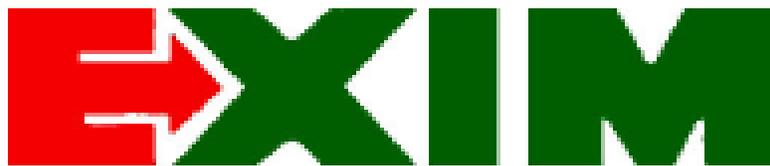


Internship Report

***“Money Laundering as a Risk
in the Banking Industry of
Bangladesh: A study on the
EXIM Bank Ltd, Rajuk Avenue
Branch”***



B A N K

Shariah Based Islami Bank

“Money Laundering as a Risk in the Banking Industry of Bangladesh: A study on the EXIM Bank Ltd, Rajuk Avenue Branch”

Prepared For

MR. Muhammad Intizar Alam

Lecturer

BRAC Business School

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Date of Submission:

***Letter of
Transmittal***

Mr.Muhammad Intisar Alam

Lecturer,

BBS,

BRAC University.

Subject: Submission of Internship Report.

Dear Sir,

It is a great pleasure to submit the Internship report on “Managing Money Laundering Risk in the Banking Industry of Bangladesh: A Study on The EXIM BANK Limited” as the fulfillment of partial requirement of the BBA program.

The topic that you gave me is really an important fact for the finance students. With the textual studies, acquiring practical orientation of the country knowledge of which you have created a big chance for me that must help to work with efficiency in future.

I appreciate having this Report. I have prepared this report with sincerity and serious efforts. If you need any further assistance in interpreting or in implementing this report, please call on me and I will try my best to make myself available at your convenience.

Sincerely yours

Khandakar Mevij

ID: 07104096

BBS

BRAC University.

Acknowledgement

I begin by thanking the Almighty & my beloved parents for my successful completion of the Internship Report, which is a significant part of the completion of BBA Program.

The successful completion of this Internship report has seen many helping hands, without which this would have not been possible. I specially want to acknowledge **Mr. Zoshim Uddin Bhuiyan-Senior Vice President & Manager** and **Mr. Tariqul Islam Choudhury-Senior-Assistant Vice President** of EXIM Bank Ltd., Rajuk Avenue Branch for their tremendous support, guidance and patience. Without their kind supervision, preparing this report would have been very difficult. I am also thankful to them for providing me all the relevant and available information to have a clear concept on the subject.

I would also like to take this occasion to thank **Mr. Shanti Kumar Roy-Assistant Vice President, Mr. Muhammad Yunus Ali-Assistant Vice President, Mr. Md. Abdus Salam - Principal Officer, Mr. Maksudul Hoq-Principal Officer, EXIM Bank, Rajuk Avenue Branch** for their guidance.

My heart full thanks to **Mr. Ashraful Alam,-Senior officer, Mr. Belal Hossain(Tuhin)-Management Trainee Officer, Mr. Md. Moshiur Rahman - Management Trainee Officer and Mr. Niaj Morshed - Assistant officer, IT, EXIM Bank, Rajuk Avenue Branch** who provide me the guidance and counseling during my entire internship program. Their continuous and well-thought feedback enabled me to make this report a comprehensive one.

I would like to express my sincere gratitude to my academic supervisor **Mr. Muhammad Intizar Alam-Lecturer, BRAC BUSINESS SCHOOL, BRAC University** for his constant guidance, supervision and feedbacks which enabled me to prepare a well executed report.

EXECUTIVE

SUMMARY

The internship program is called an “Earn while you Learn” program of training. As the fulfillment of partial requirement of the BBA program I have done the Internship in The EXIM Bank Limited and prepared report on “Managing Money Laundering Risk in the Banking Industry of Bangladesh: A Study on The EXIM Bank Limited.” In this study I have tried to reveal my three months internship experience.

This report contains two parts- the Organizational part and the Project part. In the organizational part, a brief overview of EXIM Bank has given. In the Project part, I have covered efforts undertaken previously with the objective of preventing the banking system from Money Launderer which, has also largely been undertaken by judicial and regulatory agencies at national level seriously. Money laundering is a criminal offence; bank should not provide any service to any criminals and assisting a Money Launderer as it is a criminal offence too.

Anticipating the importance of legislation in this arena, the Government of Bangladesh has made a timely decision by enacting a law titled, “Money Laundering Prevention Act – 2002” and then “Money Laundering Prevention Act -2009” which are very comprehensive and valuable law. As the Central Bank mainly regulates this law, i.e. Bangladesh Bank and all its schedule banks, they must be well comprehended on this law and well equipped to implement it. Therefore, efforts have been undertaken in this study to focus on the real scenario of the EXIM Bank operating soundly in Bangladesh in anticipating the importance of the Act efforts to implement the law and continuity of banking business within legal framework.

For the study, a number of secondary data has been collected from different sources, especially from The EXIM Bank Limited. According to those collected information and with the light of Money Laundering prevention Act 2002 & 2009 - a standard prevention procedure has been described in detail in this report, where I have mentioned different recommendations. To overcome the limitations and to harvest maximum output of the Anti-Money Laundering Act. in Bangladesh – Some recommendations have been made in this paper also. To ensure a consistence and uniform treatment in implementing the law all the banks must work together in the Banking Industry.

Table Of Contents

Part	Chapter	Page No.
A	Chapter 1 : Organization Part	1-11
	1.1 Company Overview	1-2
	1.2 Historical Background	3
	1.3 Company Vision	3-4
	1.4 Company Mission	4-5
	1.5 Key Functions of EXIM Bank	5
	1.6 Social Commitment	5
	1.7 Products & Services	5-8
	1.8 SWOT Analysis	8-11
B	Chapter 2 : Job Description	12-16
	2.1 Specific Responsibilities of My Job	12-13
	2.2 Difference Aspects of Job Performance	13
	2.3 A Brief of EXIM Bank, Rajuk Avenue Branch	14-15
	2.4 Observations	15
	2.5 Recommendations	16
C	Chapter 3 : Introduction	17-19
	3.1 Origin of The Report	17
	3.2 Objective	17-18
	3.3 Scope	18
	3.4 Methodology	18
	3.5 Limitations	18-19
	Chapter 4: History of Money Laundering And Evaluation of Laws	20-23
	4.1 A Brief History of Money Laundering	20-21
	4.2 Laws in Money Laundering	21-23

	Chapter 5: Overview of Money Laundering (ML)	24-29
	5.1 Definition of Money Laundering	24
	5.2 Reasons of Money Laundering	24
	5.3 The Cycle Of Money Laundering	25
	5.4 Stages in Money Laundering	26-28
	5.5 Occurrence of Money Laundering at Different Stages	28-29
	Chapter 6 : Costs of Money Laundering To – The Society, Business Ares And Financial Sectors	30-36
	6.1 Costs To Our Society	30
	6.2 Exposure of Emerging Markets	31-
	6.3 Threat to the Economy	31-33
	6.4 Undermining the Integrity of the Financial Sector	34-35
	6.5 Reputation Risk	35-36
	Chapter 7 : Money Laundering System- Hawallah, Hundi, Chop	37-39
	7.1 Hawallah / Hundi / Chop	37
	7.2 Elements of Hawallah system	37-38
	7.3 Actual operation of this system	38-39
	Chapter 8 : Money Laundering Tools Available in Bangladesh	40-43
	8.1 Hundi Traders	40-41
	8.2 Over and Under Invoicing	41-42
	8.3 Cash Cultures	42-
	8.4 Private Banking Relationship	42-43

	8.5 Electronic Banking	43
	Chapter 9 : Money Laundering Prevention Steps Taken in Bangladesh By the Government	44-51
	9.1 Money Laundering Prevention Act 2002 & 2009	44-47
	9.2 Task Forces	48-49
	9.3 Roles that Financial Institutions Must Play	49-51
	Chapter 10 : Steps Taken By EXIM Bank To Prevent Money Laundering	52-54
	10.1 ML Risk For EXIM Bank	52
	10.2 Procedures Followed in EXIM Bank Bangladesh to Combat Money Laundering	52-54
	Chapter 11 : Recommendations	55-56
	Chapter 12 : Conclusion	57
	Technical Terms And Acronyms	58
	References	59
	Appendix	60-72

1.1 An Overview of EXIM Bank Ltd:

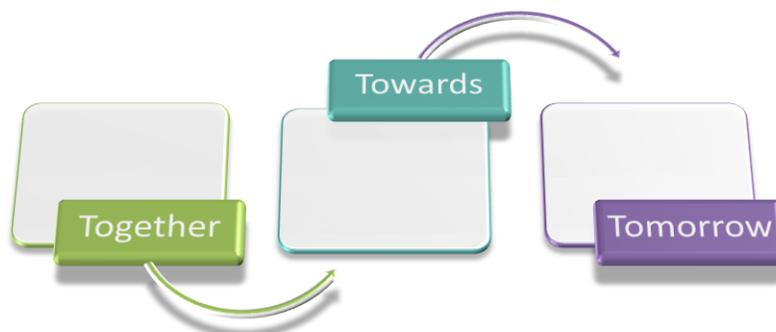
The **EXIM** Bank of Bangladesh Limited is an "**Islamic Shariah based commercial Bank**", which is committed to provide high quality financial services to contribute to the growth of G.D.P. (Gross Domestic Product) of the country through stimulating trade & commerce, accelerating the pace of industrialization, boosting up export, creating employment opportunity for the educated youth, Poverty alleviation, raising standard of living of the limited income group and over all socio-economic development of the country.

The Bank offers full range of Personal, Corporate, International Trade, Foreign Exchange, Lease Finance and Capital Market Services. **EXIM** Bank Limited is the preferred choice in banking for its friendly and personalized services, cutting edge technology, tailored solutions for business needs, global reach in trade and commerce and high yield on investments, assuring Excellence in Banking Services. (www.eximbankbd.com)

Logo of EXIM Bank



Slogan of EXIM Bank



EXIM BANK AT A GLANCE

Name of the Institution	Export Import Bank of Bangladesh Limited
Date of incorporation	June 02,1999
Commencement of operation	August 03.1999
Authorized Capital	Tk. 10000.00 million (December 31 st 2010)
Paid up Capital	Tk. 225 million (initial) Tk. 6832.27 million (as on 31 December, 2010)
Converted to Islamic bank	July 01,2004
Legal form	"A Sbariah based Islamic Bank"
Slogan	"Together Towards Tomorrow"
Target customers	Individuals and Corporate customers
Deposits, accumulated (2010)	Tk. 94949.40 million
General Investments (2010)	Tk.93296.65 million
Investments (shares & securities)	Tk.6012.86 million
Credit Rating	
Long Term	‘AA’-(High Safety)
Short Term	‘ST-2’(High Grade)
Notification of reporting	May 05,2011
Registered Office	“SYMHONY” Plot no.SE(F):9, Road No.142 Gulshan Avenue,Dhaka-1212,Bangladesh
Number of branch (31-12-2010)	59
Total manpower	1440
Chairman	Mr.Md. Nazrul Islam Mazumder
Managing director	Kazi Masihur Rahman
Web address	www.eximbankbd.com

(Annual report of EXIM Bank Ltd 2010)

1.2 Historical Background:

EXIM Bank Limited was established in 1999 under the leadership of Late Mr. Shahjahan Kabir, founder chairman who had a long dream of floating a commercial bank which would contribute to the socio-economic development of our country. He had a long experience as a good banker. A group of highly qualified and successful entrepreneurs joined their hands with the founder chairman to materialize his dream. Indeed, all of them proved themselves in their respective business as most successful star with their endeavor, intelligence, hard working and talent entrepreneurship. Among them, Mr. Nazrul Islam Mazumder became the honorable chairman after the demise of the honorable founder chairman. This bank starts functioning from 3rd August, 1999 with Mr. Alamgir Kabir, FCA as the advisor and Mr. Mohammad Liakotullah as the Managing Director. Both of them have long experience in the financial sector of our country. By their pragmatic decision and management directives in the operational activities, this bank has earned a secured and distinctive position in the banking industry in terms of performance, growth, and excellent management. The authorized capital and paid up capital of the bank are Tk.1000.00millionandTk313.87millionrespectively. The bank has migrated all of its conventional banking operation into Shariah based Islami banking since July/2004. Of its very beginning, EXIM Bank Bangladesh limited was known as BEXIM Bank, which stands for Bangladesh Export Import Bank Limited. But for some legal constraints the bank renamed as EXIM Bank Ltd., which stands for Export Import Bank Of Bangladesh Limited. (www.eximbankbd.com)

1.3 Vision:

The gist of EXIM bank vision is '**Together Towards Tomorrow**'. Export Import Bank of Bangladesh Limited believes in togetherness with its customers, in its March or the road to growth and progress with services. To achieve the desired goal, there will be pursuit of excellence at all stages with a climate of continuous improvement, because, in EXIM Bank, they believe, the line of excellence is never ending. Bank's strategic plans and networking will strengthen its competitive edge over others in rapidly changing competitive environments. Their personalized qualities services to the customers with the

trend of constant improvement will be cornerstone to achieve their operational success.

(www.eximbankbd.com)

1.4 Mission:

The bank has checked out the following corporate objectives in order to ensure smooth achievement of its goals-

- To be the most caring and customer friendly and service oriented bank.
- To create a technology base most efficient banking environment for its customers
- To ensure ethics and transparency in ail levels
- To ensure sustainable growth and establish full value of the honorable shareholders
- Above all, to add effective contribution to the national economy.

(www.eximbankbd.com)

Eventually the bank also emphasize on:

- Provide high quality financial services in export and import trade
- Providing efficient customer service
- Maintaining corporate and business ethics
- Being trusted repository of customers' money and their financial adviser.
- Making its products superior and rewarding to the customers
- Display team spirit and professionalism
- Sound Capital Base
- Enhancement of shareholders wealth

- Fulfilling its social commitments by expanding its charitable and humanitarian activities.

(Annual report of EXIM Bank Ltd 2010)

1.5 Key Functions of EXIM Bank Ltd:

Like other commercial banks EXIM bank performs all traditional banking business including introduction of a wide range of saving and credit products, retail banking and ancillary service with the support of modern technology and professional management, but the EXIM Bank Bangladesh Limited emphasizes its function in export and import trade handling and financing of export oriented industries will enhance wealth, quotes more employment opportunities helps formation of capital and reduces in balance in the balance of payment in the country. (www.eximbankbd.com)

1.6 Social Commitment:

The purpose of the banking business is, obviously, to earn profit, but the promoters and the equity holders of EXIM bank are aware of their commitment to the society to which they belong. A chunk of the profit is kept aside and/or spent for socio-economic development through trustee and in patronization of art; culture and sports of the country and the bank want to make a substantive contribution to the society where we operate, to the extent of our separable resources. (www.eximbankbd.com)

1.7 Product and Services:

The bank serves all types of modern, progressive and dynamic business as well as banking services to the customers of all strata of the society. During the short span of time, the bank has been highly recognized and praised by the business community, from small entrepreneurs to large traders and industrial conglomerates and emerged as the fastest growing among the third generation banks in respect of business and profitability. Export Import Bank of Bangladesh Limited successfully marketed its products designed to fulfill the needs of various socio-economic strata. Attractive features of the products have given

a distinctive image among the private banks. The bank has been making continuous endeavor to offer new products and services. As a commercial bank, they provide all traditional banking services. (www.eximbankbd.com)

1.7.1 Deposit Products:

- ✓ Al-Wadia Current Deposit
- ✓ Mudaraba Savings Deposit
- ✓ Mudaraba Short Term Deposit
- ✓ Mudaraba Term Deposit
 - One Month
 - Two Months
 - Three Months
 - Six Months
 - Twelve Months
 - Twenty Four Months
 - Thirty Six Months
- ✓ Foreign Currency Deposit
- ✓ Mudaraba Savings Scheme
 - Monthly Savings Scheme(Money Grower)
 - Monthly Income Scheme(Steady Money)
 - More than Double the deposit in 6 years (Super Savings)
 - More than triple the Deposit in 10 years (Multiplus Savings)
 - Mudaraba Hajj Deposit

1.7.2 Investment Products:

- ✓ Corporate Finance
- ✓ Industrial Finance

- ✓ Project Finance
- ✓ Syndicate Investment
- ✓ Mode of Investment
 - Murabaha
 - Bai Muazzal
 - Izara Bil Baia
 - Wazirat Bil Wakala
 - Quard
 - Local Documentary Bill Purchased
 - Foreign Documentary Bill Purchased

1.7.3 Plastic Card Products

- ✓ VISA Islamic Card

1.7.4 Remittance:

- ✓ From UK through Exim Exchange Company (UK) Ltd.
- ✓ Cilenco Fast Cash.
- ✓ Western Union Money Transfer.
- ✓ ELDDORADO Money Transfer

1.7.5 L/C (Import & Export) Products

EXIM Bank is posed to extend L/C facilities to its importers / exporters through establishment of correspondent relations and Nostro Accounts with leading banks all over the world.

1.7.6 Other Products

- ✓ Grameen Phoney Bill Deposit

- ✓ Electricity Bill Deposit

www.eximbankbd.com

1.8 SWOT Analysis of EXIM Bank



1.8.1 Strength

- **Strong employee bonding and belongingness**

EXIM bank employees are one of the major assets of the company. The employees of EXIM bank have a strong sense of commitment towards organization and also feel proud and a sense of belonging towards EXIM bank. The strong culture of EXIM bank is the main reason behind this strength.

- **Young Enthusiastic Workforce**

The selection and recruitment of EXIM bank emphasizes on having the skilled graduates and postgraduates who have little or no previous work experience. The logic behind is that EXIM bank wants to avoid the problem of ‘garbage in and garbage out’. This type young and fresh workforce stimulates the whole working environment of EXIM bank.

- **Empowered Work Force**

The human resource of EXIM bank is extremely well thought and perfectly managed. As from the very first, the top management believed in empowered employees, where they refused to put their finger in every part of the pie. This empowered environment makes EXIM bank a better place for the employees. The employees are not suffocated with authority but are able to grow as the organization matures.

1.8.2 Weaknesses

- **Moderate operating span**

EXIM bank has a moderate operating span in Bangladesh. It has only 44 full service branches in Bangladesh situated only at Dhaka, Chittagong, Khulna, Rajshahi and Sylhet. Various geographic segments are currently not availing the services of EXIM bank due to inconvenient branch location or absence of neighborhood branches.

- **Absence of strong marketing activities**

EXIM bank currently don't have any strong marketing activities through mass media e.g. Television. TV ads play a vital role in awareness building. EXIM bank has no such TV ad campaign.

- **Lack of customer confidence**

As EXIM bank is fairly new to the banking industry of Bangladesh average customers lack the confidence in EXIM bank. This is all due to the strong and aggressive performance by the Islami Bank of Bangladesh Ltd.

- **Lack of Financial Product**

The bank falls far behind when the innovative and new schemes are considered. It has not been involved in the tug of war between the competitors to the accounts and strengthens the existing customer base. This stands out to be the major incompetence and weakness of the banks.

1.8.3 Opportunities

- **Countrywide network**

The ultimate goal of EXIM bank is to expand its operations to whole Bangladesh and outside of Bangladesh. Nurturing this type of vision and mission and to act as required, will not only increase EXIM bank profitability but also will secure its existence in the long run.

- **Credit Cards**

This is one of the most popular and emerging products in Bangladesh, which offers customers total financial mobility. Various other banks and institutions are currently offering this product. EXIM bank has introduced its own international Islamic Visa card. In future they have the opportunity to introduce other cards and facility.

- **Electronic Banking**

The world today has become a global village because of advancement in the technologies, especially in communication sector. More emphasis is now given to avail the modern technologies to better the performances. EXIM Bank can utilize the electronic banking opportunity to ensure on line banking 24 hours a day. This would give a competitive edge over others.

- **Micro Financing**

Because of the need for micro financing in the market, there are lot of opportunities in this regard. Other banks have already initiated, now the time has arrived when the EXIM Bank must realize it and take on step to cater an ongoing demand.

1.8.4 Threats

- **Upcoming Banks**

The upcoming private local and multinational bank poses a serious threat to the existing banking networks of EXIM bank. It is expected that in the next few years more commercial banks will emerge. If that happens the intensity of competition will rise further and banks will have to develop strategies to compete against and win the battle of banks.

- **Moderate Levels of Customer Satisfaction**

EXIM bank should continuously improve its customer service strategies and the overall service quality needs to win the customer satisfaction undoubtedly.

- **Customers Complaints**

There exists no regular and specific system of the removal of customer complaints. Now a day a need for total customer satisfaction is emerging and in their demanding consequences customer's complaints are ignored.

I have been assigned as an intern at EXIM Bank Ltd., Rajuk Avenue Branch, for 3 months to fulfill my academic requirement of Bachelors of Business Administration. The duration of my Internship program was from 2nd May, 2011 to 31st July, 2011.

First two weeks of my intern I worked in the General Banking Department. In the GB I have learn how to open bank accounts, how to issue pay orders and how to receive the checks and send it for clearing. Then I was sent to the Foreign Exchange Department. It was my core department. In my Internship report I have focused more on Foreign Exchange Department as I have worked & learned more from there. There are three sections under Foreign Exchange Department, which are-Export section, Import section and Foreign Remittance section. I was assigned to work in Export section as an Intern.

I have worked in the reporting department of export section as an intern. I had to do all the activities related to reporting during my whole internship period. I have regularly checked and updated different register books related to export like Export register, FDBC register and FDBP register. I also updated files against particular FDBC and FDBP numbers, checked and stored the documents and uncovered discrepancies. I could do entry all the data of duplicate and triplicate copy of EXP form. I also learned to report the export details of EXIM Bank Ltd., Rajuk Branch to Head Office. During my intern period, I have learned to list export documents with related Letter of Credit and could provide acceptance, payment, realization or discrepancy against them.

2.1 Specific Responsibilities of My Job

2.1.1 Export Department

My main responsibility as an intern was to assist the officers of export sections-Mr. Ashraful Alam (Senior Officer of Rajuk Avenue Branch, EXIM Bank Ltd.) and Mr. Md. Moshiur Rahman - Management Trainee Officer of Rajuk Avenue Branch, EXIM Bank Ltd.) who deal with export procedures. In order to assist them, I have done a lot of jobs:

- ✓ Check out EXP form correctly.
- ✓ Fill the blanks of EXP form where necessary.
- ✓ Maintain records of realized payments for each organization party/clients.
- ✓ Update EXP register, FDBC register, and FDBP register.
- ✓ Checking & sort listing of documents and uncover discrepancy.
- ✓ Reporting to Head Office about export details.

2.1.2 General Banking

Apart from export department I also assist Mr. Md. Belal Hossian Tuhin (MTO), to issue pay orders and Mrs. Hosna Ara Begum (Senior Officer) for opening the accounts in the general banking department for some time. In this department my job responsibilities are-

- ✓ Maintain the account opening register
- ✓ Fill up the account opening form correctly
- ✓ Attested the Photocopies
- ✓ Sent the check requisition form every day
- ✓ Issuing the pay orders
- ✓ Balancing the pay order books
- ✓ Judge the checks at a glance
- ✓ Receive the checks and classify it either for same day clearing or normal clearing.

2.2 Different Aspects of Job Performance

Job performance depends on many factors like job responsibility, working condition, knowledge and expertise on the work activities; job satisfaction etc. The specific responsibilities of my job were not so tough to do, but too much work loads affect the job performance a lot. The working environment at this branch of EXIM Bank was very friendly, which helped me to consider myself as a part of my jobs with greater satisfaction.

Sometimes the job seems much boring. I could perform well due to the cordial assistance from all of the employees and staffs of this branch.

2.3 A Brief of EXIM Bank Ltd Rajuk Avenue Branch

Among fifty-nine branches of EXIM Bank Ltd., Rajuk Avenue branch is one of the most reputed and respected branches in all aspects. From the very beginning, this branch is contributing a lot to the bank. A brief of EXIM Bank Ltd. Rajuk Avenue branch is given below:

Manager: Mr. Zoshim Uddin Bhuiyan, Senior Vice President & Manager

Assistant-Manager: Mr. Tariqul Islam Choudhury, Vice President.

Investment in charge: Shanti Kumer Roy, Assistant Vice President

Foreign Exchange in Charge: Mr. Muhammad Yunus Ali, Assistant Vice President.

Cash in charge: Mr. Kamrul Hasan, Executive Officer

General Banking in Charge: Mr. Md. Maksudul Hoq, Principal Officer

Total Number of employees: 39

Departments:

EXIM Bank, Rajuk Avenue branch has three main departments. These are:

- General Banking Department
- Investment Department &
- Foreign Exchange Department

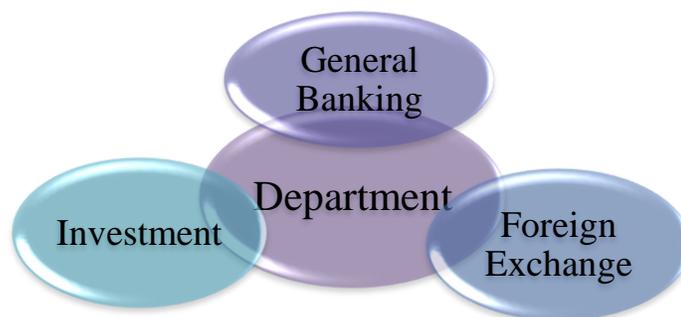


Chart 1: Departments of EXIM Bank, Rajuk Avenue Branch

2.4 Observations:

- ✓ All the works are done through the software TEMENOS T24 which is the world renowned Core Banking Software.
- ✓ Though all the works are done by the software the bank have to maintain the hand written registers for audit and other official purposes.
- ✓ All the works need special attention specially the clearing, issuance of pay orders and the foreign exchange activities. If there is any mistake in issuing the pay orders, one senior officer has to authorize it.
- ✓ If the cheque has been represented 3 times and returned, it was instructed not to receive anymore.
- ✓ The employees have to work on pressure because of huge customers all the time.
- ✓ The environment of the bank is so friendly that's why everyone can enjoy their work very much.

2.5 Recommendations:

- ✓ As the bank implemented the latest software the employees need more training to assist with the software.
- ✓ The IT Department must work more fast when the problem occur so that they can start their work on time to serve the customers.
- ✓ The customers must fill the KYC (Know Your Customer), TP (Transaction Profile) form properly.
- ✓ All the forms are not updated yet. It requires some more time to update.
- ✓ The account opening forms must be filled up properly whether the customer is known or unknown.
- ✓ All the required papers must be taken and attested properly.

3.1 Origin of the Report

This report is an Internship Report prepared as a requirement for the completion of the BBA program of the School of Business, BRAC University. The primary goal of internship is to provide a job exposure to the students and an opportunity for translation of theoretical conception in real life situation. Students are placed in enterprises, organizations, research institutions as well as development projects. The program covers a period of 12 weeks of organizational attachment and 2 to 3 weeks of report finalization work.

After the completion of four-year academic BBA program, I was placed in EXIM Bank Ltd. Rajuk Avenue Branch in Dhaka for the internship program. The duration of my organizational attachment was, by policy 12 weeks, starting from May 02, 2011. As a requirement for the completion of the program I needed to submit this report, which would include an overview of the organization, I was attached with and an elaboration of the project, I was supposed to conduct during the internship period.

Basically based on secondary data and information the report is made. The process and findings of the study is mainly demonstrating my capacity for some creative and original approach to solving practical problems in today's business. My area of specialization is Finance & Accounting and the area for this study is especially The EXIM Bank Limited, Rajuk Branch, Dhaka.

3.2 Objective of Report

There are two identified objectives of the study. This are-

Primary Objectives:

General objective is to gain the practical knowledge on the range of activities, policies associated with banking sector, internal & external influential factors for the product & procedures of the bank. This report will also give the opportunity to relate our theoretical understanding with actual scenario & state my findings & recommendations.

Secondary Objectives:

Specific objective is to gather information from possible sources and analyze the selected scopes sited below regarding the selected company-

- To give a brief overview of EXIM Bank Ltd. and the functions and services offered by the bank.
- To identify the implements and the way of implementing the Money Laundering Prevention Act in Bangladesh.
- To identify initiatives to manage Money Laundering risk in the banking Industry of Bangladesh. State a guideline for banks to implement and prevent Money Laundering in the banking sector and in economy.
- To identify the rules and policies that is followed by the EXIM Bank to prevent money laundering.

3.3 Scope of Study

Broadly, this study has covered one branch of a local bank working in Bangladesh about Anti Money Laundering efforts. This study has been conducted at the EXIM Bank, Rajuk Avenue Branch at Dhaka.

3.4 Methodology

In this study, all the information and data has collected from secondary sources.

3.5 Limitations of Report

I have faced the following problems that may be termed as the limitations or shortcomings of the study. Following limitations have faced during the study and the time of working & data collection:

- I have to lend a hand to the general banking and foreign exchange department of EXIM Bank Ltd, Rajuk Avenue Branch, being a part of my internship program hence; I had to manage time from my working hours.

- I have selected a critical and vast matter for the report like “*Money Laundering as a Risk in the Banking Industry of Bangladesh: A study on the EXIM Bank Ltd, Rajuk Avenue Branch*” but three months time limit is not adequate to focus each and every issue of Money Laundering (ML) prevention elaborately.
- On the other hand, my previous educational background does not support this topic.
- Above all, as this topic is associated with Banks internal policy so banks had some reservations in disclosing material information.
- No quantitative study for finding out the impact of the anti-Money Laundering initiatives is done because of the absence of previous study or data.
- I carried out such a study for the first time, so in experience is one of the main constraints of the study.

4.1 A Brief History of Money Laundering

US gangster boss Al Capone was the initiator of Money Laundering. He earned a huge amount of money through drug trafficking. Later he was arrested for tax evasion and stayed in the Libian prison. During 1920s he had some laundry firms those maintained accounts with banks. With legal money he also put his illegally earned money in the bank to make his illegal money legal. From then this term “Money Laundering” come into being.

It was also heard that Gangsters sometimes used their illegally earned notes to make soil and later those unusable notes were put into the US Federal Reserve, in return, they get cash certificates which was easily convertible in the banks. So the term Money Laundering was justified from then.

Though this process of making dirty money clean, started long before but this term was used in US newspapers in 1970s. In 1980s US mafia used pizza shop and jewelry parlor to laundry their illegal money through banks. The main grounds of using this kind of business were- they are very liquid in nature so no one can identify the actual income through this business.

In 2000 politically exposed persons also join in this group to make black money white so that they can use it freely. In 2001 terrorist financing – although only one aspect of Money Laundering, has become a critical concern following the events of 11 September, 2001.

The term "Money Laundering" is said to originate from Mafia ownership of Laundromats in the United States. There Gangsters were earning huge cash from extortion, prostitution, gambling and bootleg liquor. They needed to show a legitimate source for these monies.

The Act of "Money Laundering" was not invented until the Prohibition era in the United States, but many techniques were developed and refined then. Many methods were devised to disguise the origins of money generated by the sale of illegal alcoholic beverages. Following Al Capone's 1931 conviction for tax evasion, mobster Meyer

Lansky transferred funds from home to accounts overseas. After the 1934 Swiss Banking Act which created the principle of bank secrecy, Meyer Lansky bought a Swiss bank where he would transfer his illegal funds through a complex system of shell companies and offshore accounts.

The term "Money Laundering" itself does not derive, as it often said from the story that Al Capone used Laundromats to hide ill-gotten gains. It was Meyer Lansky who perfected Money Laundering's older brother "capital flight", transferring his funds to Switzerland and other offshore places. The first reference to the term "Money Laundering" itself actually appears during the Watergate scandal (1973). US President Richard Nixon's "Committee to Re-elect the President" moved illegal campaign contributions to Mexico, then brought the money back through a company in Miami. It was Britain's Guardian newspaper that coined the term, referring to the process as "Laundering."

(Money Laundering- A Brief History by Billy Steel)

4.2 Laws in Money Laundering

Until the 1980s only a handful of jurisdiction had criminalized in Money Laundering but it became mandatory to protect the financial stability of a concerned country and the world economy as a whole. As a result in last ten years we have seen an increase in the inaction of laws and regulations. As we shall see that Money Laundering can have detrimental effects on the social and economic fabric of a nation.

The United States were the first to enact anti-Money Laundering laws. Any transaction over \$10,000 was being subject to mandatory and heavy examination. This resulted in disguised deposits by the launderers. But even with such laws many financial institutions helped these launderers and then large fines were imposed on these financial institutions by the Federal Court to prevent Money Laundering.

During late 1980s there was a growing concern about Money Laundering's threat to the international banking system and then initiatives taken to curtail this massive criminal

activity. The body that has most successfully coordinated international anti-money-laundering initiatives is the Financial Action Task Force on Money Laundering (FATF). The G-7 Nations (USA, Canada, Britain, Germany, Japan, Italy & France) implemented the Financial Action Task Force in 1989 and the FATF is now the major driving force promoting action against Money Laundering. The FATF put forward 40 recommendations which have now become standards against which anti-Money Laundering regimes are measured. This policy making task force was assigned responsibility for examining Money Laundering techniques and trends, reviewing prior national and international action and determining additional Anti-Money Laundering measures.

Today this comprehensive set of measures is the leading international Anti-Money Laundering standard. The 40 Recommendations cover the criminal justice system and law enforcement, the financial system and its regulation and international cooperation. The recommendations set out principles for action and allow countries flexibility in implementing these principles in accord with their particular circumstances and laws. Many countries have made a political commitment to combat Money Laundering by implementing the recommendations even though they are not binding agreements. The actual 40 recommendations are beyond the scope of this report. So I will just provide a summary which is understandable by all. The 40 recommendations are attached in the appendix.

(GUIDANCE NOTES ON PREVENTION OF MONEY LAUNDERING)

4.2.1 Summary of 40 Recommendations

- Criminalizing the laundering of the proceeds of serious crimes and enacting measures to seize the proceeds of crime.
- Requiring financial institutions to identify all clients, including any beneficial owners of property, and to keep appropriate records.
- Ensuring adequate systems for the control and supervision of financial institutions.

- Establishing international treaties or agreements to pass national legislation that will allow countries to provide prompt and effective international cooperation at all levels.
- Requiring financial institutions to report suspicious transactions to the competent national authorities and to implement a comprehensive range of internal control measures.

(40 recommendations of FAFTS)

Current Membership Status and other Regional Groups

The FATF currently comprises 34 member jurisdictions and 2 regional organizations, representing most major financial centers in all parts of the globe.

<ul style="list-style-type: none"> ● Argentina ● Australia ● Austria ● Belgium ● Brazil ● Canada ● China ● Denmark ● European Commission 	<ul style="list-style-type: none"> ● Finland ● France ● Germany ● Greece ● Gulf Co-operation Council ● Hong Kong, China ● Iceland ● India ● Ireland 	<ul style="list-style-type: none"> ● Italy ● Japan ● Kingdom of the Netherlands* ● Luxembourg ● Mexico ● New Zealand ● Norway ● Portugal ● Republic of Korea 	<ul style="list-style-type: none"> ● Russian Federation ● Singapore ● South Africa ● Spain ● Sweden ● Switzerland ● Turkey ● United Kingdom ● United States
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**The Kingdom of the Netherlands: the Netherlands, Aruba, Curacao and Saint Maarten.*

(The 36 Members of the FATF)

5.1 Definition of Money Laundering

The simplest definition of “Money Laundering” is that –

Money Laundering is the process of converting cash, or other property that is derived from illegal activity, so as to give it the appearance of having been obtained from a legitimate source. Generally, the act of conversion and concealment is considered crucial to the laundering process. It is important here to identify various illegal activities before actually going into a deep analysis. Cash or Valuables that are derived or are proceeds of illegal activity include, drug production and selling, smuggling, theft, blackmail, bribes, terrorism, tax evasion and any other crime committed that results in financial gains.

(GUIDANCE NOTES ON PREVENTION OF MONEY LAUNDERING)

5.2 Reasons of Money Laundering

Criminals engage in Money Laundering for three main reasons:

First, money is the lifeblood of the organization that engages in criminal conduct for financial gain. Because it covers operating expenses, replenishes inventories, purchases the services of corrupt officials to escape detection and further the interests of the illegal enterprise and pays for an extravagant lifestyle. To spend money in these ways, criminals must make the money they derived illegally appear legitimate.

Second, a trail of money from an offense to criminals can become incriminating evidence. Criminals must obscure or hide the source of their wealth or alternatively disguise ownership or control to ensure that illicit proceeds are not used to prosecute them.

Third, the proceeds from crime often become the target of investigation and seizure. To shield ill- gotten gains from suspicion and protect them from seizure, criminals must conceal their existence or, alternatively, make them look legitimate.

(GUIDANCE NOTES ON PREVENTION OF MONEY LAUNDERING)

5.3 The Cycle Of Money Laundering

Before going into the cycle of Money Laundering it is important to identify the ingredients and tools required to clean dirty money so that the cycle becomes much clearer.

5.3.1 Money Laundering Tools And Equipment

- The first obvious ingredient is the proceeds mainly in the form of cash derived from illegal sources.
- Employees who are prepared to process the dirty money contrary to laws and regulations.
- Computers to process electronic fund transfers through the anonymity of the internet.
- Regulatory body that are either corrupt, ineffective or lacking the statutory powers.

The love for money therefore seems to be the root of all evils. Now-a-days it is possible to transfer large volumes of cash around using wire transfers providing the temptations to commit more illegal activities and the proceeds from those being laundered.

Actual Money Laundering generally takes place through a cycle of transactions, also known as the stages of Money Laundering. There are three different stages that a money launderer generally has to go through to make his illegally earned assets look legitimate. Speaking from the launderer's point of view, all of these stages need to be gone through with a great degree of caution. The stages of Money Laundering are placement, layering and integration.

(GUIDANCE NOTES ON PREVENTION OF MONEY LAUNDERING)

5.4 Stages in Money Laundering

5.4.1 Placement Stage

This is the initial stage of Money Laundering where the funds from illegal activities are introduced into the financial system. This is known as placement. Simply the funds are in majority raw cash and the launderer wishes to ‘place’ the funds into the financial system mainly through the help of numbered bank account and if possible in different banks. The main intention here is to get the dirty money across the counter. This stage usually involves:

- Depositing the cash at a bank that is mingled with clean funds from legitimate business sources to avoid suspicion. Then converting the cash to:
 - Purchase money market instruments, securities or fixed deposits. In the context of Bangladesh maybe Sanchya Patras are purchased.
 - Readily recoverable debt
- Breaking up one large amount of cash deposit into many smaller ones that can be deposited over the counter without raising suspicion from the teller’s end, a process known as surfing.
- Purchasing high value goods for personal use.

5.4.2 Layering Stage

The purpose of this stage is to make it more difficult to detect and uncover a laundering activity. It is meant to make the trailing of illegal proceeds difficult for the law enforcement agencies. Usually this is achieved by a wide variety of methods according to the opportunity given to, and the ingenuity of the criminals and their advisors. Usually the stage involves:

- Channel the fund through purchase or sale of investment instruments.
- Wire the fund through a series of accounts at various banks across the globe or across jurisdiction.
- Use of cash deposits as collateral security in support of legitimate transactions.
- Resale of purchased goods/assets and the proceeds moved elsewhere.

The idea of layering is to move the money around and thus disguise its illegal origins as far as possible. This process of layering is mainly prevalent and more profound in countries where the jurisdictions do not cooperate with anti-Money Laundering investigations or compliance is not given due diligence. The financial institutions all over the world have been prompted to be aware of this stage.

5.4.3 Integration

This is the third and the final stage of Money Laundering. In simple terms, during or at this stage the laundered funds are reintroduced into the economy after successfully processing illegal proceeds through the first two stages. At this level the illegally earned funds re-enter the economy as legally earned funds without apparent connection to crimes committed. Methods popular to money launderers at this stage of the game are-

- The sending of false export-import invoices overvaluing goods allows the launderer to move money from one company and country to another with the invoices serving to verify the origin of the monies placed with financial institutions.
- A simpler method is to transfer the money via Electronic Fund Transfer (EFT) to a legitimate bank from a bank owned by the launderers.

The placement and layering phases of Money Laundering have greatest impact on a developing country's financial institutions. During these phases the illicit funds are being laundered but have not yet been fully integrated into the economy for use by the

launderer for consumption goods, or as investments in legitimate businesses. Therefore it is important that during the first two stages extreme caution is taken by the financial institutions.

The three basic steps may occur as separate and distinct phases. They may also occur simultaneously or more commonly or may overlap. A quick summary of the three stages along with example is provided in the table below:

Placement Stage	Layering Stage	Integration Stage
Cash paid into bank (sometimes with staff complicity or mixed with proceeds of legitimate business).	Wire transfers abroad (often using shell companies or funds disguised as proceeds of legitimate business).	False loan repayments or forged invoices used as cover for laundered money.
Cash exported.	Cash deposited in overseas banking system.	Complex web transfers (both domestic and international) makes tracing original source of funds virtually impossible.
Cash used to buy high value goods, property or business assets.	Resale of goods/assets.	Income from property or legitimate business assets appears "clean".

Table 1: 3 Stages of Money Laundering

(GUIDANCE NOTES ON PREVENTION OF MONEY LAUNDERING)

5.5 Occurrence of Money Laundering at Different Stages

As proceeds from crimes are illegal everywhere in the world, all the earnings through illegal activities have to go through the process of Money Laundering. In most cases launderers tend to choose areas where there is low risk of recognizing such

transactions due to ineffective or weak Anti-Money Laundering regulations. Hence developing countries like ours get top priority in the list of launderers' plan to make their illicit proceeds appear clean. The intention or goal of the launderer is to get dirty money cleaned and integrated into a stable financial system in such a way that it cannot be traced back to its original source (of crime).

During the layering phase, the launderer might choose an offshore financial centre, a large regional business centre, or a world banking centre – any location that provides an adequate financial or business infrastructure. At this stage, the laundered funds may also only transit bank accounts at various locations where this can be done without leaving traces of their source or ultimate destination.

Finally, at the integration phase, launderers might choose to invest laundered funds in still other locations if they were generated in unstable economies or locations offering limited investment opportunities.

It is clear from the above discussion that Money Laundering is prevalent in every weak economy and financially bereft countries and it has detrimental consequences for the economy in the long run.

(GUIDANCE NOTES ON PREVENTION OF MONEY LAUNDERING)

6.1 Costs To Our Society

Money Laundering mainly comprises of funds acquired through criminal activity, such as sale of narcotics, terrorism, evasion of tax, drug trafficking, theft or burglary, smuggling, criminal deception, illegal gambling, prostitution, book making, black mailing, extortion, loan sharking, and any other offenses mentioned by the law. Directly or indirectly these crimes affect everyone. For instance a drug addict on an average commits more than two hundred crimes a year. With even a small increase of the addict population, due to the increase in drug trafficking, the chance of each individual being victimized is increasing immensely. Hence the social and law enforcement cost of these crimes are very high, even if these crimes are committed within the country or overseas. Therefore if it is left unchecked the consequences can be severe. Organized crimes can penetrate into the financial institutions and acquire control of a large stake of the economy through investment. It can also encourage practices such as offering bribes to public or government servants, which is already prevalent here in Bangladesh.

Among its other negative socioeconomic effects, Money Laundering transfers economic power from the market, government, and citizens to criminals. In short, it turns the old proverb that crime doesn't pay on its head. Furthermore, the pure degree of the economic power that accrues to criminals from Money Laundering has a corrupting effect on all elements of society. In extreme cases, it can lead to the virtual take-over of legitimate government.

Overall, Money Laundering presents the world community with a complex and dynamic challenge. Indeed, the global nature of Money Laundering requires global standards and international cooperation if we have to reduce the ability of criminals to launder their proceeds and carry out their criminal activities. The influence of criminal organizations on the politics and economy can weaken the social fabric, collective ethical standards, and ultimately the democratic system of a country. In short Money Laundering enables criminal activity to continue and if it is already prevalent in the economy then temptations to make more money.

(GUIDANCE NOTES ON PREVENTION OF MONEY LAUNDERING)

6.2 Exposure of Emerging Markets

Money Laundering is a problem not only in the world's major financial markets and offshore centers, but also for emerging markets. Indeed, any country integrated into the international financial system is at risk. As emerging markets open their economies and financial sectors, they become increasingly viable targets for Money Laundering activity.

Increased efforts by authorities in the major financial markets and in many offshore financial centers to combat this activity provide further incentive for launderers to shift activities to emerging markets. There is always a presence of significant cross-border cash shipments to markets with loose arrangements for detecting and recording the placement of cash in the financial system and of growing investment by organized crime groups in real estate and businesses in emerging markets. Unfortunately, the negative impacts of Money Laundering tend to be magnified in emerging markets.

A closer examination of some of these negative impacts in both the micro- and macroeconomic realms helps explain why Money Laundering is such a complex threat, especially in emerging markets.

(GUIDANCE NOTES ON PREVENTION OF MONEY LAUNDERING)

6.3 Threat to the Economy

As the developed nations are becoming more and more cautious of the ways of Money Laundering, the launderers are also trying to find innovative ways to serve their purpose. For this reason, countries with growing and developing economies are day by day becoming number one targets of such activities. This is only due to the lack of regulatory control in almost all sectors of the developing and underdeveloped nations.

Like the damaged reputation of a financial institution, there are damaging effects to an economy, which can be caused by Money Laundering. If the launderers can penetrate into the economy, then the commercial and financial sectors are bound to be under the influence of organized crime. The situation in Bangladesh is quite similar to that.

6.3.1 Effect on Unemployment

Money Laundering has an unavoidable and inevitable connection with the underworld and the situation in Bangladesh is worsening every day. Criminal and illegal activities are increasing in every aspect of life here. With a steady rise in drug trafficking (to speak the least) the addict population of our country is increasing even as we speak. And generally speaking most of this addict group does not add any value to our country, rather others have to work and support them. In short if these groups of the population do not work and merely dependent, by the way which is increasing in number, then, these underworld activities are helping to increase the rate of unemployment in our country.

6.3.2 Effect on Economic Development

The negative economic effects of Money Laundering on economic development are difficult to quantify. It is clear that such activity damages the financial sector institutions that are critical to economic growth. It reduces productivity in the economy's real sector by diverting resources and encouraging crime and corruption, which slow economic growth, and can distort the economy's external sector (international trade and capital flows) to the detriment of long-term economic development.

6.3.3 Undermining the Private Sector

One of the most serious microeconomic effects of Money Laundering is felt in the private sector. Money launderers often use front companies, which co-mingle the proceeds of illicit activity with legitimate funds, to hide the ill-gotten gains. For example, organized crime may use pizza parlors, music shops (selling DVDs, VCDs or music CDs) or stationery outlets to mask proceeds from illegal activities. These front companies have access to substantial illicit funds, allowing them to subsidize front company products and services at levels well below market rates. In some cases, front companies are able to offer products at prices below what it costs the manufacturer to produce. Thus, front companies have a competitive advantage over legitimate firms that draw capital funds from financial markets. This makes it difficult, if not impossible, for legitimate business to compete

against front companies with subsidized funding, a situation that can result in the crowding out of private sector business by criminal organizations.

Furthermore as a result of this undermining in the private sector Money Laundering threatens the efforts of many states to introduce reforms into their economies through privatization. Criminal organizations have the financial wherewithal to outbid legitimate purchasers for formerly state-owned enterprises. Furthermore, while privatization initiatives are often economically beneficial, they can also serve as a vehicle to launder funds. In the past, criminals have been able to purchase marinas, resorts, casinos, and banks to hide their illicit proceeds and further their criminal activities.

Lastly, the management principles of these criminal enterprises are not consistent with traditional free market principles of legitimate business, which results in further negative macroeconomic effects.

6.3.4 Economic Distortion and Instability

Money launderers are not interested in profit generation from their investments but rather in protecting their proceeds. Thus they invest their funds in activities that are not necessarily economically beneficial to the country where the funds are located. Furthermore, to the extent that Money Laundering and financial crime redirect funds from sound investments to low-quality investments that hide their proceeds, economic growth can suffer. In some countries, for example, entire industries, such as construction and hotels, have been financed not because of actual demand, but because of the short-term interests of money launderers. When these industries no longer suit the money launderers, they abandon them, causing a collapse of these sectors and immense damage to economies that could ill afford these losses.

As a result of this there is significant loss in revenue as Money Laundering diminishes government tax revenue and therefore indirectly harms honest taxpayers. It also makes government tax collection more difficult. This loss of revenue generally means higher tax rates than would normally be the case if the untaxed proceeds of crime were legitimate.

6.4 Undermining the Integrity of the Financial Sector

Integrity of the financial sector of any nation heavily depends on the perception of the fact that it functions within a framework of high professional, legal and ethical standards. Reputation for integrity is the most valuable assets of a financial institution.

Sometimes proceeds from criminal activity can be laundered through a particular financial institution, due to reasons such as bribing the employees or the management turning a blind eye to have a healthy amount of business. In such cases the institution will have a possibility of joining hand with the criminals and becoming a part of their criminal activity.

Financial institutions that rely on the proceeds of crime have additional challenges in adequately managing their assets, liabilities and operations. For example, large sums of laundered money may arrive at a financial institution but then disappear suddenly, without notice, through wire transfers in response to non-market factors, such as law enforcement operations. This can result in liquidity problems and runs on banks. Evidence of such incidents can and will have a damaging impact on other financial intermediaries, regulatory authorities, and even the ordinary customers.

6.4.1 Threat to the Financial Institutions

It is quite inevitable that the very presence of financial institutions such as banks, non-bank financial institutions (NBFIs) are critical to economic growth in developing countries and even more so for Bangladesh. Such institutions allow for the concentration of capital resources from domestic savings, and perhaps even funds from abroad, and the efficient allocation of such resources to investment projects that generate sustained economic development.

Money Laundering impairs the development of these important financial institutions for two reasons:

- First, it erodes financial institutions themselves. Within these institutions, there is often a correlation between Money Laundering and fraudulent activities undertaken by employees. At higher volumes of Money Laundering activity, entire financial institutions in developing countries are vulnerable to corruption by criminal elements seeking to gain further influence over their Money Laundering channels.
- Second, particularly in developing countries, customer trust is fundamental to the growth of sound financial institutions, and the perceived risk to depositors and investors from institutional fraud and corruption is an obstacle to such trust.

By contrast, beyond protecting such institutions from the negative effects of Money Laundering itself, the adoption of anti Money Laundering policies by government financial supervisors and regulators, as well as by banks, NBFIs, and equity markets themselves, reinforce the other good governance practices that are important to the development of these economically critical institutions.

6.5 Reputation Risk

Nations cannot afford to have their reputations and financial institutions tarnished by an association with Money Laundering, especially in today's global economy. Confidence in markets and in the signaling role of profits is eroded by Money Laundering and financial crimes such as the laundering of criminal proceeds, widespread financial fraud, insider trading of securities, and embezzlement. The negative reputation that results from these activities diminishes legitimate global opportunities and sustainable growth while attracting international criminal organizations with undesirable reputations and short-term goals. This can result in diminished development and economic growth. Furthermore, once a country's financial reputation is damaged, reviving it is very difficult and requires significant government resources to rectify a problem that could be prevented with proper anti-money-laundering controls. Money Laundering has a corrosive effect on a country's

economy, government, and social well-being and given the technological advantages to money launderers now employ, a high level of international cooperation is necessary to keep them in check. It is quite clear that Money Laundering has potentially devastating economic, security, and social consequences. It provides the fuel for drug dealers, terrorists, illegal arms dealers, corrupt public officials, and others to operate and expand their criminal enterprises. Crime has become increasingly international in scope, and the financial aspects of crime have become more complex due to rapid advances in technology and the globalization of the financial services industry.

Modern financial systems, in addition to facilitating legitimate commerce, also allow criminals to order the transfer of millions of dollars instantly using personal computers and satellite dishes. Because Money Laundering relies to some extent on existing financial systems and operations, the criminal's choice of Money Laundering vehicles is limited only by his or her creativity. Money is laundered through currency exchange houses, stock brokerage houses, gold dealers, casinos, automobile dealerships, insurance companies, and trading companies. Private banking facilities, offshore banking, shell corporations, free trade zones, wire systems, and trade financing all can mask illegal activities.

Money Laundering can erode the integrity of a nation's financial institutions. Due to the high integration of capital markets, Money Laundering can also adversely affect currencies and interest rates. Ultimately, laundered money flows into global financial systems, where it can undermine national economies and currencies. Money Laundering is thus not only a law enforcement problem; it poses a serious national and international security threat as well.

In short, Money Laundering and financial crime may result in inexplicable changes in money demand and increased volatility of international capital flows, interest, and exchange rates. The unpredictable nature of Money Laundering, coupled with the attendant loss of policy control, may make sound economic policy difficult to achieve.

7.1 Hawallah / Hundi / Chop

One system that has been very difficult to investigate is the Asian and Chinese underground banking systems. The system has names according to the country where it is operated. In Chinese underground banking terms or the system is referred to as fei ch'ien which means flying money. In Hindi it referred to as the Hawallah/Hundi/Chop which means transfer related money. In Arabic and Urdu it means trust. The Hawallah is based on the family using worldwide network of ethnic Pakistani, Indian and Bangladeshi families providing efficiency and confidentiality for those wishing to avoid conventional banking channels.

(The hawala alternative remittance system and its role in money laundering)

7.2 Elements of Hawallah system

The funds in this system are layered through a complex chain of wire transfers, gold smuggling and invoice manipulation. They are then usually integrated into legitimate business or investment in real estate. The major elements that allow the system to operate smoothly are described below.

7.2.1 Confidentiality

This is crucial between the client and the Hawallah dealer and a code of silence governs all transactions with dire consequences attached to the breach of trust. If the code is broken, it not only puts his business in trouble but his life also.

7.2.2 Convenience

Hawallah dealers often operate in rural areas of underdeveloped countries where there are no conventional banking services and the dealer fills this void. They offer the same services as provided by the conventional banks such as cashier cheques, money orders and currency exchange. Even where conventional banks exist it is not uncommon to have the Hawallah dealers working as tellers.

7.2.3 Efficiency

Banking transactions through the normal banking channels especially in third world countries can be slow and complex. The Hawallah systems can transfer large sums of money internationally within hours with little or no paperwork and no physical movement.

7.2.4 Cost Effectiveness

The economic incentive to use the Hawallah system rests upon the favorable exchange rate movements and the low cost of Hawallah transactions. The exchange rate used in this system is based on the Indian black market dollar price which is linked to the amount of gold being smuggled into the country. Therefore the exchange rate offered is better than the official exchange rates offered.

The Hawallah dealer provides better rates and charges lower commissions because he makes additional profits through speculation in the money markets with the remitted funds and holds those funds in interest bearing accounts prior to transfer.

(The hawala alternative remittance system and its role in money laundering)

7.3 Actual operation of this system

- A client who wishes to transfer funds in secret will go to the Hawallah dealer who will agree to a commission and exchange rate and take the cash from the client. This cash usually is in the currency of the client's home country. These funds are deposited locally by the dealer being mixed with funds from the dealer's legitimate business.
- The client is given a chit. This may be half of a playing card or a banknote or a marked scrap of paper.

- The client's agent then goes to the Hawallah dealer's opposite number in the country where the funds are to be sent, the agent produces the chit and it is matched to the other half by the Hawallah dealer. The funds less the commissions are then paid to the agent.

Hawallah dealers maintain constant reconciliation accounts with other dealers, balances being settled by using Swiss bank accounts and inter-bank transfers again using the cover of legitimate business. The dealers have and successfully operate legitimate businesses with substantial cash flow and include travel agencies, carpet companies, gold dealerships, gem trading.

(The hawala alternative remittance system and its role in money laundering)

8.1 Hundi Traders

The Hundi (Hawallah) trading system and its operation modality have been explained earlier and this is a concept that is also present in Bangladesh. The system is a major tool for laundering money and terrorist financing in Bangladesh. By now it is clear that hundi is the most informal way of remitting money from one country to another. It is very much illegal as the currencies being channeled into the country do not reflect in the currency reserve of a nation. Hundi has a vast network worldwide. It is done in a manner, where someone residing abroad gives the fund that needs to be remitted to another country, Bangladesh for instance, to another person (a middle person) in exchange of some charges (commissions). The middleman through his network will ask yet another person (another middleman) to deliver the mentioned amount to its required destination. Both the middlemen get some charges in return for undertaking this illegal transaction. In these types of transactions, the money itself is not physically transferred. The middlemen pay the sum from their own accounts and later get their own funds settled. This unregulated currency transaction has a terrible affect on the economy, as it helps to devalue the home currency.

Hundi is an old method and is a very effective one for the launderers as it has a massive network around the world. For a country like Bangladesh this illegal transfer of foreign currency has gained popularity (especially among the Bangladeshis wage earners residing abroad) due to its competitive advantage against the drawbacks of our formal channels (or the financial institutions). The local banks do not have global presence and similarly, the global banks do not have a local presence. Therefore for a Bangladeshi wage earner, who are working abroad, to find a foreign bank which is available there and also has branch down his village, is next to impossible. And even if the chosen foreign bank has an alternative arrangement with a certain local bank, it would definitely mean to do so at the cost of higher charges and in a longer time span with limitations to the amount being transferred. To add more to that, 60% of the wage earners residing abroad are not well educated and many of them are also residing there illegally. This group of people actually has fear of going to any of the foreign banks. Especially the illegal citizens are very keen to avoid any sort of formal or legal financial institutions to transfer their money as these

institutions would naturally require them to give detailed information for their record keeping purposes. Moreover, the charges for remittances of both the local and the foreign banks are also very high. Hence for a wage earner the ethical concern for the country's Foreign Currency Reserve consolidation will come secondary. To him his primary concern would be to send money home (where it is most needed) in the fastest and cheapest most way.

The hundi traders are becoming ever so dynamic. It was quite interesting to know that they not only deal with cash fund provided by their customers but also they grant money transfers on credit. And nowadays the availability of telephones, cell phones, e-mail, fax, and etc. has made the process more efficient and reliable. Nowadays remitters release money to the Hundi trader after they have received acknowledgement over e-mails or phone calls from the beneficiary from a distant location.

8.2 Over and Under Invoicing

In the terms of Money Laundering over and under invoicing is mostly related to the export-import business. This is done by business people involved in international trade, who want to illegally transfer their funds (earned lawfully or unlawfully) to foreign destinations. Reasons to undertake such activity could be to evade tax or to avoid local legal scrutiny on illegally earned money.

Over invoicing is a Money Laundering tool which favors importers. To be able to use this technique, the importer needs the help of his supplier abroad. Now, if he wants to transfer his money abroad illegally to some country, known to be a tax-heaven, for example, he can simply ask his supplier to show an invoice which will represent a sum excessive in value to the goods actually imported. The importer on the other hand will send the mentioned amount, and the supplier (having an unofficial understanding) will deposit the excess sum to the importer's foreign account.

Under invoicing on the other hand is favorable to exporters. And in this case the exporter will seek help from his overseas client. If the client agrees, over exporting goods abroad

he will show an invoice that will represent an amount that is well below the price of actual goods exported. The client on the other end will favor the exporter by sending the amount mentioned in the invoice to the exporter's country and the rest will be deposited to the exporter's foreign bank account, hence successfully conducting Money Laundering.

8.3 Cash Cultures

Bangladesh being a third world country comparatively takes a longer time to accept technological advancement. This is especially true in the case of financial sector. Although there has been much development in the financial sector (Cheques, ATM cards, Credit cards, online banking) but still the majority of our population believe in the cash transaction when it comes to business dealings.

People in Bangladesh take banking transactions as a hassle. This is due to the poor customer service, long queue, and lack of banking knowledge. In addition to that there is the fear of the given cheque being bounced back due to insufficient balance. Now if the beneficiary maintains account in a different clearing region, it might take as long as one to two weeks for the fund to be received at the designated account after going through different Clearing houses.

Hence to avoid this lengthy and complicated process (as perceived by the majority) Bangladeshis prefer business transactions to be in cash and discard paper transactions as much as possible. This so-called cash culture is acting as a great advantage to the money launderers. As most of the business people are placing cash money over the counter from their business earnings, it is very convenient for the money launderers to mingle their dirty earnings with their legitimate funds to be put across the bank counter.

8.4 Private Banking Relationship

The term private banking generally means the personal or discreet offering of a wide variety of financial services and products to the affluent market. In Bangladesh few of the multinational banks like HSBC, Standard Chartered Bank these customers are referred to as Priority Customers. These operations typically offer individual, commercial business,

law firms, investment advisors, trusts, and also personal investment companies may open private banking accounts. Due diligence for private banking customers usually includes a more extensive process than retail customers. It is critical to understand the client's source of wealth, needs, and expected transactions.

8.5 Electronic Banking

This is also known as E-banking. The term possesses a wide area of operation. This could include delivery of information, products, and services by electronic means (such as telephone lines, personal computer, automated teller machine, and automated clearinghouse). Although in Bangladesh we still have a long way to go in this field, but some of the multinational banks and private local banks have already started e-banking and has a good prospect of expanding in this segment of the market and the product offers will continue to grow at a rapid pace. Few of the e-banking services include credit cards, loans, deposits, wire transfer, and bill paying services. This medium of banking is vulnerable to Money Laundering and terrorist financing because of its user anonymity, rapid transaction speed, and its wide geographic availability.

(GUIDANCE NOTES ON PREVENTION OF MONEY LAUNDERING)

9.1 Money Laundering Prevention Act 2002 & 2009

The National Parliament of Bangladesh passed the Act on Money Laundering titled “Money Laundering Prevention Act 2002” on 7th April 2002 & “Money Laundering Prevention Act 2009” on 25th February 2009. The president gave his consent on 5th April 2002 for the first act and on 25th February for the second act. By the enactment of this law Bangladesh Bank was entrusted with all power and responsibility to control and prevent Money Laundering through all scheduled banks in the country.

The first step taken by the government in preventing Money Laundering was by passing the law in 2002. Before this law there was no legal procedure or policies in determining Money Laundering activities in Bangladesh. The actual passing of the law and its different sections are provided in the appendix. The following section summarizes contents of the law which are understandable by the common leaving all technicalities and legal jargon aside.

● The Legal Definition of Money Laundering

A definition of what constitutes the offense of Money Laundering in Bangladesh law is set out in Section-2 (THA) of the Act as follows:

- Property acquired directly or indirectly through illegal means.
- Illegal transfer, conversion, concealment of property acquired directly or indirectly by legal or illegal means and aiding and abetting such activity.

● The Responsibilities and Power of Bangladesh Bank:

- i. Conducting investigation.
- ii. Supervising and monitoring activities of all scheduled banks.
- iii. Collecting ML reports from all scheduled banks.
- iv. Appropriate measures on reviewing of reports.

- **The Money Laundering Court:**

- i. All courts of session will be regarded as ML Court.
- ii. Courts will only accept written agreement of Bangladesh Bank.
- iii. All offence under this Act shall be non-bail able.
- iv. Attachment of property- restriction on sale or transfer.
- v. Freezing of property.
- vi. Publication on the Gazette and Dailies.
- vii. Bank A/C- all receivables will be deposited to the frozen A/C.

- **Crime and Punishment:**

- i. Guilty person may be sentenced to minimum of 6 months and maximum of 7 years imprisonment; and penalty of the amount minimum twice of the money laundered.
- ii. In case of violation of Attachment order the sentence can be minimum of 1 year imprisonment or fine of BDT 10,000 minimum or both.
- iii. In matter of violation of freezing order the sentence can be minimum of 1 year imprisonment or fine of BDT 10,000 minimum or both.
- iv. Punishment for disclosing information under investigation can be minimum of 1 year imprisonment or fine of BDT 10,000 minimum or both.
- v. Punishment for obstruction of investigation can be minimum of 1 year imprisonment or fine of BDT 10,000 minimum or both.

- **Miscellaneous Chapter in the ML Act:**

- i. Agreement with foreign states.
- ii. Preserve full particulars of customer and retain for at least 5 years.
- iii. Provide information, as Bangladesh Bank requires.
- iv. Notify Bangladesh Bank on abnormal truncations.
- v. Punishment for negligence and failure to preserve and provide data can be BDT 100,000 (maximum) but not less than BDT 10,000.
- vi. Company's registration may be cancelled.

9.1.1 Penalties for Money Laundering

All offenses under the Prevention of Money Laundering Act 2002 & 2009 are non-bailable and the penalties for the commission of the offenses all have prison terms and fines as prescribed in the Act as follows:

i. The offense of Money Laundering is punishable by terms of a minimum imprisonment for six months and a maximum of up to seven years plus a fine amounting to double the money laundered. (Section 13 of the Act)

ii. The punishment for violation of Seizure Orders is a minimum imprisonment for one year or a fine of Taka ten thousand, or both. (Section 14 of the Act)

iii. The punishment for violation of Freezing Orders is a minimum imprisonment for one year or a fine of Taka five thousand, or both. (Section 15 of the Act)

iv. The offense of divulging information by informing, i.e., tipping off the person who is the subject of a suspicion, or any third party is punishable by a minimum imprisonment for one year or a fine of Taka ten thousand, or both. (Section 14 of the Act)

v. The offense of obstructing investigation or failure to assist any enquiry officer in connection with an investigation into Money Laundering is punishable by a minimum imprisonment for one year or a fine of Taka ten thousand, or both. (Section 17 of the Act)

vi. If any bank, financial institutions or other institutions engaged in financial activities fail to retain customer identification and transaction records or fail to furnish required information as per the Act, Bangladesh Bank will report such failure to the licensing authority of the defaulting institution so that the concerned authority can take proper action for such negligence and failure (Section 19(3) of the Act)

vii. Bangladesh Bank is empowered to impose fines of not less than Taka ten thousand and not more than Taka one lac on any bank, financial institution

and other institutions engaged in financial activities for the failure or negligence to retain customer identification and transaction record or fail to furnish required information to Bangladesh Bank (Section 19(4) of the Act)

viii. If any company, partnership firm, society, or association violates any provisions of the Act, it will be deemed that every owner, partner, directors, employees and officers have individually violated such provision

9.1.2 Powers of Bangladesh Bank Regarding Money Laundering Act

The Act gives Bangladesh Bank board responsibility for prevention of Money Laundering and wide-ranging powers to take adequate measures to prevent Money Laundering, facilitate its detection, monitor its incidence, make and enforce rules and to act as the prosecuting agency for breaches of the Act. The responsibilities and powers of Bangladesh Bank, in summary, are:

- i.** To investigate into all Money Laundering offenses.
- ii.** Supervise and monitor the activities of banks, financial institutions, non-financial institutions and other institutions engaged in financial activities.
- iii.** Call for reports relating to Money Laundering form banks, financial institutions, non-financial institutions and other institutions engaged in financial activities, analyze such reports and take appropriate actions.
- iv.** Provide training to employees of banks, financial institutions and other institutions engaged in financial activities on prevention of Money Laundering.
- v.** To authorize any person to enter into any premises for conducting investigations into Money Laundering offenses.
- vi.** Persons authorized by Bangladesh Bank to investigate offenses can exercise the same powers as the Officer in Charge of Police Station can exercise under the Code of Criminal Procedure.
- vii.** To do all other acts in attaining the objectives of the Act.
- viii.** The Courts will not accept any offense under the Act for trial unless a complaint is lodged by Bangladesh Bank or any person authorized by Bangladesh Bank in this behalf.

9.2 Task Forces

This was the second course of action that the Bangladesh Government took. Right after the new law was passed, Bangladesh Bank formed two Task Forces known as:

- Central Task Force
- Regional Task Force

These task forces conduct meetings alternatively every month to discuss important related issues and take decisions regarding issues that have propped up and also new guidelines and tools to prevent Money Laundering.

The Central Body comprises of members of Ministry of Finance, Home Law, Foreign Affairs, Commerce, and NBR (Income Tax), Bureau of Anti-corruption, Special Branch of Police, Customs, Securities and Exchange Commission, 15 Bank representatives. The Regional Body comprised of five members. They review the Money Laundering cases reported to Bangladesh Bank and other Anti-Money Laundering issues.

9.2.1 Anti Money Laundering Department at Bangladesh Bank

In the attempt to take stern action on all Money Laundering activities in Bangladesh, the Bangladesh Bank established an entirely separate department known as **Anti-Money Laundering Department**. This department is headed by a General Manager, a Deputy General Manager and is run by including twenty-two staff. So far this department has many circulars. The circulars are very effective and aim to provide latest updates and information regarding the ML matter.

The one of the main responsibilities of the Anti-ML department of Bangladesh Bank is to provide comprehensive training to all local banks. They have conducted quite a few nationwide training programs taking assistance from some of the foreign multinational banks. The Anti-Money Laundering department is also responsible for conducting

investigations (both notified and not notified) in all the scheduled banks. So far this department has made it compulsory for all scheduled banks to submit a Bi-monthly and Quarterly Money Laundering report. In these reports any type of suspicious transaction that might have taken place in the bank has to be mentioned. These reports have to be sent by the 15th of the month due, and if not submitted on time banks can suffer grave consequences and not notified audit of the steps taken to prevent Money Laundering.

9.3 Roles that Financial Institutions Must Play

According to the requirements of Anti-Money Laundering Circular financial institutions must have,

- A written anti-Money Laundering program that sets forth KYC policies and procedures.
- The designation of Anti-Money Laundering Compliance Officers.
- Record keeping and reporting practices.
- Monitoring procedures to detect and report suspicious activity.
- Establishes a system of internal controls to assure ongoing compliance.

9.3.1 Customer identification: Know Your Customer (KYC)

The KYC program is a major requirement while complying with regulations regarding Money Laundering which simply involves the process where the bank or any other financial institution gets a chance to know their clients.

9.3.2 Reporting unusual or suspicious transactions

Account or customer activity should be monitored for significant changes. The key is to look for changes inconsistent with the legitimate normal business of the customer.

9.3.3 Senior management commitment Towards AML

The senior managers of financial institution are also responsible greatly to train each of the employees on the area of Money Laundering and its consequences. They should focus

on preparing a comprehensive, board-approved compliance program according to rules and regulations set out by the central bank (BB). Not only the preparation is necessary but also full implementation of the board-approved compliance program is mandatory. Reporting to senior management on compliance efforts, audit results, compliance deficiencies, and corrective action is the next step towards successful anti-Money Laundering practice. Finally managers should establish conditions of employment that require compliance with regulations.

Thus it is understandable that bank staffs have a personal legal obligation under law to disclose suspicious transactions or they may personally be liable for failure to report suspicions through their Bank's internal reporting process. A question may arise to why such compliance is highly emphasized. The answer is simple and is laid out in the following points:

- i.** First, failure to comply damages public relations with negative consequences to corporate relations. As a result there will be significant loss of public trust and the financial institution/s in concern will be looked with a different eye.
- ii.** Secondly, negligence or total failure to comply results in financial losses which is obvious. Firstly this occurs due to a loss in the market share as clients or customer would move away. Secondly failing to comply institution/s will end paying huge fines which is twice the amount of money laundered.
- iii.** Legal ramifications are the third reason why compliance is given top priority. Failing to comply could cause loss of license, fines (as already mentioned), imprisonment of senior executives and civil suits by customer.

Therefore the each employee is individually responsible for compliance. Ignorance of laws, regulations or institution's own policies cannot be an excuse for failure to comply. Each individual is responsible for:

- Understanding and maintaining high ethical standards, including the standards and policies of the institution they work for.
- Understanding and complying with local rules and regulations that apply to the job.

Consulting with managers, compliance officers and legal counsel as and where appropriate when they have questions regarding compliance or concerns of compliance failures or violations.

It is imperative at this point to fall back for a brief review on what was discussed at the very beginning of the project part, i.e., what is Money Laundering and why Money Laundering is done.

(Bangladesh Bank Website)

10.1 ML Risk for EXIM Bank:

The financial transactions in Bangladesh are still associated to a Cash Culture based society. Payments through cheques, credit cards etc. are still not being treated as a reliable mode of payments to businessmen due to some misappropriation by dishonest parties. Furthermore, the clearing and collection process of cheques take relatively much more time due to the manual process, as automated system is not yet available in Bangladesh as a whole. The unavailability of global and local networks of banks, fear of wage earners in going to banks, delay and changes in Banking channel etc. have impact on Hundi Business, which is on the contrary appreciated by some of the wage earners for remitting money. But as this money does not reflect our official reserve, this unregulated cross border flow has tremendous effect on our national economy in terms of trade imbalance, inflation, devaluation of currency etc. There are some trends of ‘Under and Over invoicing’ in Trade Finance in the market. Besides, customers are in general very reluctant and sometimes even not cooperative in providing adequate KYC information. Above all, for the high level of corruption in the country, the risk of ML persists in Bangladesh significantly.

However, the strict control monitored by the Bangladesh Bank through its Guidelines for Foreign Exchange Transactions play a vital role in preventing ML across border, in addition to the ML Act provisions. With the rapid growth in PFS (Personal Financial Services) and CMB (Commercial banking) Business, the emphasis will remain in strict implementation of ‘KYC’ discipline and close monitoring of the existing Special Categories of Clients (SCC) to ensure a high quality of client base for the Bank.

10.2 Procedures Followed in EXIM Bank Bangladesh to Combat Money Laundering

EXIM Bank identified the money laundering as one of its core risk areas and has been making all out efforts to prevent money laundering. For mitigating the risk, the bank has a designated Chief Anti-Money Laundering Compliance Officer (CAMLCO) at Central Compliance Unit under Anti-Money Laundering Division, Head Office, who has

sufficient authority to implement and enforce corporate wide AML policy, procedure and measure who is reporting directly to the Senior Management and the Board of Directors. Moreover, every branch of this bank has a designated Branch Anti-Money Laundering Compliance Officer (BAMLCO) under Branch Anti-Money Laundering Compliance Unit, who independently reviews the transaction of accounts, with verification of know Your Customer (KYC) and Suspicious Transaction Report (STR).

The Central Compliance Unit has also arranged Training/Workshop for developing awareness and skill regarding AML activities of Executives and Officers of the bank and conducting inspection regarding AML activities of the branch. Bank has established a Manual for Prevention of money Laundering and issues circulars time to time giving specific guidelines in accordance with Bangladesh Bank guidelines, regulations, Anti-Money Laundering Act,2009 and Anti-Terrorism Act,2009. All the guidelines and circulars issued by BB from time to time are being strictly complied with by Central Compliance Unit and branches of the Bank. *(Annual Report Of EXIM Bank Ltd)*

10.2.1 Know Your Customer (KYC) Program

Know your Customer (KYC) is a risk based approach of EXIM bank with respect to profiling of customers with a proactive anticipation of their propensity to launder money or conduct any other illegal activity. The KYC program is a unique program practiced at EXIM Bank. It involves the necessity of the bank to get acquainted to the customers on a personal note to ensure that the customers are not engaged in any suspicious activities that might affect smooth flow of the bank's operations.

An effective KYC procedure is fundamental part of any Anti-Money Laundering internal control regime. They can reduce the risk of accounts being used for Money Laundering or terrorist financing and can help identify suspicious transactions. They can also protect the Bank against fraud and other reputation risks.

10.2.1.1 KYC Form

KYC includes customer identification (evidence of identity and address), but, depending on the risk associated with an account, it can also extend to more detailed due diligence

about the customer and their business. This page contains all necessary background information about the client and even the client's source of wealth. If bank officials asked to a client, under new AML rules and regulations, s/he has to show proof of wealth which is attached with the KYC. KYC is an ongoing process and does not end when account opening procedures are completed. A typical KYC form is attached in appendix.

10.2.1.2 Risk Assessment

In the account opening form there is a part called risk assessment. In this part the customers are categorized in three segments according to their occupation. The customers are categorized into high, moderate and low risk level. Without the risk assessment no account can be open. It is done by the account opening officer. Before opening an account the officer has to categorize the customer one of this level.

10.2.1.3 Periodic KYC Review for All Levels

The KYC basically does the client profiling, i.e., obtain the client relevant background information and document. As already mentioned the KYC process does not stop when the account is opened. The information gathered on the customer is used periodically to evaluate the appropriateness and reasonableness of the client transaction activity. The first and foremost objective of the review is to keep the KYC information up to date. That is why KYC is an ongoing process and KYC data must be amended when the customer notifies the bank of any changes.

Secondly, this periodic review is to check that the activity on the account is consistent with knowledge gained on the customer and an understanding of the nature of the transaction they do and their business. This will ensure that the risk rating for the account remains correct.

10.2.2 Transaction Profiling (TP)

Another crucial requirement while complying with regulations regarding Money Laundering is filling out the transaction profile. The transaction profile gives a general

idea about the number of transaction that a customer will conduct in a month. The form contains information such as:

- Nature of Profession
- Source of Funds
- Cash Deposit and Withdrawal per month along with expected volume.
- Cheque Deposit and Withdrawal per month along with expected volume.
- Inward and Outward Remittance per month along with expected volume.
- Demand Draft, Telegraphic Transfers and Payment Order per month along with expected volume.

All the above information gives a generic idea about the expected transactional activities in the account. This is not say that all the information has to exact as mentioned, but it is also true that when such inconsistency crops up (during the review) the transaction profile is subject revision and subsequent upgrading.

10.2.3 Cash Transaction Report (CTR)

Every month EXIM Bank, Rajuk Avenue Branch has to send a report to the Central Compliance Unit, Head Office, which is known as Cash Transaction Report (CTR). In this report, every cash transaction of this branch has to be reported to the Central Compliance Unit, Head Office by using FIU reporting System Software provided by Bangladesh Bank. Finally the Head Office sends the report to Anti-Money Laundering Department of Bangladesh Bank.

10.2.4 Suspicious Transaction Report (STR)

It is another type of report which has to be sent to the BB. The transactions which amounts started from 7, 00,001, are suspicious in nature to the bank authority, has to be reported to the BB immediately through the Central Compliance Unit, Head Office. The BB then verifies and judges the source of the transaction whether legal or illegal. If Bangladesh Bank finds anything illegal, it takes necessary steps against the party.

The overall administrative and legislative efficiency and consistent continuity of such environment in the financial sector is a pre-requisite to execute the Money Laundering Prevention Act smoothly. The Government must be sincere and should believe the policy, which must not be distorted frequently. Autonomy of judicial body may ensure appropriate environment.

- ✓ HUNDI must be stopped at any cost. To ensure that-
 - Adequate number of branches or exchanges should be set at both in overseas and in Bangladesh.
 - Bank charges on remittances should be reduced and bank procedures must be made simplified so that workers earning wage in overseas can easily remit fund to their dear ones in remote areas who without any fear can also go to the branch and have their money without hassle.
 - The damaging affect of HUNDI on national economy to be advertised by media and Bangladesh Bank.

- ✓ Businessmen and bankers must be careful and honest who deals with export-import transactions, so that country does not suffer for under and over invoicing.

- ✓ Customers must be told to avoid cash culture. Banks can play a positive and controlling role in this regard by advising customers about the risk of carrying physical cash, risk of undocumented transaction, negative impact on customer service for counting and waiting for huge cash. Similarly all banks should try to establish on-line banking among their branches throughout the country and set up Automated Teller Machines (ATMs), plastic cards, E-business, etc. gradually. All banks should make some arrangement to make the collection system speedy.

- ✓ Rural people should be encouraged to use banks for their transactions. Bank staff must be co-operative in this case; of course special training is needed for the bank staffs to make them cultured and co-operative.

- ✓ As all proceeds generated from any type of crime or illegal activities are dirty money and comes under jurisdiction; it is not possible only by Bangladesh Bank and its schedule banks to fight against Money Laundering. It is clear that crime is primary and proceeds are secondary, hence Government i.e., law enforcing authorities must stop the crime first and punish them within a shortest possible time. To ensure the transparency and integrity of these agencies are a pre-requisite for the control mechanism in banks to prevent ML. Government pay scale must be made at par with the Cost of Living index and simultaneously these Government agencies to be made accountable to people.
- ✓ The ML prevention Act must be revised time to time to be in the track of changing global phenomenon by taking feedback from bankers, customers and lawyers etc.
- ✓ Bangladesh Bank Anti - Money Laundering Department must be well equipped as soon as possible in terms of training, resources, segregation of work and adequate authority. Officials of Bangladesh Bank AML must be sent to overseas for standard and sophisticated training so that they can train other banks and investigate properly.
- ✓ All local banks must immediately take appropriate measures by setting separate Compliance Unit to prepare Anti- ML Policy for their banks, establish appropriate KYC principals and train their staff to recognize suspicious transaction. Local banks may seek assistance from other banks who are expert in this case.
- ✓ Government must not take contradictory policy especially in Finance, Commerce, Taxation, Trade and law enforcing sectors to foil the complications which may cause the delay and ineffective decision by the court.
- ✓ Merely making a law won't assure 100% implementation. Advertisement is necessary to create general awareness among all people at all levels. Movement against Money Laundering is not inferior to any other social problem like child labor, drug abuse, etc. The national Dailies, Radio, Television should run appropriate campaign for mass people. Government more precisely Bangladesh Bank must take initiative as the central bank of our country immediately.

Despite the several drawbacks and impediments in the way of execution of Money Laundering prevention Act, there are some efforts already taken, which illuminates some light for hope. The senior management of Bangladesh Bank, especially the Governor and Deputy Governors have taken the Money Laundering responsibility seriously. They have formed central and regional Task Forces immediately of enactment of the law and then they formed a separate department. The Governor has formed four special focus groups one of which is on Money Laundering prevention. The task of the focus group is to prepare a guideline for all banks incorporating the best practices on prevention of Money Laundering. It is really a good signal for us that we have got a written Anti-Money Laundering Act in our country. EXIM Bank is always concern about this issue and took it a serious issue to hinder the Money Laundering. But it becomes more and more cautious and as this reason it took a project in 2005 to update all of its customer information within the year of 2010. And it also arranges seminars and other programs regarding this issue to disseminate awareness among banks and customers. EXIM Bank also takes part in different training programs to train other local banks to be informed and keep updated. They also take the feedback of their activities once a week and it does more than the Act implies. They also give training to their staffs about the issue.

To combat Money Laundering, EXIM Bank is always sincere and it takes all necessary steps time to time.

TECHNICAL TERMS AND ACRONYMS

L/C- Letter of Credit

GB- General Banking

FDBC- Foreign Document Bill for Cash

FDBP- Foreign Document Bill for Purchase

EXP FORM- Export Form

FATF- Financial Action Task Force

ML- Money Laundering

EFT- Electronic Fund Transfer

NBFI- Non-Bank Financial Institutions

ATM- Automated Teller Machine

Bank A/C- Bank Account

KYC- Know Your Customer

BB- Bangladesh Bank

PFS - Personal Financial Service

CMB- Commercial Banking

SCC- Special Categories of Clients

AML- Anti Money Laundering

CAMLCO- Chief Anti-money Laundering Compliance Officer

BAMLCO- Branch Anti-Money Laundering Compliance Officer

TP- Transaction Profiling

E-Banking-Electronic-Banking

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Appendix

Organizational Hierarchy of EXIM Bank

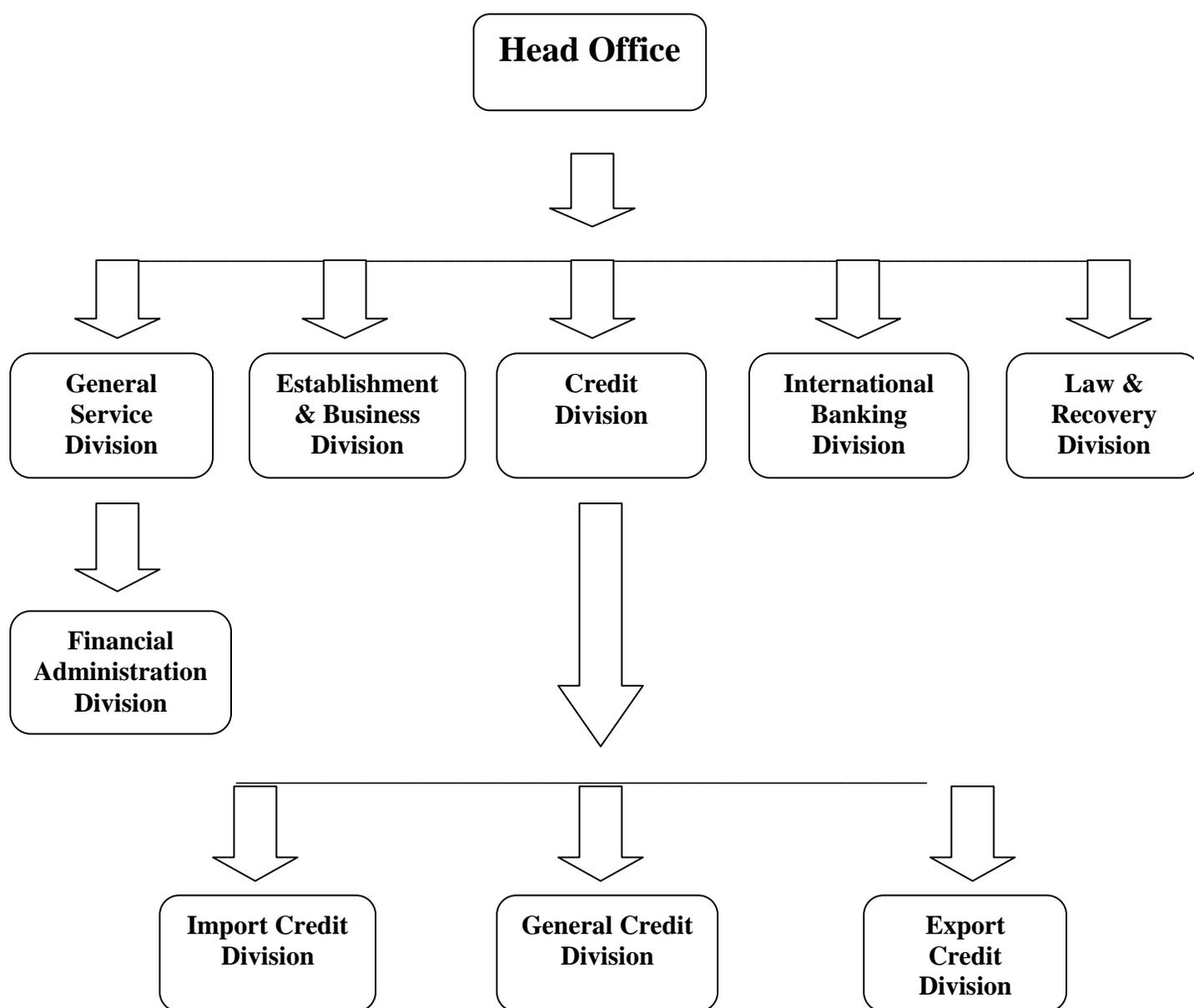
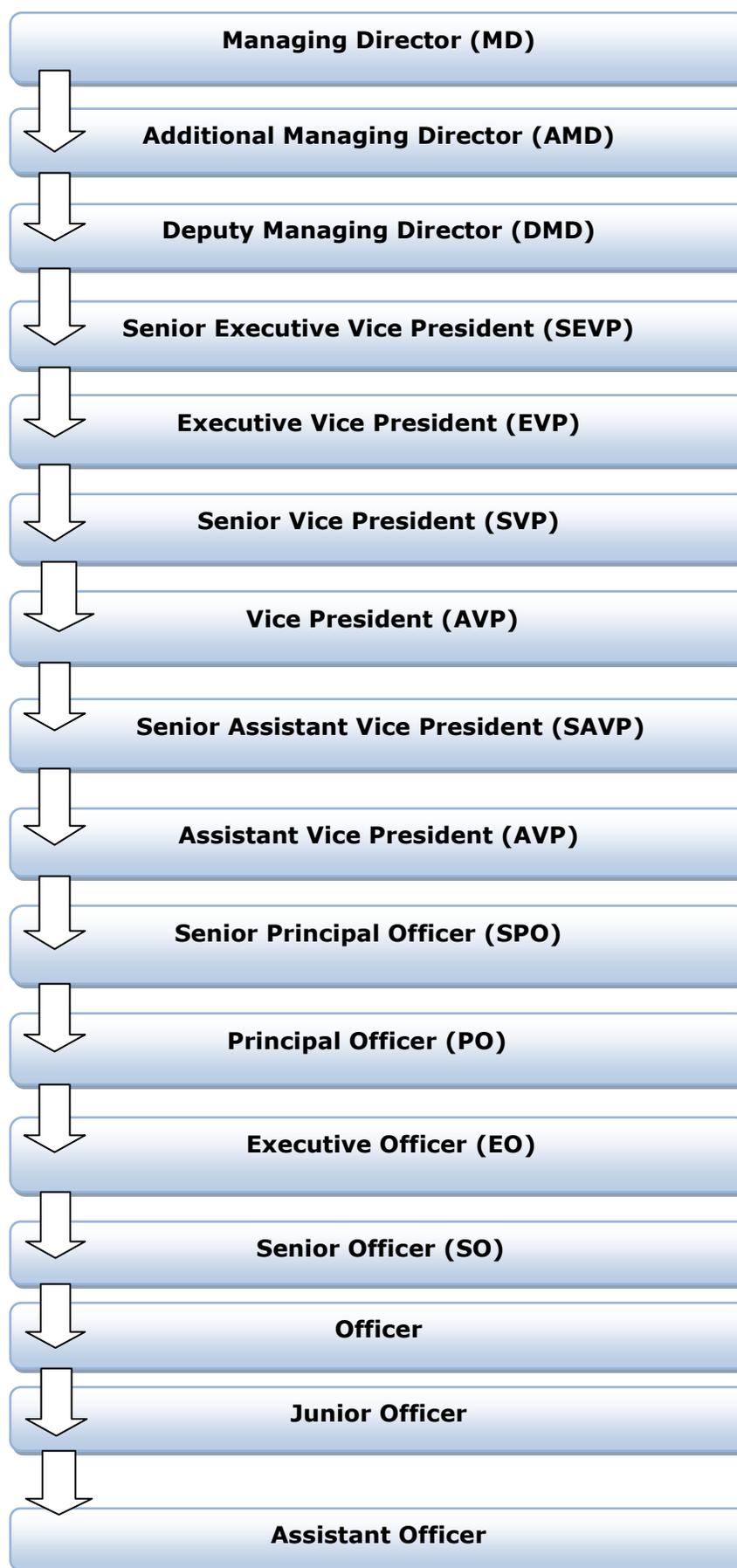


Chart 2: Organizational Hierarchy (Annual report of EXIM Bank 2010)

The Operational Network Diagram of EXIM Bank Ltd



FINANCIAL ACTION TASK FORCE ON MONEY LAUNDERING

THE FORTY RECOMMENDATIONS OF THE FINANCIAL ACTION TASK FORCE ON MONEY LAUNDERING

Introduction

1. The Financial Action Task Force on Money Laundering (FATF) is an inter-governmental body whose purpose is the development and promotion of policies to combat money laundering -- the processing of criminal proceeds in order to disguise their illegal origin. These policies aim to prevent such proceeds from being utilised in future criminal activities and from affecting legitimate economic activities.
2. The FATF currently consists of 26 countries and two international organisations. Its membership includes the major financial centre countries of Europe, North America and Asia. It is a multidisciplinary body as is essential in dealing with money laundering bringing together the policymaking power of legal, financial and law enforcement experts.
3. This need to cover all relevant aspects of the fight against money laundering is reflected in the scope of the forty FATF Recommendations -- the measures which the Task Force have agreed to implement and which all countries are encouraged to adopt. The Recommendations were originally drawn up in 1990. In 1996 the forty Recommendations were revised to take into account the experience gained over the last six years and to reflect the changes which have occurred in the money laundering problem.
4. These forty Recommendations set out the basic framework for antimoney laundering efforts and they are designed to be of universal application. They cover the criminal justice system and law enforcement; the financial system and its regulation, and international cooperation.
5. It was recognised from the outset of the FATF that countries have diverse legal and financial systems and so all cannot take identical measures. The Recommendations are

therefore the principles for action in this field, for countries to implement according to their particular circumstances and constitutional frameworks allowing countries a measure of flexibility rather than prescribing every detail. The measures are not particularly complex or difficult, provided there is the political will to act. Nor do they compromise the freedom to engage in legitimate transactions or threaten economic development.

6. FATF countries are clearly committed to accept the discipline of being subjected to multilateral surveillance and peer review. All member countries have their implementation of the forty Recommendations monitored through a two-pronged approach: an annual self-assessment exercise and the more detailed mutual evaluation process under which each member country is subject to an on-site examination. In addition, the FATF carries out cross-country reviews of measures taken to implement particular Recommendations.

7. These measures are essential for the creation of an effective antimoney laundering framework.

THE FORTY RECOMMENDATIONS OF THE FINANCIAL ACTION TASK FORCE ON MONEY LAUNDERING

A. GENERAL FRAMEWORK OF THE RECOMMENDATIONS

1. Each country should take immediate steps to ratify and to implement fully, the 1988 United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (the Vienna Convention).

2. Financial institution secrecy laws should be conceived so as not to inhibit implementation of these recommendations.

3. An effective money laundering enforcement program should include increased multilateral co-operation and mutual legal assistance in money laundering investigations and prosecutions and extradition in money laundering cases, where possible.

B. ROLE OF NATIONAL LEGAL SYSTEMS IN COMBATING MONEY LAUNDERING

Scope of the Criminal Offence of Money Laundering

4. Each country should take such measures as may be necessary, including legislative ones, to enable it to criminalise money laundering as set forth in the Vienna Convention. Each country should extend the offence of drug money laundering to one based on serious offences. Each country would determine which serious crimes would be designated as money laundering predicate offences.

5. As provided in the Vienna Convention, the offence of money laundering should apply at least to knowing money laundering activity, including the concept that knowledge may be inferred from objective factual circumstances.

6. Where possible, corporations themselves - not only their employees - should be subject to criminal liability.

Provisional Measures and Confiscation

7. Countries should adopt measures similar to those set forth in the Vienna Convention, as may be necessary, including legislative ones, to enable their competent authorities to confiscate property laundered, proceeds from, instrumentalities used in or intended for use in the commission of any money laundering offence, or property of corresponding value, without prejudicing the rights of bona fide third parties.

Such measures should include the authority to : 1) identify, trace and evaluate property which is subject to confiscation; 2) carry out provisional measures, such as freezing and seizing, to prevent any dealing, transfer or disposal of such property; and 3) take any appropriate investigative measures.

In addition to confiscation and criminal sanctions, countries also should consider monetary and civil penalties, and/or proceedings including civil proceedings, to void contracts entered into by parties, where parties knew or should have known that as a result of the contract, the State would be prejudiced in its ability to recover financial claims, e.g. through confiscation or collection of fines and penalties.

C. ROLE OF THE FINANCIAL SYSTEM IN COMBATING MONEY LAUNDERING

8. Recommendations 10 to 29 should apply not only to banks, but also to non-bank financial institutions. Even for those non-bank financial institutions which are not subject to a formal prudential supervisory regime in all countries, for example bureaux de change, governments should ensure that these institutions are subject to the same anti-money laundering laws or regulations as all other financial institutions and that these laws or regulations are implemented effectively.

9. The appropriate national authorities should consider applying Recommendations 10 to 21 and 23 to the conduct of financial activities as a commercial undertaking by businesses or professions which are not financial institutions, where such conduct is allowed or not prohibited. Financial activities include, but are not limited to, those listed in the attached annex. It is left to each country to decide whether special situations should be defined where the application of anti-money laundering measures is not necessary, for example, when a financial activity is carried out on an occasional or limited basis.

Customer Identification and Record-keeping Rules

10. Financial institutions should not keep anonymous accounts or accounts in obviously fictitious names: they should be required (by law, by regulations, by agreements between supervisory authorities and financial institutions or by self-regulatory agreements among financial institutions) to identify, on the basis of an official or other reliable identifying document, and record the identity of their clients, either occasional or usual, when

establishing business relations or conducting transactions (in particular opening of accounts or passbooks, entering into fiduciary transactions, renting of safe deposit boxes, performing large cash transactions).

In order to fulfill identification requirements concerning legal entities, financial institutions should, when necessary, take measures:

(i) to verify the legal existence and structure of the customer by obtaining either from a public register or from the customer or both, proof of incorporation, including information concerning the customer's name, legal form, address, directors and provisions regulating the power to bind the entity.

(ii) to verify that any person purporting to act on behalf of the customer is so authorised and identify that person.

11. Financial institutions should take reasonable measures to obtain information about the true identity of the persons on whose behalf an account is opened or a transaction conducted if there are any doubts as to whether these clients or customers are acting on their own behalf, for example, in the case of domiciliary companies (i.e. institutions, corporations, foundations, trusts, etc. that do not conduct any commercial or manufacturing business or any other form of commercial operation in the country where their registered office is located).

12. Financial institutions should maintain, for at least five years, all necessary records on transactions, both domestic or international, to enable them to comply swiftly with information requests from the competent authorities. Such records must be sufficient to permit reconstruction of individual transactions (including the amounts and types of currency involved if any) so as to provide, if necessary, evidence for prosecution of criminal behaviour.

Financial institutions should keep records on customer identification (e.g. copies or records of official identification documents like passports, identity cards, driving licenses or similar documents), account files and business correspondence for at least five years after the account is closed.

These documents should be available to domestic competent authorities in the context of relevant criminal prosecutions and investigations.

13. Countries should pay special attention to money laundering threats inherent in new or developing technologies that might favour anonymity, and take measures, if needed, to prevent their use in money laundering schemes.

Increased Diligence of Financial Institutions

14. Financial institutions should pay special attention to all complex, unusual large transactions, and all unusual patterns of transactions, which have no apparent economic or visible lawful purpose. The background and purpose of such transactions should, as far as possible, be examined, the findings established in writing, and be available to help supervisors, auditors and law enforcement agencies.

15. If financial institutions suspect that funds stem from a criminal activity, they should be required to report promptly their suspicions to the competent authorities.

16. Financial institutions, their directors, officers and employees should be protected by legal provisions from criminal or civil liability for breach of any restriction on disclosure of information imposed by contract or by any legislative, regulatory or administrative provision, if they report their suspicions in good faith to the competent authorities, even if they did not know precisely what the underlying criminal activity was, and regardless of whether illegal activity actually occurred.

17. Financial institutions, their directors, officers and employees, should not, or, where appropriate, should not be allowed to, warn their customers when information relating to them is being reported to the competent authorities.

18. Financial institutions reporting their suspicions should comply with instructions from the competent authorities.

19. Financial institutions should develop programs against money laundering. These programs should include, as a minimum :

1. the development of internal policies, procedures and controls, including the designation of compliance officers at management level, and adequate screening procedures to ensure high standards when hiring employees;
2. an ongoing employee training programme;
3. an audit function to test the system.

Measures to Cope with the Problem of Countries with No or Insufficient Anti-Money Laundering Measures

20. Financial institutions should ensure that the principles mentioned above are also applied to branches and majority owned subsidiaries located abroad, especially in countries which do not or insufficiently apply these Recommendations, to the extent that local applicable laws and regulations permit. When local applicable laws and regulations prohibit this implementation, competent authorities in the country of the mother institution should be informed by the financial institutions that they cannot apply these Recommendations.

21. Financial institutions should give special attention to business relations and transactions with persons, including companies and financial institutions, from countries which do not or insufficiently apply these Recommendations. Whenever these transactions have no apparent economic or visible lawful purpose, their background and purpose

should, as far as possible, be examined, the findings established in writing, and be available to help supervisors, auditors and law enforcement agencies.

Other Measures to Avoid Money Laundering

22. Countries should consider implementing feasible measures to detect or monitor the physical cross-border transportation of cash and bearer negotiable instruments, subject to strict safeguards to ensure proper use of information and without impeding in any way the freedom of capital movements.

23. Countries should consider the feasibility and utility of a system where banks and other financial institutions and intermediaries would report all domestic and international currency transactions above a fixed amount, to a national central agency with a computerised data base, available to competent authorities for use in money laundering cases, subject to strict safeguards to ensure proper use of the information.

24. Countries should further encourage in general the development of modern and secure techniques of money management, including increased use of checks, payment cards, direct deposit of salary checks, and book entry recording of securities, as a means to encourage the replacement of cash transfers.

25. Countries should take notice of the potential for abuse of shell corporations by money launderers and should consider whether additional measures are required to prevent unlawful use of such entities.

Implementation, and Role of Regulatory and other Administrative Authorities

26. The competent authorities supervising banks or other financial institutions or intermediaries, or other competent authorities, should ensure that the supervised institutions have adequate programs to guard against money laundering. These authorities should co-operate and lend expertise spontaneously or on request with other domestic

judicial or law enforcement authorities in money laundering investigations and prosecutions.

27. Competent authorities should be designated to ensure an effective implementation of all these Recommendations, through administrative supervision and regulation, in other professions dealing with cash as defined by each country.

28. The competent authorities should establish guidelines which will assist financial institutions in detecting suspicious patterns of behaviour by their customers. It is understood that such guidelines must develop over time, and will never be exhaustive. It is further understood that such guidelines will primarily serve as an educational tool for financial institutions' personnel.

29. The competent authorities regulating or supervising financial institutions should take the necessary legal or regulatory measures to guard against control or acquisition of a significant participation in financial institutions by criminals or their confederates.

D. STRENGTHENING OF INTERNATIONAL CO-OPERATION

Administrative Co-operation

Exchange of general information

30. National administrations should consider recording, at least in the aggregate, international flows of cash in whatever currency, so that estimates can be made of cash flows and reflows from various sources abroad, when this is combined with central bank information. Such information should be made available to the International Monetary Fund and the Bank for International Settlements to facilitate international studies.

31. International competent authorities, perhaps Interpol and the World Customs Organisation, should be given responsibility for gathering and disseminating information to competent authorities about the latest developments in money laundering and money

laundering techniques. Central banks and bank regulators could do the same on their network. National authorities in various spheres, in consultation with trade associations, could then disseminate this to financial institutions in individual countries.

Exchange of information relating to suspicious transactions

32. Each country should make efforts to improve a spontaneous or "upon request" international information exchange relating to suspicious transactions, persons and corporations involved in those transactions between competent authorities. Strict safeguards should be established to ensure that this exchange of information is consistent with national and international provisions on privacy and data protection.

Other forms of Co-operation

Basis and means for co-operation in confiscation, mutual assistance and extradition

33. Countries should try to ensure, on a bilateral or multilateral basis, that different knowledge standards in national definitions - i.e. different standards concerning the intentional element of the infraction - do not affect the ability or willingness of countries to provide each other with mutual legal assistance.

34. International co-operation should be supported by a network of bilateral and multilateral agreements and arrangements based on generally shared legal concepts with the aim of providing practical measures to affect the widest possible range of mutual assistance.

35. Countries should be encouraged to ratify and implement relevant international conventions on money laundering such as the 1990 Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime.

Focus of improved mutual assistance on money laundering issues

36. Co-operative investigations among countries' appropriate competent authorities should be encouraged. One valid and effective investigative technique in this respect is controlled delivery related to assets known or suspected to be the proceeds of crime. Countries are encouraged to support this technique, where possible.

37. There should be procedures for mutual assistance in criminal matters regarding the use of compulsory measures including the production of records by financial institutions and other persons, the search of persons and premises, seizure and obtaining of evidence for use in money laundering investigations and prosecutions and in related actions in foreign jurisdictions.

38. There should be authority to take expeditious action in response to requests by foreign countries to identify, freeze, seize and confiscate proceeds or other property of corresponding value to such proceeds, based on money laundering or the crimes underlying the laundering activity. There should also be arrangements for coordinating seizure and confiscation proceedings which may include the sharing of confiscated assets.

39. To avoid conflicts of jurisdiction, consideration should be given to devising and applying mechanisms for determining the best venue for prosecution of defendants in the interests of justice in cases that are subject to prosecution in more than one country. Similarly, there should be arrangements for coordinating seizure and confiscation proceedings which may include the sharing of confiscated assets.

40. Countries should have procedures in place to extradite, where possible, individuals charged with a money laundering offence or related offences. With respect to its national legal system, each country should recognise money laundering as an extraditable offence. Subject to their legal frameworks, countries may consider simplifying extradition by allowing direct transmission of extradition requests between appropriate ministries, extraditing persons based only on warrants of arrests or judgements, extraditing their nationals, and/or introducing a simplified extradition of consenting persons who waive formal extradition proceedings.