GUILTY BY ASSOCIATION? AN EXPERIMENTAL TEST OF MVTS COMPLIANCE WITH INTERNATIONAL LAW

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TEXAS
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MONEY LAUNDERING CONCERNS ARE HAVING A MOMENT

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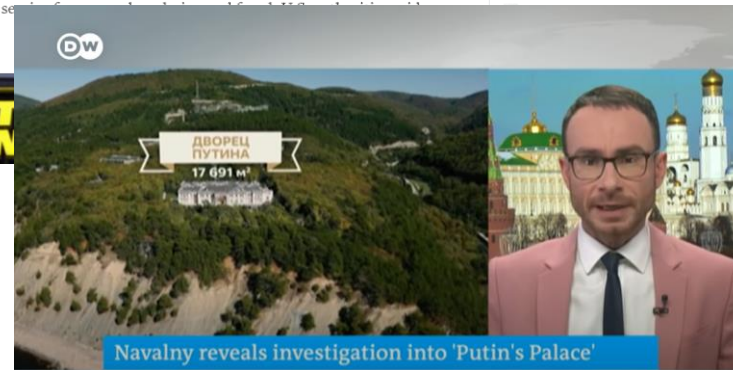2 days ago

Western Union admits to aiding wire fraud, to pay $586 million

By Joel Schectman, Diane Bartz   3 MIN READ

WASHINGTON (Reuters) - Western Union Co WU.N, the world's biggest money-transfer company, agreed to pay $586 million and admitted to turning a blind eye as criminals used its services for money laundering and fraud U.S. authorities said Thursday.

BusinessWorld Online
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... in the country's efforts to combat money laundering and terrorist ... money or value transfer services (MVTS) and applying sanctions to...
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FinCEN Launches New Unit to Pursue Foreign Money Laundering
Aug. 29, 2019, 5:01 AM

Investigations / FinCEN Files

FINCEN FILES

The fastest way to send criminal cash: money transmitters

How companies like Western Union and MoneyGram play a hidden role in laundering cash from around the globe.

By Will Fitzgibbon and Mago Torres
Image: BuzzFeed News; Getty Images; Alamy
October 13, 2020

Navalny reveals investigation into 'Putin's Palace'

The Anti-Money Laundering Act of 2020: Congress Enacts the Most Sweeping AML Legislation Since Passage of the USA PATRIOT Act
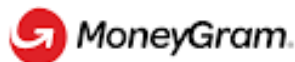
Tuesday, January 19, 2021

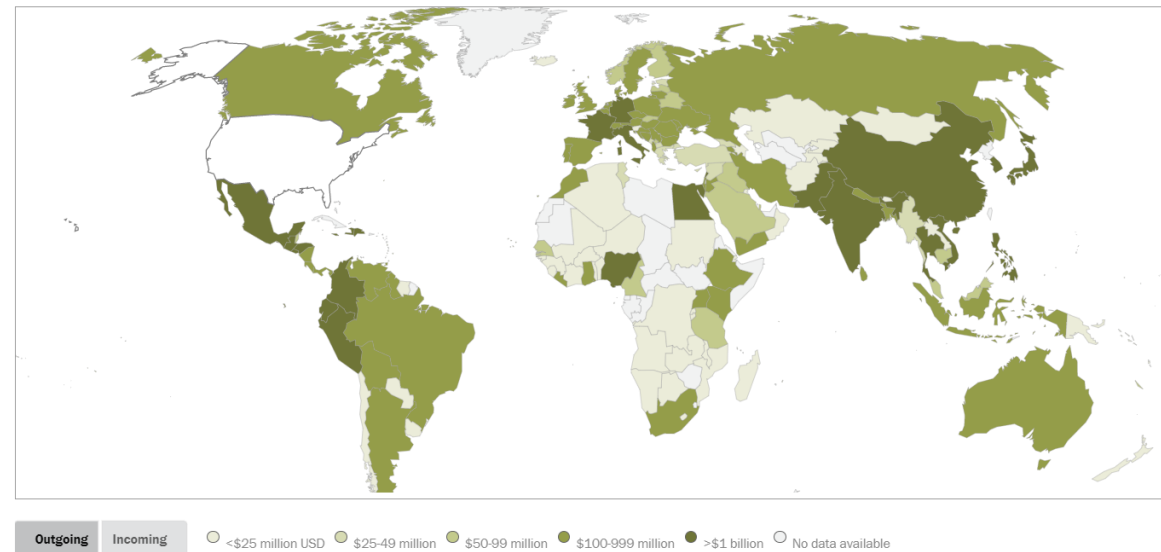On Jan. 1, 2021, the U.S. Senate overwhelmingly voted (81-13) to override

BUT THERE IS STILL LITTLE ACADEMIC FOCUS ON THE MONEY OR VALUE TRANSFER SERVICE (MVTS) SECTOR

GLOBAL MVTS TRANSACTION VOLUME IS ESTIMATED AT ~$1 TRILLION ANNUALLY, WITH THE LARGEST FIRMS HANDLING ~800,000 DAILY TRANSACTIONS

REPRESENTATIVE PROVIDERS

PEW ESTIMATES ~150B IN US OUTWARD REMITTANCE FLOWS FOR 2017

Outgoing Incoming   ○ <$25 million USD ○ $25-49 million ○ $50-99 million ● $100-999 million ● >$1 billion ○ No data available

In theory, the market is governed by FATF guidelines*

- Voluntary de minimis threshold, USD/EUR 1,000 maximum

- Below-threshold transactions require: (i) originator name, (ii) beneficiary name; (iii) an account number for each, or a unique transaction reference number

- No requirement to verify for accuracy, unless suspicions of money laundering or terrorist financing

- Above-threshold transactions require: originator name and address, natl. ID #, or DoB, beneficiary name

* #16 is the applicable recommendation

WE ASK: WHAT DRIVES VARIATION IN MVTS COMPLIANCE WITH INTERNATIONAL FINANCIAL TRANSPARENCY AML/KYC STANDARDS?

MANAGERIAL SCHOOL

Assumes participation in regime formation can bolster compliance, so we should see more compliance in democracies

ENFORCEMENT SCHOOL

Assumes a key role for punishment, so compliance should track with states' ability and/or willingness to enforce intl. law

Argue for a less state-centric approach; instead focus on the specific risk tradeoffs firms have when they engage with the market/individual clients

- Posit a "compliance dilemma"; transnational financial service providers balance compliance pressure from external stakeholders against anti-compliance demand from customers who favor discretion
- Situate firm-level decision-making in a risk mitigation framework, and argue that firms use client characteristics as risk heuristics

WE ADVANCE FOUR HYPOTHESES, EMPHASIZING THE ROLE OF TRANSNATIONAL ACTOR/ACTIVITY CHARACTERISTICS IN DRIVING RESULTS

H1: Individuals and corporations from jurisdictions perceived as less (more) corrupt will face less (more) scrutiny when executing international transactions

H2: Financial institutions will apply more scrutiny above established monetary thresholds than below

H3: Financial intermediaries will demand photo identification for the beneficial owner of corporate entities less often than for individuals

H4: Cryptocurrency transactions will induce greater demand for identifying documents than fiat currency

WE USE REALLY EXISTING PEOPLE, BANK ACCOUNTS, AND CORPORATE ENTITIES TO EXECUTE REAL TRANSACTIONS WITH MVTS FIRMS

RANDOMIZED CHARACTERISTICS

Bank account owner nationality*

Bank account jurisdiction*

Transaction size

Financial intermediary

Individual payer vs. corporate entity

Corporate agent nationality

Corporation nationality

Cryptocurrency vs. fiat currency

planned for future rounds

5yr avg. Transparency Intl. corruption score used to measure levels of corruption in sender and receiver countries

OTHER CONTROLS

HQ Regime Type = 2018 Polity V score of financial intermediaries' home states

Capital Restriction = based on 2017 data from Fernandez et al. "Capital Control Measures: A New Dataset"

Capital Account = 5-year average of the World Bank net capital account data (2015-2019)

DEPENDENT VARIABLES Binary variables capturing whether ID is requested and transaction success/failure

ANALYTICAL STRATEGY Difference-in-means tests; regression analysis w/ logit models

OUR ONGOING PILOT STUDY POSITIONS US TO WORK THROUGH PRACTICAL EXECUTION CHALLENGES, AND TO ADDRESS H1 & H2

PASSPORT   BANK ACCOUNT   MVTS POOL

TRANSACTIONS W/ RANDOMIZATION ACROSS ALL THREE CATEGORIES

DATA GENERATED

Phase 1: Signup/Registration – records what was requested to create an account (e.g. photo ID, name, DoB)

Phase 2: Transactions – records what information was requested to successfully send/receive money

INITIAL RESEARCH SHOWS SIGNIFICANT FIRM-LEVEL VARIATION IN REGISTRATION PROCEDURES

	NAME	COUNTRY OF RESIDENCE	RESIDENTIAL ADDRESS	GOVT-ISSUED ID	DATE OF BIRTH
MoneyGram	✓	✓	✓		✓
Remitly					
Revolut	✓	✓	✓	✓	✓
ria	✓	✓	✓		✓
Western Union	✓				
Wise		✓			
xe	✓	✓	✓		✓

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