INTER-AMERICAN DEVELOPMENT BANK
Workshop on Caribbean Banking and the Caribbean International Financial Services Sector

Reputational and Economic Consequences of Money Laundering

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Negative Consequences of Money Laundering

Academic research highlights the negative consequences of ML:

B. L. Bartlett: The Negative Effects Of Money Laundering On Economic Development (2002)

Masciandaro: False and Reluctant Friends? National Money Laundering Regulation, International Compliance and Non-Cooperative Countries (2005)

Masciandaro, Takats & Unger: Black Finance / the Economics of Money Laundering (2007)

Arnone & Borlini International anti-money laundering programs

Empirical assessment and issues in criminal regulation (2010)

Farias & Almeida: Does Saying 'Yes' To Capital Inflows Necessarily Mean Good Business? The Effect Of Anti-money Laundering Regulations In The Latin American And The Caribbean Economies (2014)

Platt: Criminal Capital / When the Finance Industry Facilitates Crime (2014)

Farias & Almeida: A Pact with the Devil: When Countries Turn to Dirty Money (2015)

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Three Consequences for Jurisdictions with weak AML/CFT frameworks

- Reaction from the FATF
- Bi-lateral Reactions
- Market Reactions (de-risking)

Reaction by the FATF

Two main reactions:

The FATF issues a Public Listing (name and shame)

And, requests for measures by FATF Members

Bi-lateral reactions: general or targeted

For example, an Advisory Notice from the US FINCEN on a specific FI, may have "unforeseen" effects in a different jurisdiction.

Note that the Jurisdiction may or many not be listed by the FATF

Finally, the market may react…

Market reactions are driven by prudential reasons

a. avoid actions from regulators,
b. reputational concerns.

See:

"Caribbean Community Calls on President Obama to Solve Problem of Bank Derisking, But Days Later Bank of America Terminates Correspondent Relationship with Belize Bank"

See also the case of Jamaica: "How Much AML is Enough"?

Note, again, that the Jurisdiction suffering de-risking may or many not be listed by the FATF

What can be done?

To prevent or mitigate the effects of the reactions from the FATF, bi-laterals or the market, jurisdictions need a comprehensive AML/CFT strategy including:

1. State of the art technical compliance (regulatory and institutional)
2. Robust empirical evidence of the effectiveness of the AML/CTF framework
3. Strong public – private dialogue to ensure compliance
4. Extra-regional dialogue
5. Effective communication strategy of the results of 1, 2 and 3

More information at:

IDB Financial Transparency

THANK YOU!