offshore financial centers are located in a favorable time zone, at the closing time of markets in East and opening of markets in the West. Geographically spread in all over the world, these offshore financial centers are located in strategic areas, near countries with prosper economy.

Offshore financial centers have developed especially after the Second World War, when it increased exponentially the amount of financial transactions conducted through international banks located in offshore areas.

The globalization phenomenon has increased the role of offshore centers and the major international banks took advantage of the opportunities offered to them.

3. INTERNATIONAL BANKS AND MONEY LAUDERING IN OFFSHORE FINANCIAL CENTERS

For international banks, offshore financial centers present the following advantages:

- larger profits as a result of tax incentives;
- the regulations protect banking secrecy on operations performed by banks;
- supervising and banking regulation allows banks to carrying out operations that do not require the justification regarding the origin of money by account holders;
- managing a portfolio of wealthy clients and multinational companies.

All these advantages offered by offshore financial centers facilitate the phenomenon of money laundering through banks. Banking secrecy and the possibility of carrying out money laundering operations may lead to encouraging illegal and criminal activities. Due to tax incentives and banking secrecy, customers can avoid the payment of taxes in the country of origin.

The sophisticated banking techniques implemented by banks for ensuring banking secrecy aim:

- totally anonymous accounts;
- accounts of clients protected by an attorney;
- accounts of fictitious beneficiaries;
- protected secret accounts.

These types of accounts managed by banks protect customer identity, as well as the amounts and operations performed by him, through accounts. For the services offered to customers and as a result of tax incentives, banks obtain large profits.

The evolution of banking assets in major offshore centers, in the period 2007-2010, is presented in the table below:

Table 1

Evolution of banking assets in major offshore financial centers

– in mil. USD –

Offshore Center	2007	2008	2009	2010
Luxembourg	352.5	311.5	255.9	216.0
Switzerland	1402.7	1000.5	808.8	695.3
Bahamas	406.5	514.4	436.2	513.0
Bahrain	208.3	203.9	179.6	166.9
Cayman Islands	1879.7	1799.1	1755.8	1711.1
Hong Kong	689.6	713.1	675.2	655.5
Singapore	785.4	794.2	746.8	782.5

Source: Căprariu B., (2011), International Banking. Theory and practices, Publishing House C.H.Beck, Bucureşti, p. 69

From the table above it is observed that the evolution of banking assets presents different trends in offshore financial centers.

From 2007 to 2010, the volume of banking assets in most offshore centers entered in a descending evolution (except Bahamas and Singapore), the steepest decline was recorded in Switzerland.

In the context of international financial globalization, these offshore financial centers are in constant competition.

4. CONCLUSIONS

For combating money laundering, which is often a cross-border activity, institutional international cooperation is necessary.

The United Nations Convention against Transnational Organized Crime (Palermo Convention 2000) adopted measures aiming the functioning of national centers for the collection, analysis and dissemination of information regarding potential money laundering.

Since 2002, the International Monetary Fund, World Bank and other organizations have imposed international standards and have developed a complex methodology for combating money laundering. The methodology includes relevant elements for the resolutions of the Security Council of the United Nations and of international conventions, as well as standards and supervisory regulations for banks, insurance and the securities sectors.

Banks and financial institutions are an important source of information regarding money laundering and other financial crimes investigated by law enforcement bodies.

In Romania, the important institutions with supervisory role involved in combating money laundering are: National Bank of Romania, Insurance Supervisory Commission and the National Securities Commission.

Although the money laundering mechanism is complicated and sophisticated, we consider that transparency and banking regulation can diminish and eradicate this phenomenon.

In recent years there is a general concern, national and international for combating money laundering.

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