Money Laundering in Indonesia Bankers: Compliance, Practice, and Impact

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Abstract. Money laundering is the process by roomates large amount of illegally obtained money from drug trafficking, terrorist activity or other serious crimes, is given the appearance of having originated from a legitimate source. The purpose of this study is to examine the rules that related to money laundering, money laundering practices that existed in Indonesian banks and the impact of money laundering. We argue that the concept of money laundering have been adopted by regulation of Indonesian banks to detect money laundering. However, reviews the regulation has not been with the practice of money laundering occuring in Indonesian banks. We propose to addresed the determinants that influence of bank employees in Indonesia towards money laundering as the fundamentals for making anti-money laundering models.

Keyword: money laundering, money laundering regulation, anti-money laundering models

1 Introduction

The development of science and technology has many benefits in the field of economy, particularly in support of business activities and improve financial services to the public (FM Teichmann & Sergi, 2018). However, developments in science and technology also increases the risk of irregularities (Dujovski & Mojsoska, 2019). International Narcotics Control Strategic Report makes it clear that the more advanced the economy and financial system of a country, the more attractive also for criminals to commit acts of crime (INCRS, 2017). The most common crime is done through the services of the financial system in a country is money laundering.

Money laundering is a problem that can not be avoided by any country in the world (Dujovski & Mojsoska, 2019). Money laundering continues to be a challenge for compliance departments, law enforcement and intelligence agencies around the world (Teichmann, 2019). The main problem faced is the difficulty of knowing precisely how money laundering occurs. Although there has been a wide range of global efforts to combat money laundering, is often argued that efforts to address this illegal activity is not adequate (Teichmann & Sergi, 2018),

The emergence of money laundering can be said as a result of technological advances in the financial transfer system (FM Teichmann & Sergi, 2018). This is due to the electronic financial delivery can take place easily and in just a few seconds, for example by making use of Automated Teller Machines (ATMs) and Electronic Wire Transfer. The technological advances in the field of financial transfers This facilitates the flourishing of money laundering because it has no geographic horizons, operates 24 hours, and has a speed of transacting electronically (Niepmann & Schmidt-Eisenlohr, 2017). Advances in information technology are causing national boundaries become meaningless. It makes organized crimes be easy to do.

Money laundering based on the various factors that are known by the term of diamond fraud. Fraud diamond include pressure, rationalization, opportunity and capability (Simser, 2012). Money laundering actions are often guided by financial pressure (Zaleskiewicz, Gasiorowska, Kesebir, Luszczynska, & Pyszczynski, 2013). Factors opportunities also become one of the main drivers of the action. Launderer would have a reason to justify the act even though the action was in fact wrong (Zaleskiewicz et al., 2013). Money laundering may not be possible without the people who have the right skills to carry out such actions (Wolfe & Hermanson, 2004).

The concept of money laundering has been adopted by Bank Indonesia regulations by detecting money laundering. However, this rule has not been matched with money laundering practices occurring

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in Indonesian banks. Thus, research on money laundering in the Indonesian banking has the potential to be investigated. This study has the objective to examine the rules relating to money laundering, money laundering practices in Indonesian banks and the impact of money laundering. This research is expected to contribute to the proposed additional determinants that affect the bank's employees in Indonesia against money laundering as a basis for creating models of anti-money laundering.

2 Literature Review

2.1 Concept of Money Laundering

Money laundering is the process of taking the results generated by criminal activity and provide these results as legality (FMJ Teichmann, 2019). Money laundering activity is classified as one of the criminal offenses(Jayasekara, 2018), In fact, because money laundering has to be cross country, then money laundering is considered a criminal offense internationally (international crime). There are different ways by the perpetrators to conceal or disguise the origin of their funds, one of them by including the proceeds of crime into the financial system (Pramod, Li, & Gao, 2012). Thus, through this way, the origin of the funds is not easy to be tracked by law enforcement.

Money laundering can be a very diverse variety of modes, such as savings in banks, buying shares, or buy luxury items. All models of washing can be classified into three types of typologies, including placements, separation / coating (layering), and integration.

Placement is by entering a phase of money laundering of illegal funds into the financial system. The results of the most obvious crime and high-risk placement is detected at this stage. Convert the illegal funds into cash deposits in bank accounts and use the cash to buy high-value assets such as land, property and luxury goods is an example of placement (Chelliah & Prasad, 2017).

Layering is the second phase involving financial transactions with the purpose of deciding trace money laundering (Chelliah & Prasad, 2017). Examples of layering phase is the use of a series of complex transactions involving many banks, account, or a company that aims to transfer, spread, or disguise of illegal funds to conceal the actual funds (Naheem, 2018). Layering can also be used for structuring techniques to divide the money laundering large sums of money into a smaller deposit (Chelliah & Prasad, 2017).

Integration is the final phase which involves the movement phase 2 (layering) into the formal economy. Integration is usually done through the banking system, so that the illegal funds will look like income from normal business activities. At this stage, actors combine funds that have been through the process of money laundering to the legal fund, making it more difficult to separate the two (Cassella, 2018). Another technique in the integration stage includes buying letters of credit, bonds, securities, notes, bills of lading, and assurance. Through this step, the flow of illegal funds are returned to the legitimate economy. Having reached this stage, the actors are free to use the funds in various ways (Balani, 2019).

2.2 Money Laundering Phenomenon in Indonesian Bankers

Money laundering activities actually become a dilemma for banks (Naheem, 2018). This is due to the presence of large amounts of funds saved will make banking is growing rapidly, while on the other side of the bank faced the Act which prohibits such activities. If banks in operation tend to rely on the proceeds from money laundering, the bank will have sufficient liquidity serious problems if funds are suddenly withdrawn without prior notice (Pramod et al., 2012). How to avoid these events is to obey the existing rules, therefore, necessary firmness all parties to address the problem of money laundering.

In Indonesia, cases of money laundering is also rife. In 2016, former General Treasurer Democratic Party, Muhammad Nazaruddin, demanded seven years in prison in the case of money laundering. Nazaruddin using political power as a means of corruption, so it is classified as grand corruption. Additionally, Nazaruddin legally convicted of money laundering amounting to Rp 580 billion. The money comes from gratuities PT Duta Graha Indonesia (DGI) of Rp 23.1 billion and gratuities PT Nindya work is Rp 17.25 billion. Illegal money laundering is done by transferring the property since October 2010 to 15 December 2014 with a value of Rp 500 billion. Nazaruddin also disguise his assets amounting to Rp 80 billion on September 15, 2009 to October 22, 2010.

In addition to these cases, the National Narcotics Agency (BNN) has just revealed the case of laundering money from narcotics sales made prison network (Detik.com, 2018), Confiscated from the suspect, BNN secure the assets and money worth Rp 24 billion.In that case disclosures, BNN cooperation with the Center for Financial Transaction Reports Analysis Center (INTRAC) and the Directorate General of Corrections. Disclosure of money laundering cases originated from drug trafficking cases committed by Juvictor Indraguna aka Viktor Indraguna and confiscated 8.3 kg of methamphetamine on March 4, 2017 last. Interestingly, this case involves foreign nationals assigned to dating women from Indonesia that can be used to open bank accounts.

2.3 The Effect of Money Laundering

Money laundering is a risk faced by all banks (Naheem, 2016). This is because the perpetrators of acts of money laundering often utilize the facilities of the banking sector to move, swap, or disguise the illegal funds. Money laundering becomes a serious concern when offenders use the results of laundering through the banking system that led to the attacks on 11 September 2001 in the United States (Balani, 2019). Since 1970, legislation passed by the US government progressively increasing requirements for banks to develop anti-money laundering (Nazri, Zolkaflil, and Omar, 2009). Over the past few years, money laundering has become a major focus area for risk assessment in the banking sector (Naheem, 2015). The banking sector is required to detect, monitor and report potential money laundering and will receive a significant penalty if it does not comply with these rules (Pramod et al., 2012).

Money laundering does not harm a specific person or company directly, even at first glance there appears to be a victim (Balani, 2019). Money laundering is not the same as robbery, theft, or murder which has direct victim, and cause harm to the victim. However, the actual money laundering has a variety of negative effects. These negative impacts can occur in the economic sector, real sector, productivity, international trade, and capital flows (Dujovski & Mojsoska, 2019). Ba & Huynh (2018) revealed that money laundering can undermine the financial system and reduce foreign investment. In addition, the action may also encourage money laundering crime. This form of fraud, the sale of psychotropic substances, unfair competition, even corporate bankruptcy (Dujovski & Mojsoska, 2019).

Money laundering may interfere with the market mechanism (Ba & Huynh, 2018b). Obtaining money illegally cause the absence of protection of property rights, the market becomes inefficient as indicated by the rising costs of market transactions, as well as their access to the market information asymmetry. Money laundering also avoid the obligation to pay taxes means reducing state revenues (Simser, 2012). Their financial transactions carried out by bringing illegal money abroad will increase the foreign balance of payments deficits and result in reduced banking funds which causes difficulty in bank credit expansion. In addition, when the country obtained a number of illegal money from abroad, it will add to the shock of macroeconomic stability.

2.4 Determinant of Money Laundering Intention

Money laundering fraud based on the diamond which includes pressure, rationalization, opportunity and capability (Simser, 2012). Pressure can be categorized into four groups, namely financial pressure, the pressure will be bad habits, and stress associated with the job (Elsbach & Stigliani, 2018). Financial pressure is often accomplished by the action of fraud can be caused by several factors, namely greed and standard of living is too high. Money laundering actions carried out due to financial pressure, that human nature is greedy (Zaleskiewicz et al., 2013).

Fraud can occur if there are opportunities to do so. FM Teichmann & Sergi (2018) divide the potential fraud in the six factors, including lack of supervision to prevent or detect fraud, the inability to assess the quality of the performance, as well as the lack of control on access to information. E-money facilities that are digitally signed by an agency through the encryption key will be easier for money launderers to hide the crime committed.

Rationalization is a reason to justify the act even though the action was actually wrong (Zaleskiewicz et al., 2013). Rationalization is often the case when fraud include the assets actually belong to me, I just borrowed and will pay it back, there are no losers, and it was committed to something urgent. The perpetrators of acts of money laundering have the view that the action taken benefit and not harm others, so it is legal to do (Teichmann & Sergi, 2018).

Fraud may not be possible without the people who have the right skills to carry out the fraud or Fraud (Wolfe & Hermanson, 2004). It means that is the nature of the individual to commit fraud, which prompted players to seek opportunities and exploit them. The chance to become the access to commit fraud, pressure and rationalization can attract someone to commit fraud, but the actors still have to have a good ability to be able to conduct proper tactics and get the maximum benefit.

Love of money, Work environment and organizational culture a factor that encourages the action of money laundering. Money plays an important role in meeting the needs of biological and psychological (Tang et al., 2018). Love of money causes a person has the desire to be rich and have a view that money is very important. However, the nature of human greed led to taste love of money is excessive (Zaleskiewicz et al., 2013). Love of money were so overdone it has the potential to encourage individuals to make decisions that are unethical, including money laundering (Kashif & Khattak, 2017).

Work environment consists of safety for employees, job security, good relationships with colleagues, recognition for good performance, motivation to perform well, and participation in company decision-making process (Raziq & Maulabakhsh, 2015). Kundu & Lata (2017) said that most organizations ignore the working environment and adverse effects on employee performance. When organizations consider employees as an important part, employees will have a high level of commitment and ownership of the organization. Every individual who prioritize work in his life and has the organizational environment that supports crime, will do anything to gain. This will increase the intent to commit money laundering (Elsbach & Stigliani, 2018).

Organizational culture includes the values and norms shared by members of the organization (Jogaratnam, 2017). Organizational culture provide individualized norm for the behavior of members of the organization and serves as a management tool to shape the direction of the organization. Good culture can help motivate employees, increase productivity, and provide a major influence on the overall function of the organization. A sovereign, when cultures developed by bad organization, this will also have an impact on the behavior of members of the organization were bad anyway (Bortolotti, Boscari, and Danese, 2015).

3 Discussion

3.1 Regulation of Money Laundering for Indonesian Bankers

The banking sector has an important role in the global economy, facilitating the movement of funds, and provide financial transaction services (Balani, 2019). Banks play an important role in the economy and provide financial services to trade stimulates economic growth (Pramod et al., 2012). However, the banking sector is considered to lead to a financial crisis if not properly organized (Balani, 2019). Therefore, banks tend to be highly regulated to ensure no unnecessary risk taking.

Banks play a central role in the financial system and the economy of a country, but in fact the banks are private institutions which have an obligation to maximize returns for shareholders (Niepmann & Schmidt-Eisenlohr, 2017). Any events that require a large fee would be contrary to the intention of maximizing profit (Solaiman, 2018). The nature of this bank maximization needs to be balanced with the economic role played in society. From the regulatory perspective, it is important for regulators to determine whether enforcement action is made effective without damaging the health of banks and the financial system and potentially damaging the country's economy (Jayasekara, 2018).

The banking sector can not be separated from the inherent risks of money laundering and terrorism originating from financial institutions, geographic regions, products and services, as well as transaction (Jayasekara, 2018). Money laundering has a long history in the banking sector as a mechanism to transfer money (Naheem, 2018). At first the money laundering is done using a simple cash deposit in bank branches and takes a long time. Along with the development of technology, has now developed methods with complicated financial schemes that are designed to complicate the process of investigation and hiding the source of funds. The scheme is done through a merger transaction and a valid account but hidden (Nazri et al., 2009).

The banking sector is expected to implement appropriate systems and controls to reduce the risk of money laundering (Jayasekara, 2018). Bank Indonesia issued Bank Indonesia Regulation Number 19/10 / PBI / 2017 on the application of anti-money laundering and combating the financing of terrorism for the payment system service providers other than banks and providers of business activity non-bank foreign exchange to overcome the rampant cases of money laundering. Therefore, the regulation is considered as a way of managing the risk can not be avoided (Tan, 2018). Anti-money laundering system also required a risk-based. Assessing risk in the banking sector is an important component of the risk management processes as a result of innovation in the banking and finance industry. Money laundering risk management is also very important in the prevention of operational risk and reputation for launderer can use various services provided by the banks as deposits, loans, investments, and foreign exchange (FM Teichmann & Sergi, 2018).

3.2 Anti-Money Laundering Models

Anti-money laundering regulation of the banking sector of Indonesia stipulated in the Financial Services Authority No. 12 /POJK.01/2017 on the implementation of anti-money laundering and combating the financing of terrorism in the financial services sector. Financial ServicesProvider (FSP) must identify, assess, and understand the risks of money laundering and financing of terrorism a criminal offense related to customers, countries or geographic areas, products, services, transactions or tissue distribution (delivery channels). CHD also have an obligation to document the risk assessment and consider all relevant risk factors before setting the overall level of risk.

FSPs are required to have policies, controls and procedures management, and mitigation of risk of money laundering and financing of terrorism were approved by the Board of Directors and Board of Commissioners. In this regulation, the FSA also requires FSPs to implement a program of Anti-Money Laundering (AML) and Combating the Financing of Terrorism to manage and mitigate the risks that have been identified based on risk assessment. Implementation of this program is at least includes active supervision of Directors and Board of Commissioners, policies and procedures, internal controls, management information systems, and human resources and training.

One problem for Indonesia is the concealment of assets through the mechanism of money laundering. Money laundering in the country are still considered to have the possibility to be eradicated, but Indonesia will have difficulty if money laundering committed abroad (Dujovski & Mojsoska, 2019). This difficulty will be increasing when foreign countries that serve as the wash does not have a security cooperation agreement with Indonesia. However, the ASEAN Political-Security Community is a solution for Indonesia to build a network of security cooperation with ASEAN countries as the place of money laundering. Aside from being an entry point for Indonesia to open access, international cooperation as a mechanism to combat money laundering in the scope of ASEAN.

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