The impact of using electronic payment systems on the rise of money laundering crimes

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Rahma BERRIG[1*], Assia DIB [2]

[1] *University Mohamed Chérif Messaadia-Souk Ahras (Algeria), r.berrig@ univ-soukahras.dz*
[2] *University Badji, Mokhtar -Annaba (Algeria), asia.dib92@ gmail.com*

Abstract

Electronic payment methods play an important role in the field of e-commerce, as they have become a tool to facilitate and ease commercial transactions. Thus, the use of paper money has declined, and electronic payment systems have replaced it due to the advantages they offer in terms of speed, ease, and security.
Despite the several advantages it offers, it has become illicitly used in money laundering operations, this has transformed it from a tool for activating e-commerce into a tool for committing money laundering crimes.
This research paper aims to demonstrate the impact of using modern payment systems on increasing money laundering crimes.

Keywords

electronic payment systems;
e-commerce;
commercial transactions;
paper money;
money laundering.

أثر استخدام نظم الدفع الإلكتروني على زيادة جرائم غسل الأموال

ملخص

تلعب وسائل الدفع الإلكتروني دورًا هامًا في مجال التجارة الإلكترونية، حيث أصبحت أداة لتسهيل وتيسير المعاملات التجارية، وبالتالي، فقد تراجع استخدام النقود الورقية، وحلت محلها أنظمة الدفع الإلكتروني لما تقدمه من مزايا من حيث السرعة والسهولة والأمان وعلى الرغم من المزايا العديدة التي تقدمها، إلا أنها أصبحت تستخدم بشكل غير مشروع في عمليات غسيل الأموال، مما حولها من أداة لتفعيل التجارة الإلكترونية إلى أداة لارتكاب جرائم غسيل الأموال .
تهدف هذه الورقة البحثية إلى بيان أثر استخدام أنظمة الدفع الحديثة في زيادة عمليات غسل الأموال.

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الكلمات المفتاحية

أنظمة الدفع الإلكترونية؛
تجارة إلكترونية ؛
معاملات التجارية؛
نقود الورقية؛
تبييض الأموال.

* *Corresponding author. E-mail: : r.berrig@univ-soukahras.dz*
Doi:

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I- Introduction :

In today's digital economy, technology has revolutionized all aspects of our life including how we make payments., these developments have greatly contributed to the emergence of electronic payment methods such as electronic money, smart cards, and electronic checks.

Electronic payments have completely changed the way we handle money by making contactless payments and enabling online buying possible. These methods of payment offer several advantages when compared to traditional means they are more cost -effectives, faster, provide enhanced convenience, security [1], but also have a negative side.

The rise of electronic payment systems has increased the potential for economic crimes risks such as money laundering, Criminals exploit these digital payments to hide the illegal source of funds [2] .

Money laundering in its electronic form raises significant concern among countries due to the difficulty in tracking money launderers, therefore most countries are trying to make greater efforts to combat this type of crime by developing their internal laws and through international cooperation by entering into bilateral and multilateral agreements, with the aim of facilitating the process of tracing this illicit fund and punishing the criminals[3].

Criminals launder money in many different ways to avoid getting caught, the most common means of money laundering in modern era using online banking, e-money, smart cards, electronic funds transfer, and electronic checks, shell companies, etc.

Therefore, we can pose the following problematic:

Does the use of electronic payment systems increase the volume of money laundering?

In this paper, we will address the following elements**:**

Section Ⅰ: The concept of Electronic payment system.

1.Definition of electronic payment systems.

2.Characteristics of electronic payment systems

Section Ⅱ: Modern methods of money laundering

1.Definition of money laundering.

2.Characteristics of the crime of money laundering.

3. The relationship between electronic payment systems and money laundering operations.

Section Ⅰ: The concept of Electronic payment system

Electronic payment systems often known as digital payments, involve conducting financial transactions through electronic means. This process allows funds to be moved from one account to another without using paper currency[4].

1.Definition of electronic payment systems:

There are various definitions of electronic payment systems, the most important of which are as follows:

- Electronic payment systems have received great attention from researchers due to their positive impact on commercial activity, and several definitions have been provided by jurists, and among these definitions, we find the jurist Brun considered that electronic payment in the narrow sense refers only to payment that does not require direct contact between natural persons, and in the broad sense, it refers to any payment of an amount of money that involves the use of an electronic means.[5]
- An electronic payment system refers to any online transaction facilitated by a digital financial tool between customers and service providers[6].
- The electronic payment system is a form of traditional payment methods, but in an advanced way, which we use in our daily lives. The difference between it and traditional payment systems is that electronic payment systems are entirely electronic, with no coins involved. [7]

2.Characteristics of electronic payment systems

Digital payment methods are considered a means that can facilitate the electronic transfer of funds between parties. Here are some of the main characteristics of electronic payment systems:

- **Security:**

Electronic payment services are executed through an open information space connected to the internet, where the risks of theft and hacking of bank account increase. Therefore, electronic payment systems must be protected by effective security measures that can identify the debtor making the payment and the creditor receiving it.
This is done in an encrypted manner using specialized software for this purpose[8].

- **Availability:**

The system must be available during the specified working hours[9]

- **Ease and speed**:
  E-payments enable companies and customers to conduct their transactions quickly and easily online, without the need to go to the bank or wait for their turn to pay and waste time in queues.

- **International nature:**

The electronic payment system is characterized by its international nature, as it is an accepted means in all countries, used to settle accounts in transactions conducted in the electronic space among users worldwide.[10]

- **Payment is made using electronic money:**

The payment is made with electronic money: it is a monetary value contained in a card with digital memory or in the main memory of the institution that oversees the management of the exchange process[11].

Section Ⅱ: Modern methods of money laundering:

Many banks resort to providing their financial and banking services through modern electronic means, this has allowed criminals to take advantage of these modern technologies to develop money laundering methods and abandon traditional methods to avoid tracing the sources of illicit funds, among these methods is the use of electronic payment systems in committing this crime, such as credit cards, and electronic money. [12].

1.Definition of money laundering:

The crime of money laundering is one of the crimes that has received the attention of many jurists and economists because of its negative impact on the economies of countries, and when we scrutinize this crime, we find that it is widespread in all countries, whether rich or poor, developed or developing. [13]
There are several definitions of the crime of money laundering, and we will mention the most important ones:

- Money laundering is the process of severing the link between the funds obtained from a crime and its illegal source[14].
- According to Dr. Ahmed Abdel Khalek, money laundering is the conversion and transformation of funds obtained through illegal means into other forms of wealth retention In order to obscure their illegal origins[15].
- The jurist James Beazley also defined this crime as the illegal activities aimed conceal or disguise the proceeds of organized crime.[16].
- According to all of these definitions, money laundering is a collection of financial operations aimed to conceal the illegal source of funds and present them proceeds from a legitimate source. [17]

2.Characteristics of the crime of money laundering

- **Money laundering is an economic crime:**

Economic crimes, also known as financial crimes, encompass a range of offenses, including bribery, embezzlement, and money laundering...

Money laundering operations are considered an economic crime, meaning the practice of improper behavior that disrupts the economic system of individuals, companies and governments.

The scope of economic crime expands to include any crime that harms the economic interest or national income. Therefore, money laundering is considered an economic crime that should be met with strict penalties, and circumstances that may exempt or mitigate the punishment are not considered[18].

- **Money laundering is an international and organized crime:**

Money laundering is considered an international crime that has a negative impact on the global economy, as this crime usually involves multiple perpetrators, relying on planning[19], coordination, and efforts among them to carry out this operation.[20]

- **Money laundering is an ancillary offense**:

This crime assumes that a primary crime occurred before it, from which the perpetrators obtained a certain benefit, which is the source of the illicit funds[21].

The crime of money laundering has kept pace with technological [22] progress, as it is now carried out using electronic payment systems.

3.The relationship between electronic payment systems and money laundering:

There are many methods and techniques that perpetrators use to hide illicit funds resulting from money laundering operations, such as buying failing companies or those in liquidation, and then supporting them financially until they become strong enough to serve as a cover for their illicit funds[23], But now, all these methods used in money laundering have become traditional methods, as new ways have emerged that use electronic payment systems in money laundering operations, such as credit cards and electronic money.

- **Electronic money:**

There are several definitions of e-money, the most important are:

- The ECB defined e-money as an electronic store of monetary value typically used to make payments to contractors without the need for a bank account at the time of the transaction and it is used as a prepaid portable tool [24].
- It is also defined as a monetary value stored on an electronic medium that is prepaid, not tied to a bank account, and is widely accepted and used as a tool for various purposes[25].
- Digital money is the currency that exists in banking computer systems that may be used to simplify and facilitate electronic transactions[26].
  E-money is a digital alternative to cash. It enables users to make purchases with money stored on a card [credit card; smart card], or via the internet[27].

In the digital age financial crimes notably money laundering operations has grow rapidly many criminals use electronic payment systems like electronic money to facilitate illegal activities such as drug trafficking and to turn a large amounts of money into clean funds.

Digital money is considered one of the most important electronic tools for money launderers due to its untraceability and the secrecy of its use. In addition, any amount can be transferred through it in a short time.

The risk of this type of money increases because it is not associated to a bank account of its owner, and some types are characterized by the inability to identify their owner[28].

- **Electronic Check:**

An e-check is a digital version of the traditional paper check[29], and it is considered one of the modern electronic payment tools with the same function as traditional check but it does so electronically. This type of check facilitates financial transactions for individuals.

Despite the many advantages of the e-check, it has contributed to the increase in money laundering operations, as the e-check relies on an account with the customer, who transfers this account and trades it electronically in commercial transactions in order to obscure the illegal source of funds.

- **3 credit cards:**

According to economists, a credit card is a plastic card issued by a financial institution usually a bank that allows cardholders to purchase goods and services on credit[30].

Credit cards offer many benefits to users. For example, if you are in an emergency situation[31] like being in the hospital, there is no need to worry about the amount of cash you have, you can simply swipe your credit card and get Immediate help.

Despite the many advantages that make credit cards user- friendly also make them vulnerable, Launderers can exploit these features to obscure the source and the trail money and move them from one account to another with a few clicks[32].

There are many ways that credit card can be used in money laundering operations as we find the cardholder taking the necessary procedure related to the loss or theft of the credit card and informing the bank about it, but in reality, it has not been stolen and he continues to use it normally.[33]

IV- Conclusion:

Online payment method is a way of exchange and making financial and commercial transactions between individuals or entities through an electronic medium, this type of payment offers several advantages such as security, speed of transactions and convenience. However, the rise of e-payments has increased the potential for economic crimes like money laundering, bribery and terrorist financing. Criminals have targeted these modern payments for illegal activities to obscure the source of illicit funds.

Study result:

Through this research paper, the following results were reached**:**

- ✓ Electronic payment systems are a means that can facilitate the electronic transfer of funds between parties.
- ✓ Money laundering operations are considered an economic crime often associated with organized crime.
- ✓ Electronic payment methods offer several advantages when compared to traditional means such as security, speed, but also have a negative side.
- ✓ Now money can be laundered using smart cards, electronic funds transfer, e-money … etc.

Suggestions:

Through this research paper, we will propose the following recommendations:

- ➢ Employee training helps employees learn the sufficient knowledge and skills in order to facilitate the detection of these crimes.
- ➢ Improve searches by using technology to detect suspicious transactions related to money laundering**.**
- ➢ It is essential for companies to stay constantly updated on the latest regulations and guidelines related to anti-money laundering, and to adopt best practices in this regard. They should also leverage advanced and modern technologies to improve their ability to detect and identify suspicious activity more quickly and accurately, thereby preserving the sustainability of their operations and reputation.

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