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GLOBAL OVERVIEW OF MODERN FINANCING TYPOLOGIES TO MITIGATE FINANCIAL RISKS IN DEVELOPMENT COUNTRIES

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Abstract: *In this study, we reviewed the laws and legal regulations that mandate banks and financial services organizations to implement anti-money laundering efforts which are responsible to detect and mitigate the risks of money laundering and modern financing. We examined the topics of money laundering and modern financing in greater depth to understand the risk factors related to each financial crime. Understanding the aspects of each financial crime is necessary to comprehend predicate offense typologies. We continued with a review and synthesis of the literature on money laundering and modern financing typologies. We concluded the review with an analysis of Gary Becker's economic theory of criminal behavior and the neoclassical approach to criminal behavior. As suggested by the key concepts reviewed in this literature review, predicate offenses are evolving as prevailing conditions of society change. A major global challenge in recent times is the Covid-19 pandemic crisis which has increased financial risks worldwide (Klimczak et al., 2021). Understanding the different types of predicate offenses and typologies portrays a holistic process of how criminals launder money or finance modern acts. A review of the existing literature demonstrated intensive research on the topic of financial crime but there is a gap in the current legislative and financial risk management framework. The legislative and financial risk management framework detects economic uncertainties and risk factors requiring a reevaluation of financial risk measurement methodologies to mitigate the risk consequences of money laundering and modern financing activities. A best practice to provide a sound framework to manage financial risks is for U.S. banking and financial service company compliance managers to identify predicate offense typologies. American society could benefit from the results of the study (Klimczak et al., 2021). The banking and financial industries ought to be prepared for the future and continue to adapt to new emerging threats, varying consumer classification, and changing environment. It is essential for compliance leaders to implement public education initiatives and help their customers recognize their role in combating money laundering and modern financing activities. Overall, the study has contributed to positive social change by identifying predicate offense typologies that can help U.S. banking and financial services company compliance managers reduce the risks of money laundering and modern financing activities (Klimczak et al., 2021).*

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Introduction

The Bank Secrecy Act also known as the BSA is the law policing anti-money laundering compliance requirements. In 1970, the United States government passed the Currency and Foreign Transaction Reporting Act better known as the Bank Secrecy Act today (Sykes, 2018). Banks and financial services institutions use the terms Bank Secrecy Act and anti-money laundering collectively and reassess their compliance frameworks according to regulatory changes to adapt to newly emerging threats and fight financial crimes. The Bank Secrecy Act classifies certain individuals and corporations as high-risk through the Office of Foreign Assets Control and Specially Designated Nationals lists (Wong, 2020). The basis of the Bank Secrecy Act is to provide reporting standards for banks and financial services institutions to report suspicious activity to the Financial Crime Enforcement Network (FinCEN), central financial intelligence unit within the United States (Klimczak et al., 2021).

The suspicious activity that is documented and reporting according to the Bank Secrecy Act guidelines are accessible to law enforcement nationally and internationally (Sykes, 2018). The Bank Secrecy Act is responsible for regulating banks and financial services institutions including loan providers, automobile lenders, and money services businesses. Sykes (2018) indicated that "the aim of the Bank Secrecy Act was to locate the origin and movement of money derived from crime such as drugs during the era of the War on Drugs. Since 1970, other acts including the Money Laundering Control Act of 1986, which warranted all banking institutions in the United States establish anti-money laundering programs, and the Money Laundering Suppression Act, which specified the power of the U.S. Treasury, were passed which reinforced the Bank Secrecy Act".

Furthermore, in 1996, the Bank Secrecy Act instituted explicit policies and procedures including the responsibility to file Suspicious Activity Reports (SARs) for any transactions aggregating $5,000.00 or more and designed requirements for Currency Transaction Reports (CTR) and Monetary Instrument Logs. Banks and financial institutions are required to file a CTR for transactions over $10,000.00. Fletcher et al. (2021) stated that any financial transaction that may entail probable money laundering, questionable modern financing activities, or violate the Bank Secrecy Act must file an SAR with a law enforcement agency. The financial sector is responsible for gathering personal identifiable information about a customer including their name, address, social security number, taxpayer information, resident status, and date of birth (Fletcher et al., 2021). Finally in 2001, after the modern attacks on the United States soil, Congress passed the USA Patriot Act.

Literature review

The USA Patriot Act

The USA Patriot Act was passed in 2001 by Congress. The USA Patriot Act stands for the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (Rajah, 2019). The USA Patriot Act has contributed to implementing anti-money laundering rules and regulations globally by augmenting compliance requirements for all banks and financial services institutions through the Federal Financial Institutions Examination Council (FFIEC) (Klimczak et al., 2021). The Federal Financial Institutions Examination Council is an organization responsible for the anti-money laundering and Bank Secrecy Act guidelines which helps banks and financial services institutions to comprehend the laws and guidelines (Rajah, 2019). The FFIEC provide the U.S. Treasury with power to impose exclusive actions against organizations and jurisdictions that are high-risk and pose money laundering apprehensions. In turn, the U.S. Department of Treasury has become a powerful agency with the ability to drive the global market. The Bank Secrecy Act along with the USA Patriot Act have created a new language and use in the form of traditional anti-money laundering compliance frameworks. Subsequently, both acts were established prior to the Covid-19 pandemic, and ought to be reassessed with new threats and predicate offense typologies emerging in the modern market worldwide.

The Anti-Money Laundering Act of 2020

The National Defense Authorization Act was passed as a bill by Congress which includes the Anti-Money Laundering Act of 2020. Since the USA Patriot Act in 2001, the Anti-Money Laundering Act of 2020 is the first amendment of the United States anti-money laundering regulation. GaleazzWeet al. (2021) stated that the overarching objective of the Anti-Money Laundering Act of 2020 is to modernize anti-money laundering and

counter-financing of terrorism laws. This act focuses on enhancing communication among government and industry shareholders by accentuating the significance of risk-based anti-money laundering/counter-financing of terrorism programs. The enhanced changes in the Anti-Money Laundering Act of 2020 include increased whistleblower protection, new consequences for specific Bank Secrecy Act breaches, and two additional committees to the Bank Secrecy Act Advisory Group (GaleazzWeet al., 2021).

Figure 1. Anti Money Laundering History: 1970-2022 Timeline

Source: Complyadvante Company.

Furthermore, an eminent change resulting from the Anti-Money Laundering Act of 2020 is reform of the Customer Due Diligence Rule. This change focuses on developing aligned requirements for beneficial ownership and instituting a database at the Financial Crime Enforcement Network to collect beneficial ownership information of legal entity customers. A database at the Financial Crime Enforcement Network will eliminate duplication and unwarranted obligations for banks, financial services institutions, and legal entity customers. GaleazzWeet al. (2021) indicated that the Anti-Money Laundering Act of 2020 revokes the entire Customer Due Diligence Rule but necessitates for banks and financial institutions to implement written policies and procedures to detect and confirm the beneficial owners of their legal entity customers. The revision to the Customer Due Diligence Rule appears to be vague and perhaps future regulations will outline detailed requirements. Banks and financial institutions should consider taking a conservative approach by following the current policies and procedures in place under the Bank Secrecy Act.

The Anti-Money Laundering Act of 2020 seeks to develop the financial system by improving communication among shareholders and reforming the anti-money laundering/counter-financing of terrorism laws. The changes introduced in this act is to simplify compliance responsibilities by providing government and law enforcement agencies with vital data. The Financial Crime Enforcement Network offers intensive guidance for banks and financial institutions to better diversify anti-money laundering/counter-financing of terrorism resources (GaleazzWeet al., 2021). Although, certain ambiguity persists for banks and financial institutions concerning the Customer Due Diligence Rule changes. Nevertheless, future laws may address the ambiguity. The predominant effect of the Anti-Money Laundering Act of 2020 ought to reduce the risk of criminals within the United States financial system while evaluating the interests have involved parties subject to compliance requirements.

Money laundering

Money laundering comprises of practices that support the conversion process of illegal funds of crime into legal proceeds (Al-SuwaidWe& Nobanee, 2020). Money laundering is classified as a financial crime which may be embedded in organized criminal activity including robbery, extortion, embezzlement, fraud, human trafficking, and several others. Organized crime activities incorporate a sequence of intricate transactions which operate through financial institutions nationally or internationally. Money laundering is a practice where illegal proceeds enter financial institutions concealed as lawful transactions. Money laundering entails a three-step process to launder the funds: (a) placement, (b) layering, and (c) integration (Al-SuwaidWe& Nobanee, 2020).

The first step is known as placement. Placement is the process where the money launderer deposits the illegal funds into the financial system. The second step is known as layering. Layering is the process where experts generate several business channels such as companies, trusts, and foundations for implementation as liaisons for financial transactions to disguise illicit source of the funds (Basit, 2020). The third step is known as integration, the final step in the money laundering process. Integration is the process where liaisons use the illegal funds as lawful financial transactions without exposure. When illegal funds are integrated into lawful financial transactions, it is difficult for financial institutions to detect the criminal proceeds (Amjad et al., 2021). To detect illegal proceeds, employees of banking and financial services institutions need to follow policies and procedures to document all the transactions posted to the customer accounts by creating an audit trail. The detection process is a crucial element to an effective anti-money laundering and counter modern financing program.

The Financial Action Task Force (2020c) indicated that money laundering is one of the greatest challenges facing the global economy amid a worldwide pandemic. The methods used for money laundering are constantly evolving. Criminals are introducing alternative money laundering scams and ploys which adversely are affecting the global economy by distorting the financial data of domestic economies (Basit, 2020). Banks and financial institutions are classifying money laundering as a global threat to the financial system. The alternative channels to launder the funds of criminal activities has become a facilitated serious and organized crime to invade and undermine the integrity of the financial system (Basit, 2020). The criminals who are conducting money laundering activities target several victims within the financial institutions (Kasztelnik & Brown, 2021).

Money lauders can be an individual or groups of people. A stereotype for a money lauder does not exist. Money launderers have connections to criminal organizations who infiltrate financial systems with large amounts of money that require legitimization. Financial institutions around the world face the challenge of identifying a money launderer. These types of criminals represent a diverse group of people across race, education, profession, and social status which can be moderns or modern organizations or experts in the financial industry. Although, money laundering activities attract large sums of money that require filtering into the banking system in a way to avoid detection. During the pandemic, an increase in cryptocurrencies as a form of payment has created a channel for money launderers (Kolachala et al., 2021). Cryptocurrency such as bitcoin create anonymity which conceal money laundering transactions and facilitate the funds. Banks and financing institutions face the challenge of monitoring and regulating financial transactions regularly to reduce the risk of money laundering.

Banks and financial institutions are faced with an increased risk of money laundering causing a difficulty to monitor legitimate clients while mitigating the risk from money launderers. Different size enterprises are exposed to money laundering especially small businesses. Small businesses operate primarily on a cash basis and the enticement to elude taxes can tempt small business owners into conducting money laundering activities (Korystin et al., 2020). For example, small business owners may conduct money laundering by depositing small unnoticeable amounts of legitimate cash mixed with illegally earned cash into bank accounts. Small-sized enterprises are ideal businesses to conduct money laundering activities including structured check deposits. In other words, launderers deposit money orders or managers' checks into various bank accounts at different locations (Woodson, 2019). By using the deposited funds to acquire assets including real estate, jewelry, or investments, launderers erase the audit trail which could lead to the criminal. Money launderers discover new platforms to launder funds including the established channels including money transfers, banks, start-up

businesses, and real estate purchases. The Financial Action Task Force (FAFT) standards have discovered that money laundering and modern financing are on opposing extremities of a continuum.

Modern financing

Modern financing is a criminal offence different than money laundering and preparatory in nature. Unlike money laundering, modern financing activities derive from lawful and unlawful sources to fund the crime of terrorism in the future. Moderns demonstrate a sense of adaptability and opportunism to achieve their funding requirements. Moderns need monetary resources to purchase weapons and cover operational expenses including employment, training, communication tools, salaries, compensation, travel, logistics, and shared funding. Moderns or modern organizations attempt to disguise the funding and nature of the subsidized activity.

Modern financing originates from legitimate sources with large lawful financial resources. To support their crime of terrorism, modern raise funding by abusing charitable entities, legitimate businesses, or self-financing (Al-SuwaidWe& Nobanee, 2020). The mechanisms to finance terrorism include an exchange of economically profitable incentives derived from criminal activities. Moderns tend to trade contraband cigarettes, counterfeit goods, organized fraud, narcotics smuggling, and illicit drugs for monetary funds (Al-SuwaidWe& Nobanee, 2020). Moderns commission crime of terrorism through closed networks and ambiguous industries.

Traditionally, moderns utilize different methods to permit them to launder their acquired assets. They move funds through nontransparent markets, remittance systems such as hawala, underground banking systems, charities, and between organizations. Moderns move physical funds such as cash by couriers. To mitigate detection risk, moderns adapt all the methods that exist to move money globally.

The primary objective of combating modern financing activities is to prevent future acts of terrorism from interrupting global societies. Some methods of combating modern financing activities include interrupting funding flows which lead to a hostile environment for terrorism (Fletcher et al., 2021). Moreover, hostile environments hinder the capabilities of moderns to execute crimes of terrorism. Fletcher et al. (2021) indicated that interrupting modern financing requires universal defenses which shield the financial system from criminal abuse, and steer financial sanctions guided by counter-terrorism intelligence. Banks and financial institutions face the challenges of identifying modern financing activities because this criminal offense uses modest amounts of funds. Since modern financing uses low levels of funding, modern financing transactions tend to be mistaken for ordinary business activities by experts in the field of anti-money laundering (Financial Action Task Force, 2016).

The Bank Secrecy Act provides antiterrorism standards and recommendations for banking and financial institutions to implement through anti-money laundering/counter-financing of terrorism programs. Regulatory and law enforcement agencies require banks and financial institutions to strengthen their compliance framework to include antiterrorism provisions. A fundamental element in anti-money laundering/counter-financing of terrorism compliance program is the anti-money laundering/counter-financing of terrorism monitoring tool and processes. The monitoring tool and processes detect and secede money laundering and modern financing risks in customer transactions (Helmy et al., 2016). Banks and financial institutions can utilize monitoring tools to recognize criminal funds. Compliance managers governing customer transactions utilize monitoring tools to detect suspicious transactions resulting from or indicative of the presence of money laundering and or modern financing activities.

Money laundering and modern financing typologies

A fundamental understanding of how money laundering and modern financing transpires is necessary to effectively mitigate financial risks and ensure regulatory compliance. A principal skill for any compliance managers is the ability to recognize typologies. Money laundering and modern financing typologies illustrate the innumerable mediums, tactics, strategies, practices, schemes, and mechanisms criminals use to disguise, lauder, or move illegitimate proceeds. Typologies are a set of indicators or red flags to pay attention to when banks and financial services institutions perform their compliance duties (Plaksiy et al., 2018). The financial industry must continuously learn to recognize money laundering and modern financing typologies. Money laundering and

modern financing typologies and criminal capabilities are evolving parallelly. Typologies lead to reasonable doubt of criminal activity which can lead to heightened due diligence and additional monitoring.

Money laundering typologies

Money laundering typologies are techniques used to launder money. Criminals adopt creative techniques to launder money. Money laundering typologies are strongly guided by the economy, financial systems, and anti-money laundering regulations (Gilmour, 2021). Banks, financial institutions, and law enforcement agencies fighting against money laundering depend on the most recent information on typologies. The Financial Action Task Force annually conducts and observes case analysis on specific subject areas to collect current information. Based on their findings, the Financial Action Task Force articulate the trends in order to adapt recommendations to address money laundering risks. The Financial Action Task Force classified the following examples as money laundering typologies (Financial Action Task Force, 2020a): unusual customer behavior, usage of large amounts of cash, smurfing, unusual insurance claims, corruption, currency exchanges, purchase of valuable assets, unusual wire transfers, and many others.

Unusual Customer Behavior. Money laundering risks involve a great deal of customer behavior. The general apprehension is unexplained movement of incoming or outgoing funds with the customer's account history or profile. By tracking customer behavior, banks, financial institutions, and law enforcement agencies can recognize any signs of money laundering. To detect signs of money laundering activity, banks and financial organizations invest and employ advanced technologies including the Anti-Money Laundering solution. Shaikh and Nazir (2020) revealed that the Anti-Money Laundering solution is a commonly used software system that helps banks and financial organizations identify any suspicious transactions and or unusual customer activities.

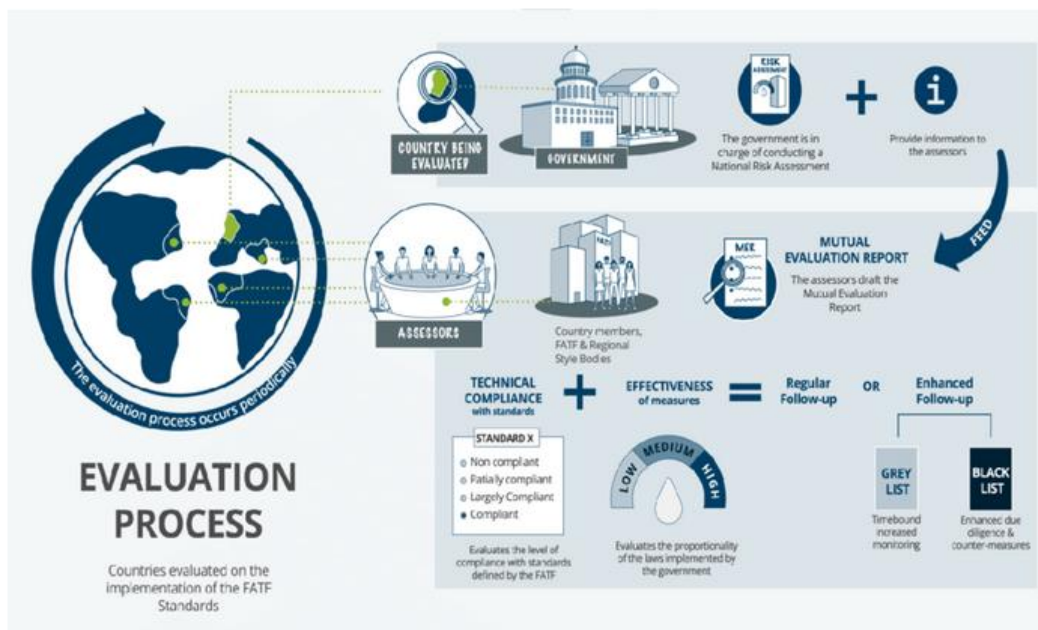

Figure 2. International Money Laundering Evaluation Process Example

Source: Evaluation Process at the FATF.

The Anti-Money Laundering solution is a rule-based system in which specific rules on transactions regulate the hard codes based on the input from compliance officers and anti-money laundering investigators (Shaikh & Nazir, 2020). The hard codes trigger alerts within the system when suspicious transactions or unusual customer behavior occurs. The indicators of unusual customer behavior include inconsistent transaction with the customer's profile, multiple accounts under multiple names, high volume of transactions within a short period, checks issued to a family member(s) living only a few miles apart (Financial Action Task Force, 2020a). Unusual customer behavior is a variable which can spot suspicious activity hard to identify.

Banks and financial institutions must mandate compliance policies and procedures to detect and identify any suspicious transactions to law enforcement agencies to counteract possible money laundering activities. The Anti-Money Laundering solution utilize preset rules to detect unusual transactions activities based on historical customer transactions information (Shaikh & Nazir, 2020). Historical customer transaction data indicates transaction patterns related to the nature of the transactions, transaction thresholds, and transaction frequency to check for money laundering activity (GyamfWe& Abdulai, 2018). The unusual customer behavior is detected based on irregular patterns.

The current anti-money laundering solutions used by banks and financial organizations can detect suspicious customers and irregular transactions based on preset rules. So, the anti-money laundering solutions are tailored to individual customers' transactional history which is stored on banks and financial institutions' databases to efficiently identify abnormal and suspicious transactions.

Usage of Large Amounts of Cash. The expenditure of large amounts of cash is a red flag in the realm of money laundering. The overall concern is large cash deposits from unknown sources and large cash withdrawals for unexplained usage. Due to the large amounts of cash transaction daily, banks and financial services institutions constantly face the challenge of detecting suspicious activity with tangible evidence. Singh and Best (2019) suggested that suspicious financial transaction may be discovered by restricting consumer thresholds. Certain transactions surpassing preset thresholds necessitate compliance investigation. An unfavorable outcome is that money launderers change their behavior to prevent this control.

A money laundering indicator is a customer conducting large cash deposits or withdrawals. If a customer's nature of business primarily transacts with cash, the usage of large amounts is classified as suspicious activity. Some red flags indicatives of the use of large amounts of cash include large cash deposits or withdrawals, large cash deposits utilized for investment, large amounts of currency exchange, large amounts of cash from unknown sources, and many others (Financial Action Task Force, 2020a). The Financial Action Task Force recommended banks and financial institutions to file detailed reports indicative of suspicious activities or large cash transactions with financial intelligence units (Singh & Best, 2019). Banks and financial institutions are obligated to file suspicious activity reports (SARs), currency transaction reports (CTRs), and cash and monetary instruments reports (CMIRs) for unusual financial activity involving large amounts of cash transactions above a preset threshold. These reports act as audit trails to capture limited footprints of many money laundering activities.

Smurfing. Smurfing also known as structuring is an indicator of money laundering activities. Smurfing is a money laundering typology that commonly occurs during the three different stages of money laundering: placement, layering, and integration. Criminals who are smurfing funds through financial institutions are known as smurfs. It is a technique which involves numerous high volumes of small transactions including deposits, withdrawals, and transfers through different accounts (Financial Action Task Force, 2020a). For example, multiple cash deposits on the same day at different branch locations to avoid detection. The inherent risk of this money laundering typology poses is that criminals use smurfing to evade threshold reporting requirements.

To evade threshold reporting requirements, smurfs conceal transaction amounts, source, and target account (Whisker & Lokanan, 2019). Smurfing is related to fraud with the purpose of avoiding detection. By conducting multiple small value transactions, smurfs can place, layer, and integrate large amounts of illicit proceeds into the modern financial system. Since the low value of a single transaction becomes compliant with legal reporting limits, smurfs avoid detection and use illicit proceeds to fund modern activities (Whisker & Lokanan, 2019). Smurfing is a typology which continues to be a challenge for financial intelligence units. The process to uncover the money trail raises privacy issues. To counteract the enhanced detection, smurfs continue to lower the values of deposits, withdrawals, and transfers of funds. To identify smurfing activities, banks and financial institutions need to invest in data-driven anti-money laundering tools and systems.

Unusual Insurance Claims. The unusual claim of insurance is classified as a money laundering typology. In this case, criminals use insurance policies to integrate illicit proceeds into the financial system. Some red flags of unusual insurance claims are when individuals cash out insurance policies in a different location than the jurisdiction of

purchase, purchase an insurance policy with large amounts of cash, make regular claims on payments less than the premium, and purchase an insurance policy and immediately surrender it (Financial Action Task Force, 2020a). The underlying financial risk is that insurance claims are exploited to obscure the profits of crime.

Corruption. Corruption is the outcome of poverty, greed, unemployment, and vulnerable institutions and legislations (Bahoo, 2020). It is identified as a money laundering typology which involves the act of bribing officials. Corruption is a method used to enable money laundering by challenging anti-money laundering and counter-financing of terrorism processes with the influence of a politically exposed persons (Financial Action Task Force, 2020a). Criminals target politically exposed persons with a lack of morality or who are easily bribed or persuaded to permit money laundering activities to take place. Corrupt business leaders and government officials enable criminals to conceal and launder their illicit proceeds. Historically, banks with weak corporate governance, lack of transparency and due diligence, incapable bank leadership, and engagement in corrupt activities has caused the insolvency of financial institutions including Bear Stearns, Lehman Brothers, Enron Corporation, and many others (Bahoo, 2020). Different determinants influence corruption amongst banks and financial institutions (Moncayo & Kasztelnik, 2022).

Corruption is driven by several types of factors. The distinctive determinants of corruption are cultural and legal differences. The understanding of bribery is different across different jurisdictions worldwide. Each country has its own definition of corruption and bribery. Cultural differences tend to cause confusion amongst bank employees who may commit a violation by giving high-value, extravagant gifts to foreign officials in the process of building a professional relationship. Though it is challenging to detect each corruption activity that passes through banks and financial institutions, strong anti-money laundering programs with built-in key risk indicators or red flags will ensure detection.

Banks and financial institutions must adhere to anti-money laundering regulations which are in place to detect, identify, and report corruption. To counteract corruption in banks and financial institutions, law enforcement agencies have introduced anti-corruption laws. The United States has initiated and articulated domestic-level laws against corruption and bribery (Bahoo, 2020). Amongst many laws, the Foreign Corrupt Practices Act has been passed to avert financial crime such as corruption (Meinert, 2019). By eliminating corruption, banks and financial institutions will effectively reduce money laundering.

Methodology

Modern financing typologies

Modern financing typologies demonstrate the techniques and trends used to transfer funds amongst organizations to finance crimes of terrorism (Financial Crimes Enforcement Network, 2021). Anti-money laundering and counter-financing of terrorism organizations use the list of typologies provided by the Financial Action Task Force in their efforts to fight against and mitigate the risk of modern financing. The typologies specific to modern financing are the abuse of non-profit organizations, new payment technologies, and virtual assets.

Abuse of Nonprofit Organizations. The Financial Action Task Force has identified the abuse of non-profit organizations as a modern financing typology. Moderns use non-profit organizations to raise and conceal modern funds. Non-profit organizations disguise modern finances allowing modern to source, move, and execute modern acts across any jurisdiction (Financial Action Task Force, 2020a). The financial risk of abusing non-profit organizations is the lack of detection within and between financial institutions increasing the risk of modern acts.

New Payment Technologies. Technology is advancing and providing modern with new techniques and trends to source and move funds to execute acts of terrorism. Emerging payment technologies such as cell phone-based remittance and payment systems or online banking have become platforms for modern organizations to hack and use for their purposes (Financial Action Task Force, 2020d). The central financial risk related to new payment technologies is the global accessibility of these systems and the ability to retrieve unlawful money without a possible audit trail to its source.

Virtual Assets. As money laundering and modern financing activities develop and change, regulatory gaps in anti-money laundering and counter financing of terrorism frameworks continue to exist. Moreover, a lack of regulation and knowledge of virtual asset service-providers allows moderns to exploit compliance and governing gaps and fund modern activities. A high-risk virtual asset is cryptocurrency which has become popular during the

Covid-19 pandemic. It is a growing threat to the anti-money laundering regulatory system (Haq et al., 2021). Cryptocurrency is a medium of digital currency payment infrastructure that operates on a computer network (Ibrahim, 2019).

Cryptocurrency is highly susceptible to money laundering, efficiently unregulated, and criminal in nature.

Criminals, both individuals and entities, are increasingly abusing this virtual asset by engaging in illegal crypto trade and other illicit use of cryptocurrencies. Cryptocurrency provides an element of ambiguity and allows criminals to cover their logistical and financial tracks. Additionally, the use of this digital means allows criminals to conduct offline transactions increasing the challenges for law enforcement agencies to trace illicit transactions. To conduct these illicit transactions, criminals are using the dark web or net which is a network of encrypted websites (Ibrahim, 2019). Prior to cryptocurrency, global crime syndicates trusted the hawala system as a technique to launder illicit funds through financial transactions worldwide. As criminals continue to push the envelope and execute high-risk activities, cryptocurrency has become a viable option and ideal replacement for the hawala systems. Cryptocurrency is used to implement several illegal activities including human trafficking, drug dealings, and corruption.

The growing trend in cryptocurrency has forced the Financial Action Task Force and law enforcement agencies in foreign countries to reevaluate their anti-money laundering and counter modern financing regulations and legislations. The legal discrepancies across jurisdictions in terms of the cryptocurrency is causing gaps in compliance frameworks amongst banks and financial institutions (Ibrahim, 2019). Countries must adopt new regulations which address risks of cryptocurrency. By taking proactive initiatives, financial intelligence units can detect and mitigate the risks of money laundering and modern financing activities.

Economic globalization has increased opportunities for trade, investment, and movement of labor and capital across state borders. Modernization of telecommunication, banking, and financial systems, criminals find it easy to move people, money, or goods across state borders compared to historical data. Criminals are establishing businesses to expand their illicit activities. They use different typologies to obtain access to new markets by subsidizing the inconsistencies among the legislatures of countries in different areas of the world. Today, criminals and organized crime groups are adaptable, innovative, cunning, and engaged in illegal and legal activity. Criminals are known to apply criminal strategies and behavior by using typologies to succeed in their legal or illegal business mission and vision.

The economic theory of criminal behavior

The question of whether an opportunity leads an individual to conduct predicate offenses is intriguing. To understand the reasoning behind predicate offenses, it is necessary to dive deeper into the economic theory of criminal behavior. Earlier literature explains that the economic theory of criminal behavior perceives a criminal act as a logical choice (Becker, 1968; Ehrlich, 1973; Posner, 1985). Criminals conduct a crime whensoever the estimated benefits exceed the costs. According to the economic theory of criminal behavior, a cost-benefit ratio is a driving factor which determines the margin for any crime (Brabenec & Montag, 2018). In economics, the economic theory of criminal behavior is commonly acknowledged as a framework for examining illegal activity. This theory rationalizes the phenomenon that deteriorated financial markets will lead individuals towards illegal activities. Financial market crises are often associated with increases in crime.

The basis of the economic theory of criminal behavior is developed by two prominent stages. First, an individual offender’s decision-making process to commit a crime (Miceli, 2017). In the decision-making process, crime offenders compare the benefits of conducting a criminal act to the anticipated punishment. Offenders calculate the provision of offenses which policy makers use to establish the collectively ideal penalty. The economic approach consists of selecting the likelihood of crime and the penalty on conviction to amplify a social welfare act. The social welfare act depends on (a) the cost of arrest, (b) the cost of the crime to society, and (c) the cost of penalty (Miceli, 2017). Theories about the elements of the predicate offenses differ from an emphasis on criminal behavior.

Essentially, all the different theories agree that though the variables are constant, an increase in a person's likelihood of sentence or penalty would largely decrease based on the number of predicate offenses (Miceli, 2017). Additionally, this theory supports the idea that a change in the probability has a greater effect on the number of

predicate offenses than a change in the punishment. Theorists have asserted that an individual executes a predicate offense if the expected benefit exceeds the benefit they may gain by utilizing resources and time on other activities (Miceli, 2017). An individual engages in criminal behavior based on a cost-benefit analysis. The underlying inference of this theory is relative to the number of predicate offenses by an individual to their likelihood of sentence, punishment, proceeds from legal or illegal activities, the regularity of irritant detentions, and an individual's motivation to perpetrate a criminal act.

The economic theory of criminal behavior has an appealing explanation of a larger retort to change than reprimand. An increase in punishment, if there is no change in the predicted proceeds from a predicate offense, could change the anticipated benefit since the risk level would change (Becker, 1968; Miceli, 2017). It is undoubtedly demonstrated that an increase in punishment would reduce the anticipated benefit, and hence the number of predicate offenses decreases. Typically, according to historical criminal behavior, criminals are more dissuaded by the possibility of conviction than by the punishment. Society has conceived inventive punishments for convicted criminals including death, torture, branding, fines, imprisonment, restriction on movement, loss of citizenship, and many others (Becker, 1968; Miceli, 2017). In the United States, low risk predicate offenses are penalized by fines, probation, or imprisonment. Perpetrators who commit other less serious predicate offenses face minor constraints such as temporary suspension of a person's driver's license (Becker, 1968; Miceli, 2017). The high-risk predicate offenses face severe punishment including a combination of parole, imprisonment, fines, occupational restrictions, and many more.

Criminals analyze the cost of different punishments by examining them according to monetary worth, measured in terms of fines (Becker, 1968; Miceli, 2017). For instance, the cost of an imprisonment is the value of profits relinquished and constraints on freedom. Subsequently, the value of profits relinquished and constraints on freedom differ between each person, so the cost of imprisonment for a given period is different but typically greater. A criminal who can earn more outside of prison will conduct a cost-benefit analysis. In essence, the criminal behavior of economics epitomizes to the cost versus benefit of executing a predicate offense. Does the benefit of committing a predicate offense outweigh its cost? The choice of committing a predicate offense relies heavily on punishments which ultimately affects the criminal and society. Thus, the neoclassical approach supports the notion that choice is the driving force among criminals.

The Neoclassical Approach to Criminal Behavior

The foundation for the neoclassical approach is the notion of utility as the guiding factor in the choice of criminals. The rationale is based on one's capability to maximize utility (Klimczak et al., 2021). Criminals are described as reasonable utility maximizers in terms of financial risk. The neoclassical approach considers the impact of intrinsic and extrinsic interventions on behavior. Becker (1968) evaluated criminal behavior in accordance with motivation and punishment. Financial institutions should consider intrinsic and extrinsic motivation in their compliance frameworks. Intrinsic and extrinsic motivation signify objectives that guide criminal behavior. The social nature of criminals may benefit others implicitly and secondarily. Criminal's decision-making processes may be influenced by different types of motivation.

Many studies have confirmed the organizational benefits of intrinsic and extrinsic motivations. Intrinsic motivation creates a perception of independence and expertise. It largely promotes innovation performance (LWeet al., 2015). In addition, extrinsic motivation enriches well-being, performance, and productivity. Extrinsic motivation allows criminals to foresee higher profitability and satisfaction with lower costs. Criminal actors could be motivated to commit a high-risk predicate offense, while pursuing to earn proceeds for themselves (Klimczak et al., 2021). It is important to assess the correlation between extrinsic and intrinsic motivations. Despite situational difference, it appears that extrinsic rewards distort intrinsic motivations. Thus, the neoclassical economic approach of the self-interested and extrinsically motivated criminal actor offers a very limited account of actual behaviors.

The neoclassical approach and its broadening perspective into law imposes a limited effectiveness of prevention measures (Klimczak et al., 2021). To enhance the legislations, law enforcement agencies need to exclusively examine intrinsic and extrinsic motivations driving criminal behavior. The probability of conviction and punishment will demotivate predicate offenses and increase social welfare. Social welfare measured by legislative effectiveness will decrease predicate offenses by demotivating criminal behavior. In the current legislation framework in the United States demonstrates devastatingly positive illicit financial activities. By reassessing the

legislative framework, the government and law enforcement agencies will provide eminent guidelines for U.S. banking and financial service company compliance managers to identify predicate offenses and reduce the risks of money laundering and modern financing activities.

Summary and Conclusions

As suggested by the key concepts reviewed in this literature review, predicate offenses are evolving as prevailing conditions of society change. A major global challenge in recent times is the Covid-19 pandemic crisis which has increased financial risks worldwide. Understanding the different types of predicate offenses and typologies portrays a holistic process of how criminals launder money or finance modern acts. A review of the existing literature demonstrated intensive research on the topic of financial crime but there is a gap in the current legislative and financial risk management framework. The legislative and financial risk management framework detects economic uncertainties and risk factors requiring a reevaluation of financial risk measurement methodologies to mitigate the risk consequences of money laundering and modern financing activities. A best practice to provide a sound framework to manage financial risks is for U.S. banking and financial service company compliance managers to identify predicate offense typologies. To provide a deeper understanding of how compliance managers can identify predicate offense typologies and indicators to reduce the risks of money laundering and modern financing, it is necessary to understand the seminal work of Gary Becker on the economic theory of criminal behavior which leads to the neoclassical approach. A comprehensive insight into the driving forces behind criminal behavior is crucial to develop effective financial risk management strategies.

The reasoning behind this study was to illustrate how the Covid-19 pandemic has led to greater risks of financial crime in the current economic environment. The challenging Covid-19 economic environment provided new opportunities for criminals to engage in money laundering, modern financing, and other criminal activity by the advent of government stimulus packages, escalated online banking and financial services activities, and remote working measures. We discussed the methodology and research design and rationale. The methodology for this study was qualitative descriptive case study which may provide a deeper understanding of how identifying predicate offenses can help compliance managers reduce the risks of money laundering and modern financing activities (Basit, 2020). Furthermore, we discussed in greater detail the rationale behind participant selection, instrumentation, and the procedures relating to recruitment, participation, and data collection. Also, we discussed the data analysis plan and illustrate the validity of this study.

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