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EXTENSIVE DESCRIPTIVE LITERATURE REVIEW REVEALING THE IMPACT OF BANKING SECRECY ON MONEY LAUNDERING: PROMINENCE ON THE LEBANESE BANKING SECTOR

Nour Mohamad Fayad

PhD Candidate, Faculty of Business Administration Beirut Arab University, Lebanon,
nourfayad@hotmail.com

Sara Karam Nassredine

PhD Candidate, Faculty of Business Administration Beirut Arab University, Lebanon,
sara.karam.nassreddine@hotmail.com

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EXTENSIVE DESCRIPTIVE LITERATURE REVIEW REVEALING THE IMPACT OF BANKING SECRECY ON MONEY LAUNDERING: PROMINENCE ON THE LEBANESE BANKING SECTOR

Abstract

Worldwide financial institutions face complexity in balancing between business ethical standards on one hand, and the act of competitiveness on the other hand. Thus, while selecting their customers they seek customers that lead them to the optimum position of competitiveness in the market, taking into consideration the act of financial investigation to avoid money launderer customers. Money launderer customers seek to deal with financial institutions to proceed with operating their financial crimes. Therefore, this paper spots the light on “money laundering” alongside with the impact of banking secrecy on money laundering with prominence on the Lebanese banking sector. Thus, in this paper, researchers present an extensive descriptive literature review that discuss in depth prior fundamental studies published since 1970 when banking secrecy was introduced until year 2018. Research limitations and future recommendations are provided at the end of this paper.

Keywords

Money Laundering, Banking Secrecy law, Lebanese Banking Sector

1. INTRODUCTION

Over the years, banking sector at the Lebanese market has shown substantial growth, development, and springiness. Even when the banking sector internationally was facing crisis, the banking sector at the Lebanese market was revealing a steadiness model that resisted inconvenient political and economic challenges. Consequently, Lebanese banking sector succeeded in attracting provisional financial inflows. Nevertheless, these inflows accompanied with international stress and pressure for abiding and applying the international stated laws, rules and regulations. Main stress was on monitoring money-laundering acts. Not abiding by international stated laws, rules and regulations might lead Lebanese banking sector to face several risks such as financial sanctions, risk of downgrading the credit rating, and facing the possibility of cut off from accessing the international financial system.

Hence, it is important to explore how money laundering influences secrecy of banks with prominence on the Lebanese banking sector. This will take place by answering these questions from a general to specific aspect related to Lebanese banking sector. What is banking secrecy and what importance does it reveal to the financial market and banking sector? What is money laundering and what stages does money laundering go through? What is the role and impact of the secrecy of banks on money laundering at the Lebanese banking sector?

The banking sector at the Lebanese market is the major prop of the Lebanese economy. Therefore, Lebanese banks are obliged to abide the international banking laws and regulations, and any disobedience could be catastrophic to the country and may lead to cutting-off the Lebanese banks from the financial market worldwide. Lebanon and its market cannot afford such a scenario. Thus, the reputation of the Lebanese banking sector is of extreme importance for the economic survival and financial stability of the Lebanese market. . In addition, technically, attaining this requires stringent obedience from Lebanese banks to imposed rules and regulations set by the regulators memos and circulars (Banque Du Liban BDL – Banking Control and Commission in Lebanon BCCL).

Although topic dealing with money laundering and banking secrecy has been studied many times solely and mutually; but this particular and debatable issue still hooks the attention of specialists in the financial sector, bankers, and researchers. For instance, while searching for the term “Banking secrecy” using Google scholar searching engine it reveals 91,800 results, while when searching for the term “Money Laundering” also using Google scholar searching engine it reveals 178,000 results. Searching results lessen to 5,080 results when researchers mutually examine for “Lebanese banking secrecy and money laundering” in particular.

In this field majority of published studies and papers, examine the existence of positive (Gerald, 1992) or negative (Al-Qadi, Al Haj, Matar, and Hathloul, 2012) relationship between banking secrecy and money laundering. In the same spirit, this paper intends to inspect this relation but in a new and different perspective. In other words, the researchers aim to relate the impact of banks secrecy on money laundering to the Lebanese banking sector and reveal how legitimate use of baking secrecy directly affects money-laundering activities in the Lebanese banking sector.

2. METHODOLOGY

This paper uses a non-systematic literature review, called focused literature review that is informative, rather than all-encompassing, review of the literature. Largely based on a knowledgeable selection of current, high-quality articles and does not follow a predefined protocol. Thus, this method mainly depends on collecting and analyzing non-numerical data to understand the concept and relationship between banking secrecy and money laundering. Through this method, researchers reviewed previous top studies and papers published early back from year 1970 since banking secrecy was introduced until year 2018 (see appendix I). Main academic search engines database were used such as J-store, Emerald, Science Direct, and Wiley. Articles revised provide historical review of banking secrecy and money laundering and assist researchers in exposing how banking secrecy impact money laundering giving an example Lebanese banking sector. Furthermore, researchers used official and organizational web-sources as Banque Du Liban (BDL), The Organization for Economic Co-operation and Development (OECD), and International Monetary Fund (IMF). The table below (see table 1) illustrates the time line and number of the studies and papers selected by researchers to accomplish extensive descriptive literature review paper.

Table 1: Time line and Distribution of Reviewed Studies and Papers from Selected Databases

Time Line of Selected Studies/Papers	No. of Selected Studies/Papers
1970-1999	14
2000-2009	16
2010-2018	24

The selection process of studies, papers and reports have been depending on the collection of official, reputable and credible sources. These sources included official reports (such as: International Monetary Fund Publications (IMF), Organization for Economic Co-operation and Development (OECD), Banque Du Liban (BDL), and Inter-American Development Bank), journals (such as: Journal of Money Laundering Control, European Journal of Law and Economics, Review of Law and Economics, The British Journal of Criminology), handbooks (such as: Research Handbook-Edward Elgar, American Bankers Association, and World Bank Economic Review), and academic press (such as: Oxford University Press, Trinity College G20 Information Center, University of Pennsylvania Press, American University of Beirut) listed in the table below representing the number of studies, papers and reports by sources (see table 2).

Table 2: List and Distribution of Selected Studies, Papers and Reports from Selected Databases

Source of Selected Studies, Papers and Reports	No. of Selected Studies, Papers and Reports
Journal of Money Laundering Control	9
International Monetary Fund Publications (IMF)	6
Research Handbook-Edward Elgar	4
European Journal of Law and Economics	4
Banque Du Liban (BDL)	3
Organization for Economic Co-operation and Development (OECD)	3
Review of Law and Economics	1
Kluwer Law International	1
American Bankers Association.	1
World Bank Economic Review	1
The British Journal of Criminology	1
The New York Times Magazine	1
Journal of Economic Perspectives	1
Journal of Money Credit and Banking	1
Journal of Finance	1

Canadian Social Science	1
Global Business and Economics Review	1
Economic Crime and Justice Journal	1
Economics Open Assessment E-Journal	1
Economics and Politics	1
World Development	1
International Review of Law and Economics	1
Inter-American Development Bank	1
Palgrave Macmillan	1
Simon & Schuster	1
International Finance Corporation (IFC) Review	1
Oxford University Press	1
Trinity College G20 Information Center	1
Global Business and Economics Review	1
University of Pennsylvania Press	1
American University of Beirut	1

3. LITERATURE REVIEW OF BANKING SECRECY AND MONEY LAUNDERING

This section explicates in depth the literature of both banking secrecy and money laundering. The structure of this paper is divided into various sections and sub-sections that tackle the impact of banking secrecy on money laundering with prominence on the Lebanese banking sector. For example, the issue of banking secrecy was globally explored before concentrating specifically on the Lebanese case. Besides, this part also focuses on previous studies and reviews accomplished by prior researchers.

The organizational mission in society as stated by some researchers was mainly concentrated on profits as mentioned in 1970 by Friedman, who believed that organizations intensely focused on creating methods that work for increasing these profits for the sake of the shareholders. However, over time this statement changed and a new perspective was shown because other researchers criticized the focus of organizations. Researchers such as Crane and Matten in 2007 believed that organizations work effectively and efficiently only when they integrate properly within the working environment, and this occurs when they respond to the environmental changes accordingly.

Now, the organization operates by interacting with the different components and situations of the environment that they are part of. In this regard, organizations are shifting their pattern of work according to the surrounding environments (Ping, 2004). Therefore, since organizations are facing a continuous stream of the changeability many researchers focused on the way organizations adapt and survive the continuous changes in the surrounding environments, and how do they succeed in meeting the stakeholder's expectations.

Although banks are known as major operating institutions in working environment, they are for instance concerned with adapting to changes in the environment whether it is technological or law wise changes and updates. One of these updates that banks were obliged to adapt by was the plan that brought the banking secrecy in 2009 to a dead point, as lunched by G20 (OECD, 2011). This update caused a change in the financial environment worldwide, since it requested 37 transparent informational exchange among jurisdictions of offshore heavens. This change and update helped in decreasing and fighting many financial criminal acts as money laundering. Accordingly, researchers considered the necessity of exploring historical background of banking secrecy and money laundering.

3.1 Review of Banking Secrecy

Banking discretion, bank safety, or financial privacy are terminologies that alternately mean bank secrecy. These terminologies illustrate the conditional agreement between the clients and the bank they are dealing with. Upon this agreement, the bank is obliged to secure and confidently deal with the information related to their client and their transactions. However, this act initially started in Geneva during the 1700s. Secrecy was stated and established through social and civil law, and it was codified in 1934 as a banking act at the Switzerland banks (Al Zarif, 1997).

In this period, the law punished banks or employees who disclose any information about clients and their accounts. Moreover, applying this law helped in promoting Swiss unique financial services that caused large capital transfer from different banks worldwide to Swiss banks. Later on by the year 1940, an update on global private banking was introduced “numbered bank accounts”; this update offered clients the possibility of having an anonymous digital identity that is considered as the main aspect of banking secrecy.

Usually, different types of secrecy accounts at banks exist it is the deposits / savings that are protected not the credit accounts. All operating banks across the globe are obliged to send, on monthly basis, a report to their regulators about facilities (LOANS) granted and used. Three types that meet different levels of secrecy at banks are resembled by named, numbered, and fictitiously named bank accounts (Cook, 1991). However, BDL Circular No.81 article 3 dated 2001 was clear, it says that “banks must refrain from keeping anonymous accounts or accounts in fictitious names” and BDL compliance officers are reviewing on weekly basis every new opened accounts in any operating bank in Lebanon. So numbered accounts and fictionally accounts do not exist these days, at least in Lebanon. Theoretically, it is believed that when few numbers of employees are exposed to the client’s information the more confidential the information will be.

a. Named Bank Account

This type is the most common account, which is simply resembled by a name that is usually the name of the client or the organization dealing with the bank. Usually employees at banks or financial institutions require identity card or any official paper that assist in identifying the client.

b. Numbered Bank Account

This account is considered as a more confidential account that banks use to reduce number of employees who could identify the owner of this account; it is considered as an alternative of the name account that provide more privacy. This account offer the client more privacy because of the following:

- Numbered account will be assigned to a specified manager to deal with.
- Named account of this client will be separately maintained from other accounts.
- Information about this client will not be available at the general system.
- Any transactions such as deposit, withdraw or transfer that will take place will be done according to prior written or oral accordance between manager and client.

Therefore, this account is more expensive since it cost the bank more customized services, because of the only clients with substantial deposits are offered this account.

c. Fictitiously Named Bank Account

As for this type, the bank manager only knows the real name of the client. This is due to the sensitivity of this account. Besides, at banking sector, it is one of the essentials not to disclose information about clients and their accounts or transactions to any internal or external source as government of residency or foreign government. Since customers desire secrecy, privacy, and confidentiality. Therefore, managers at the banks make sure not to expose certain type of information to employees that might reveal information even though they signed a contract that impose secrecy of privacy of things they deal with through their work and even after they retire.

3.2 Review of Money Laundering

The terminology of money laundering-ML is used to define the process of what is known as turning dirty or muddy money in to clean money. Usually, this money comes in large amounts from illegitimate and criminal sources (Robinson, 1994). By criminal sources, they mean drug trading and terrorist activities that frequently refer to weapon trade. Owners of this type of money that come from what is known as criminal activities usually try to make it clean money by depositing it legitimately in a financial institution. Therefore, banks and financial institutions are obliged to report any suspicious deposit or transaction because it might be a sign of the presence of the money laundering process.

Often ML process is well thought out as a financial crime referred to as “white-collar crime. This type of crime is spread worldwide and does not have a unified type, since money launderers seek to find diversified methods for generating huge illegal profit. Therefore, none of the countries worldwide can gain immunity against this type of crime. Geographically it is spread all over the world, and criminal activities today are more sophisticated with wide-ranging apparatuses and procedures (Reuter and Levi, 2005). For instance, one could designate Italian and Russian, and New York mafias that emerged a mutual relationship that provided each of the mafias a possibility to launder their money in casinos and banks in different countries as Brazil and Nicaragua. The subsection below will present the models and theories of the ML process, next, researchers will present sections that include a whole explanation about the steps, alternatives, and anti ML activities.

3.2.1 Models and theories of money laundering process

A. The Gravity Model “The Walker”

The model that was developed in 1995 by Walker, it was inspired by the gravity model of Isaac Newton. Besides, Walker’s model was considered as one of the traditional models in evaluating and analyzing the Australian market trends of money laundering activities. As stated by Walker and Unger in 2009, measurements of this model depended on rates of GDP, rates of crime, and sophistication levels of crime in the nation. In their paper, they noted that in Australia sophisticated crimes are the most presented crimes which lead to an increase in the money used in the ML process. However, they also focused throughout their paper on the fact that the majority of this dirty money rotate in the local market because laundered money receive a cover from domestic institutions. Besides, studies such as the one done by Unger and Rawlings in 2013 indicated that Walker’s model was never really tested. Even though the model presented by Walker when compared by other estimations seemed reliable, yet it was never economically tested this is why studies still question if this model explains the flow of laundered money.

B. Money Laundering “Systems Theory”:

This theory argues that for the ML process like any other process to properly and successfully work there should be a joint and complete system that fully functions toward achieving a common goal. The goal should be clearly stated by mission, vision, and objectives. Therefore, the success of the ML process depends on joining the pillars of the system together (Brettl, 2013). In this regard, the ML process face challenges

were the majority of the Laundered transactions are detected and concealed by governmental systems (Reuter and Levi, 2006).

On the other hand, as stated by both Reuter and Levi in 2005, the ML process goes through different stages. These stages are actualized in three steps that are summarized as the following:

- 1. Placement:** the first step works on placing what is known by dirty, dull, or money from criminal activities in a legitimate financial institution.
- 2. Layering:** the second step is accomplished by camouflaging financial transactions and manipulating financial transactions.
- 3. Integration:** it is considered as the final step in this process were money launderers could extract their money from the legitimate financial institution as clean money and use it whatever purpose they want to use it for.

The paper also indicates that most of the money launders dissect the ML process to reduce the risk of being flagged by governmental inspectors or financial institutions. This is done by splitting laundered cash into different instruments (Reuter and Levi, 2005). In addition to what was mentioned previously, a critical analysis was presented by Beekarry in 2013, indicating that “Systems Theory” indicated that an ML process could either be affected through the financial institution's unawareness or their complacency.

3.2.2 Alternatives of money laundering process

The ML process can take numerous forms; these forms can be summarized as the following:

- 1. Smurfing:** it is the common alternative form of laundering money; also, they refer to it as structuring (Reuter and Levi, 2005). This act work on dissecting lumps of cash into portions and these portions of cash are usually deposited in varied accounts to bypass recognition from authorities.
- 2. Currency Exchanges:** people who accomplish this process are referred to as “cash smugglers”. Throughout the process, they depend on depositing money in foreign accounts by transferring large amounts of money across borders (Teichmann, 2007). Usually, this process is accomplished physically by using people to transfer the money or by depending on the wire transfer procedure.
- 3. Mistrustful Trade Activities for Laundering:** this process is the most multifaceted modern form, it depends on using business or trade activities to disguise the laundering activities (Reuter and Levi, 2005). Art and Antique business are the best examples of expressing this process. In such businesses, they tend to underestimate the value of invoices or overestimate the value of their invoices to camouflage their financial activities.
- 4. Trust and Shell Companies:** this process works on masquerading and not divulging the real owners of the money, by hiring someone as camouflage to hide the identity of the true owner (Teichmann, 2007).
- 5. Lazy Susan's:** this process is also known as round-tripping, they deposit the money in tax heaven because they can deposit the money in a foreign corporation without the need of financial records (Teichmann, 2007). Then they work on shipping back the money that is exempted from the tax since it will be entered into the market as a foreign direct investment.
- 6. Casinos:** for launderers gambling is a process of providing a legitimate source of owning the money (Reuter and Levi, 2005).

7. **Tax Exoneration:** this process depends on using tax heavens to decriminalize cash and assets that are not stated and reported (Teichmann, 2007).
8. **Transaction Laundering:** dealers or traders who use the credit card payment ecosystem to operate transactions on behalf of other businesses is also an alternative form of money laundering (Teichmann, 2007).
9. **Electronic/Digital ML:** the new erudite and sophisticated process of laundering money that depends on the rise and advancement of online payment and banking systems. The process benefits from online services and proxy servers that deal with online payments. Therefore, it is hard to trace the IP address of this transaction since it is anonymized. Besides, online virtual games, gambling, auctions, and other online services that accept online payments are considered as a source for laundering money by using virtual money as Bitcoins (Zabyelina, 2015).

4. FINDINGS

4.1 Criticism of Secrecy at Banks

A wide argument elaborated on the distinction between confidentiality and secrecy of the client's information and accounts at banks. Arguments indicated that confidentiality of the client's information and the account is a necessity and it is a good act, while argued that banking secrecy is a bad act, and others indicated that both confidentiality and secrecy of client's information and accounts at banks are bad. Signifying that transparency is the best act for governments to perform properly in fighting and controlling drug trafficking, corruption, money laundering, and other criminal acts (Bernasconi, 1995).

Moreover, this is supported by reports from worldwide organizations such as "Organization for Economic Co-operation and Development –OECD", "Financial Action Task Force-FATF", and "Federal Deposit Insurance Crop". Due to that, banks and financial institutions did new arrangements that oblige their clients to indicate the source of their money. As a result, individuals who felt uncomfortable with the issue of exposing their financial information went to offshore heavens. These heavens are found in varied countries around the world in the Carrabin, European Countries, Asia, and the Pacific (Kwaw, 1996). However, most famous heavens are located in "Bahamas, Bermuda, Cayman Island, Cook Islands, Caicos, Turks, and Malta". Usually, people who use these heavens are the ones who want to hide information away from the eyes about their deposits and accumulated wealth, and those who want to protect themselves from professed threats.

In 1999, the European Union and 19 countries formed the "Group of Twenty-G20", which is an "International forum for the governments and central bank governors". G20 associates are "Argentina, Australia, Brazil, Canada, China, Germany, France, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom and the United States of America", in addition to the European Countries (Kirton, 2016). Besides, countries that are members of this group represent the countries with a developing economy and that have the major industrialized economy in the world. Consequently, these countries by formulating the G20 had the aim and purpose of establishing an economic and financial bloc that discuss and handle the international economic and financial stability. This was obvious in the London committee of the G20 in 2009, when countries concerted their efforts thought the financial crisis was policymakers celebrated the declaration of what is known as the ending era of secrecy at banks. This declaration was done after forcing the heavens offshore and especially tax heavens to approve on exchanging bank information by signing a bilateral agreement (Kirton, 2016). They believe that this agreement contributes to the fiscal consolidation among countries worldwide and assist in decreasing financial criminal acts.

4.2 Anti-Money Laundering Activities

Battle of combating ML and issuance of laws of anti-money laundering activities is the concern of governments worldwide. ML is a transnational issue that governments are striding up

their efforts for the sake of terminating this process (Cassella, 2003). To do so, governments called for laws and regulations that force financial institutions to report any doubtful activity when detected through their financial system. Based on the reports issued by the office of Drugs and Crimes of the United Nations, out of the global GDP 2% to 5% are due to ML transactions.

In year 2000, the international committee of “Financial Action Task Force-FATF” that was formed by the G-7 “Group of Seven” in year 1989, expanded their purpose to include the fight against ML. Later on, this was supported by the action taken by United States of America after the terrorist attack of 9/11. They expanded the efforts of the “USA Patriot Act” to include ML investigation tools to financial crimes that might have relation with terrorism activities (Masciandaro, 2005). In this era, governments are investing in elevating and improving their technological advancement to tackle such crimes by using artificial intelligence and wide range of data gathered as a part of AML.

Winning the fight against ML require certain measurements, these measurements could be done by:

- a. **Eliminating the abuse of the “Free Trade Zone”:** this zone have been used for illegitimate activities benefiting from the possibility of dissecting large shipments in to varied small shipments. Nevertheless, this must be handled by forcing more transparency on handling the in and out shipments. Besides, certificate of origin and payment documents about the source and origin of each shipment must be clearly included in the paper work of the shipment. Therefore, in case of any criminal investigation all documents and paper record of each shipment must be ready to use upon request.
- b. **Forcing new regulations and stating new laws on “Gambling”:** gambling centers play a significant role in the process of ML. Due to that it is essential to force new regulations and state new laws that assist in detecting and reporting doubtful transactions. These laws and regulations must stress on verifying casino’s owner identity. Employees with previous criminal records should not be allowed to work at gambling amusement centers. Additionally, financial monitoring should take place to compare amounts of money deposited and keep a record of any transaction done at the gambling center to be used upon necessity to track any criminal act.

4.3 Case Study of the Lebanese Banking Sector and Financial System

Lebanese banking sector and financial system started to flourish and grow in 1943 after the independence of the Lebanese country. Since the independence Lebanese country started to plan for a promising future, one of the major steps was associating what is known by “Banque du Liban BDL”, which is the Lebanese Central Bank (BDL, 2018). Since then the Lebanese banking sector is considered to be one of the leading associates in the banking sector with outstanding characteristics. One of the most important characteristics was the level of secrecy and safeguarding of the personal and financial information of their clients, this fact attracted foreign capitals to the Lebanese financial market. Furthermore, the Lebanese banking sector's possibility of secreting the client’s information, and the transaction was due to the law of banking secrecy that was regulated and stated in 1956.

Even though the Lebanese banking sector adopted the “Banking Secrecy Law”, yet they received international criticism mainly from the United States of America through their main instruments as FATF and FATCA (ABL, 2013). These external interventions led the Lebanese Central Bank (BDL) to issue new guidelines as a response and establish AML guidelines (SIC, 2016). The upcoming sections will give a preview of the Lebanese banking sector, reveal the impact of secrecy law on the performance of the Lebanese banking sector, and disclose the impact of this law on ML.

4.3.1 Examination banking sector of the lebanese

Political instability and a high level of the fiscal deficit are the main characteristics of the Lebanese market. Usually banks generate their income from lending money or investing it. Therefore, profits generated by Lebanese banks result from their lending

policies or investment in Treasury bill/ Eurobonds. These levels of earnings and liquidity are reason for applying procedures as the one stated by “Secrecy Law” on the accounts of their clients this what promoted and distinguished the regional financial role of Beirut. In addition to the secrecy law, other characteristics assisted in keeping a promising success. These characteristics will be discussed in the subsection below.

4.3.2 Characteristics of Lebanese banking sector

- a. Law of Banking Secrecy:** This law was stated in 1956, it obliges all the Lebanese banks and the branches of the foreign banks in Lebanon to abide by protecting the secrecy of the financial and private information of their clients. This law forces all the managers and employees to protect this information and not to reveal any information about the name and transactions of their client for any reason and neither for government or any private institution or authority. However, any request for revealing this information must come from the client him/her-self, or a count in case of death or criminal act. Moreover, in terms of secrecy Lebanese banking sector gained the eleventh rank of the “Financial Secrecy Index”, in 2018 this rank is based on a very high secrecy score of 72 (see figure 1).

Rank ↕	Country or territory ↕	FSI Value ↕	FSI Share ↕	Secrecy Score ↕	Global Scale Weight ↕
1	 Switzerland	1,589.57	5.01%	76	4.50%
2	 United States	1,298.47	4.09%	60	22.30%
3	 Cayman Islands	1,267.68	4.00%	72	3.79%
4	 Hong Kong	1,243.68	3.92%	71	4.17%
5	 Singapore	1,081.98	3.41%	67	4.58%
6	 Luxembourg	975.92	3.08%	58	12.13%
7	 Germany	768.95	2.42%	59	5.17%
8	 Taiwan	743.38	2.34%	76	0.50%
9	 United Arab Emirates	661.15	2.08%	84	0.14%
10	 Guernsey	658.92	2.08%	72	0.52%
11	 Lebanon	644.41	2.03%	72	0.51%
12	 Panama	625.84	1.97%	77	0.27%
13	 Japan	623.92	1.97%	61	2.24%

Fig.1: Rank of Financial Secrecy Index of Lebanon-2018

- b. Free exchange system and the free movement of capital and earnings:** The Lebanese market owns the privilege of free exchange system since Lebanese currency (LBP) can be easily exchanged with any other foreign currency, in addition to that free movements of the inflows and outflows of capital and earnings attracted more foreign capitals.
- c. Income Tax:** based on the “Legislative Decree No. 144/59 and its amendments” of the income tax rate, interests; revenues, and incomes from Lebanese treasury bonds; any account under the name of the government, and any residential and nonresidential bank accounts in addition to certificates issued from banks all should be subjected to income tax rate at the rate of 5%.
- d. Free Banking Zone:** Lebanese government got the right to establish a free banking zone in 1975; this was guaranteed by decree No.29. This right was an exemption for nonresidents from income tax, Code 76”Money and Credit” that of requirements of the reserve, and from the guarantee on deposit that was imposed by BDL.
- e. Joint Accounts:** the possibility of opening a joint account was declared and authorized in 1961; this account allows more than one person to open a unified account with the possibility of jointly benefiting from using it. Moreover, alal parties benefiting from this account must approve on lifting bank secrecy, when proving the deth of any of the parties the rest will keep using the account, upon litigation between account parties bank will freeze usage of the account until the court gives an order.

These characteristics distinguished Lebanese banking and financial sector from that of the other Arab countries (Ferwerda, 2013). However, the most important feature was

the Banking Secrecy, which was supported by the issuance of secrecy law in 1956. Due to this law criticisms from other countries started to take place, indicating that this law allows criminal acts to increase and benefit from this law. This law contributed to considering Lebanon as a “Non-Cooperative Country” in terms of facilitating terroristic activities and criminal acts as ML and drug trafficking. Such facts led FATF to list Lebanon on the Territories List (Beekarry, 2013). The following subsections will spot the light on Lebanese anti-money laundering activities.

4.4 Fighting Money Laundry in Lebanon by Law

In the year 2000 FATF (as mentioned previously), that is responsible for identifying countries that are not cooperating in fighting ML by detecting and reporting suspicious financial terrorist criminal acts (NCCTs) this list is also known as black list of FAFT; an issued report included Lebanon as a non-cooperative country (Shahin, 2013). This is due to several issues, Lebanese country didn't meet the FTFA criteria of “1,2,7,8,9,10,11,14,15,16,18,19,20,24 and 25”. These illustrate the fact that Lebanese banking and financial associations maintained a strict non-accessible regime of their clients' information. This means that international representatives could not access and get the required information. Lebanese banking system allows their clients to use coded references for their accounts to hide their original identity and only a few could access the original information of the account. This was the reason why FATF accused Lebanese authorities by the possibility of terminating the existence of certain accounts upon request-considered as misleading information. FAFT accused the Lebanese banking system by the absenteeism of cooperation between banks and what is referred to as “Financial Intelligence Unit-FIU”. FAFT proceeded that the cooperation between banks and this unit is also linked to the cooperation between jurisdictional authorities. Without doing so it will not be possible to detect terrorist and financial criminal acts.

Due to this report, a joint committee between FAFT and the Lebanese government represented by the Ministry of finance, BDL, and ABS, this committee indicated that the Lebanese government will work on adopting suggestions of FAFT. By the year 2001 FAFT designated that, the Lebanese government has done a progress. Since that committee, ABS and BDL clarified that fighting ML was one of the most important issues that the Lebanese banking sector is concerned with. Due to that, they are working hard on making sure that banking secrecy is not being used to operate any criminal or illegal acts. As a result, a “Due Diligence Convention” was set and signed by the member banks of the Lebanese Association of Banks-ABS. This was done to guarantee that banks will assist in preventing any ML acts and report any suspicious related acts. This diligence is updated by ABS when needed. In addition to that, Riad Salameh governor of BDL constructed three days seminar that was organized by Charles Kendall and Partners for explaining the importance and ways of fighting ML by starting to know who are your customers and know whom these banks are dealing with. This progress encouraged FAFT to declare that removing the Lebanese country from the NCCTs list must be taken into consideration.

A. Requests from NCCT to Remove Lebanese Country from list

Even though FAFT declared that removing, Lebanon from the NCCT list will be considered, but yet this must come after applying the following requests, and progress alone is not enough. The bellow will clarify requirements from the Lebanese by FAFT to be removed from the list:

- International standard laws and regulations should be addressed.
- Legislative reforms should take place.
- Examination should be done by FAFT to ensure implementation of requested requests.
- After implementation, FAFT should visit Lebanon to make sure that these implementations are effectively working.
- The president of FAFT should address removal of Lebanese country from the list.

By year 2009 evaluation by FAFT of the Lebanese situation have changed, they indicated that upon evaluation four recommendations were accomplished, nineteen recommendations were high accomplished, but five out of the recommendations were partially accomplished and six not accomplished at all. This changed the status of Lebanon to be “no more identified by FATF as having substantial money laundering and terrorist financing (ML/TF) risks or having strategic AML/CFT deficiencies”.

B. Criticism of the NCCT list issued by FAFT

Several countries and associations considered Lebanese country as a black listed country depending on the NCCT list issued by FAFT. This list accused Lebanon for not fighting ML, and this in fact this lacked the cooperation of the Lebanese banking system with the international banking system in term of fighting against ML. Even though Lebanese banking system authorities declare and state that they have no financial offshore activities, yet this did not forbid many international financial associations from categorizing the Lebanese financial system on the black list.

Besides, depending on the declaration of the “State Department” of the United States of America, Lebanese financial system/banks has shown moderate levels of ML. This is mainly due to the lack of transparency, but still the reason why Lebanese government is fighting for preserving secrecy of banks is that this country is a country that depend on the services sector to elevate economic and financial growth of the country. Relaxing the secrecy at the Lebanese banking sector will worsen the Lebanese economy.

4.5 Impact of Secrecy of Banks on Money Laundering

The worldwide banking system is considered a method for money launderers to proceed with their business and accomplish ML. However, countries that insist on keeping the secrecy of the accounts of their clients are dragging their countries to be listed as a cooperative country in money laundering activities that are recognized as criminal activities. Besides, this secrecy acts as a magnet for those who intend to do illegal and financial criminal activities.

Moreover, since the financial crisis of 2008 and all countries are trying to unify their efforts to fight money laundering through regulating new jurisdictions toward secrecy. Without disclosing information about the transactions of the client, it is becoming harder to face criminals and fight money launderers. Therefore, money laundering is affected positively by the strength of secrecy at banks, because when relaxing secrecy and offering access to client’s information it will be easier to fight money launderers (Halawi, 2019).

In Lebanon, at that period politicians and parliaments have not yet agreed on totally rising secrecy instead they believe that secrecy at banks is what made Lebanon one of the leading banks in offering this service. As a result, the Lebanese financial market and banking sector in precise are fighting money laundering and financial crimes by adopting the law of “Fighting Money Laundering and Terrorist Financing” but at the same time maintaining Lebanese secrecy at banks. Authorities at Lebanon managed to fight back all the pressure that the global community was placing on Lebanon to loosen the secrecy at banks.

However, by the year 2014 a new challenge faced the Lebanese financial community, this challenge was that each financial institution at the Lebanese country must abide by the law stated by the United States of America and which is “US Foreign Account Tax Compliance Act (FATCA)”. The “Special Investigation Commission and the Banking Control Commission” are the authorities responsible for detecting, reporting, and fight “money laundering, tax evasion and other forms of criminal activity”.

By the year 2017 Lebanese government represented by the Ministry of finance and association of Lebanese banks approved on lifting secrecy only on 48 cases (BDL,2017), these cases must be related to the following: case of money laundering, case of financial embezzlement, and case of funding terroristic activities

Refereeing to what the “Special Investigation Commission-SIC” stated in 2016 annual report, the number of received STRs was 470 of which 363 local and 107 foreign cases. From the local ones, out of 363, 141 STRs were dismissed, which is equivalent to 30%, whereas the number of investigated cases was 161, which is equivalent to 34.3%. While in 2017, annual

report of SIC indicate that the number of cases received in 2017 witnessed an increase of 27% than that of the year 2016. Out of the 597 cases received in 2017, 479 was from local sources while the rest are from foreign allegations. The act of lifting secrecy was applied to only 48 cases out of the reported cases, and the rest was on hold. Moreover, the reported cases involved private fund embezzlement, phony, funding terroristic activities, and narcotics. Besides, Abdul Hafiz Mansour who is the general secretary of SIC, designated that actions taken by the commission are according to the Code-Law of Fighting Money Laundry, law number 44.

Even though law number 44 was found to fight money laundering and financing of terroristic activities, yet this does not mean losing total secrecy of the Lebanese banking sector. Yet, this law offers the government possibility of tracking any suspicious financial criminal activity if allegations turned to be true. However, this put the Lebanese banking sector is facing a new challenge, which is staying up-to-date with the new local and foreign banking regulations, in addition to the act of preserving Lebanese banking secrecy that resembles the historical inherent of the Lebanese country.

5. CONCLUSION

Lebanese banking secrecy abetted the flourishing of the Lebanese economy and promoted Beirut as a financial center with unique characteristics that attracted foreign depositors. In addition, Lebanese banks were recognized as sophisticated banks that serve the financial activities of the Middle East Region. Besides, secrecy illustrate the conditional agreement between the clients and the bank they are dealing with. Upon this agreement, the bank is obliged to secure and confidently deal with the information related to their client and their transactions.

However, due to this act of secrecy, banks are facing the pressure of an increase in the number of cases of money laundering and financing of terroristic activities, since owners of dirty money that come from what is known as criminal activities usually try to make it clean money by depositing it legitimately in a financial institution. Consequently, banks and financial institutions are obliged to report any suspicious deposit or transaction because it might be a sign of the presence of the money laundering process.

As a result of the secrecy misuse offered by banks and financial institutions, a committee of G20 in 2009 was held. This committee consigned to concert countries efforts to fight this type of criminal acts and protect the financial institutions. Yet, many considered these steps as what is known as the ending era of secrecy at banks. At first, Lebanese community did not abide by these rules and regulations and worked according to internal audit, thus this caused FAFT to accuse Lebanese authorities and association of banks at Lebanon by the absenteeism of cooperation between banks and what is referred to as "Financial Intelligence Unit-FIU". Subsequently, Lebanese banking sector with the coordination between ABL, BDL, and ministry of finance decided to abide by new local and foreign laws and regulations and effectively assist in fighting these criminal acts, but without losing privilege of secrecy.

Therefore, when it comes to answering the questions stated by this paper one can conclude that secrecy is important for the Lebanese financial system since it resembles historical inherent that distinguish this country. In addition, one could not neglect that applying ultimate secrecy assisted in the growing number of financial criminal acts and slowed the process of fighting money launderers. Consequently, secrecy turns to have a negative impact on fighting money launderers and detecting other financial crimes. The reason why Lebanese authorities agreed on abiding laws and regulation and cooperate with other foreign countries to assist in the process of fighting these criminal acts, but under certain conditions and circumstances.

6. RECOMMENDATIONS

This section provides some recommendations that might assist in fighting money laundering and other financial criminal acts. Yet, these recommendations could be used in proceeding new research. Enhancing the Lebanese government's capacity and commitment in providing exact numbers of money laundering cases at the Lebanese market. More, it is of importance to invest more time in accomplishing studies that offer a long-term view of "money laundering and terrorist financing threats". These studies will assist in identifying systemic threats and will inspire in discerning priorities and counter-measures. Abide to the commitment of secrecy at Lebanese's Banks,

but with strictness while operating the process of opening new account for a new client. Finally, it is crucial to cooperate with international authorities and start building and activating an intelligence internal unit the assist local banks from sharing certain coded type of information that assist in fighting this phenomenon.

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Appendix I: Reviewed Reading List of Paper and Studies

Author	Year	Title	Source
Friedman, M.	1970	"The Social Responsibility of Business Is to Increase Its Profits"	The New York Times Magazine
Cook, E.	1991	"Bank Secrecy"	Education Policy and Development, American Bankers Association
Levi, M.	1991	"Egulating Money Laundering: The Death of Bank Secrecy in the UK"	The British Journal of Criminology
Gerald, H.	1992	"Chapter 12 Banking Secrecy: Coping with Money Laundering in the International Arena"	International Monetary Fund-IMF
Robinson, J.	1994	"Money Land: The Laundrymen"	Simon & Schuster Ltd
Bernasconi, P.	1995	"Money Laundering and Banking Secrecy"	Science Direct Kluwer Law International (1 st Ed)
Kwaw, O.	1996	"Banks as Secret Keepers"	University of Pennsylvania
Quirk, P.J.	1996	Macroeconomic Implications of Money Laundering,	International Monetary Fund.
Tanzi, V.	1996	"Money Laundering and the International Financial System"	International Monetary Fund.
Al Zarif, H.	1997	"Bank Secrecy in an International Setting"	E-Library of the American University of Beirut
La Porta, R., Lopez de Silanes, F., Shleifer, A. and Vishny, R. W.	1997	"Legal Determinants of External Finance"	Journal of Finance
IMF	1998	"Money Laundering. The Importance of International Countermeasures, Address by Michel Camdessus"	Plenary Meeting of the FATF-IMF
Masciandaro, D.	1999	"Money Laundering: The Economics of Regulation"	European Journal of Law and Economics

Walker, J.	1999	“How Big Is Global Money Laundering?”	Journal of Money Laundering Control
Alexander, K.	2001	“The International Anti-money Laundering Regime: The Role of the Financial Action Task Force”	Google Scholar, Emerald insight, Journal of Money Laundering Control
Beck, T., Demirgüç-Kunt, A. and Levine, R.	2001	“A New Database on Financial Development and Structure”	World Bank Economic Review
Hampton, M. P. and Christensen, J.	2002	“Offshore Pariahs? Small Island Economies, Tax Havens, and the Reconfiguration of Global Finance”	World Development
Holder, W. E.	2003	“The International Monetary Fund’s Involvement in Combating Money Laundering and the Financing of Terrorism”	Journal of Money Laundering Control
Kaufmann, D., Kraay, A. and Mastruzzi, M.	2003	“Governance Matters III: Governance Indicators 1996–2002”	World Bank Policy Research Department
Cassella, S.	2003	“Money laundering, Terrorism, Regulation, Laws and Legislation”	Journal of Money Laundering Control
Ping, H.	2004	“Banking secrecy and money laundering”	Journal of Money Laundering Control
Masciandro, D.	2005	“False and Reluctant Friends? National Money Laundering Regulation, International Compliance and Non-Cooperative Countries”	European Journal of Law and Economics
Reuter, P. and Levi, M.,	2006	“Money Laundering”	Crime and Justice
Chong, A. and Lopez de Silanes, F.	2006	“Money Laundering and Its Regulation”	Research Department, Inter-American Development Bank
Crane, A. and Matten, D.	2007	Business Ethics (2 nd Ed).	Oxford University Press
Teichmann, J.	2007	“Twelve methods of money laundering”	Emerald insight, Journal of Money Laundering Control
Schneider, F.	2007	“Shadow Economies and Corruption All Over the World: New Estimates for 145 Countries”	Open Assessment E-Journal,

Argentiero, A., Bagella, M. and Busato, F.	2008	“Money Laundering in a Two-Sector Model: Using Theory for Measurement”	European Journal of Law and Economics
Barone, R. and Masciandaro, D	2008	“Worldwide Anti-money Laundering: Regulation: Estimating the Costs and Benefits”	Global Business and Economics Review
Walker, J. and Unger, B.	2009	“Measuring Global Money Laundering: ‘The Walker Gravity Model’”	Review of Law and Economics
Hines, J. R.	2010	“Treasure Islands”	Journal of Economic Perspectives
Verdugo Yepes, C.	2011	“Compliance with the AML/CFT International Standard: Lessons from a Cross-Country Analysis”,	IMF Working Paper
Schwarz, P.	2011	“Money Launderers and Tax Havens: Two Sides of the Same Coin?”	International Review of Law and Economics
Barone, R. and Masciandaro, D.	2011	“Organized Crime, Money Laundering and Legal Economy: Theory and Simulations”	European Journal of Law and Economics
Al-Qadi, N., Al Haj, A., Matar, M., and Hathloul, M.	2012	“The Positive and Negative Role for Banks in Money Laundering Operations”	Canadian Social Science
Shahin, W.	2013	“Compliance with international regulation on AML/CFT: the case of banks in Lebanon”	Emerald insight, Journal of Money Laundering Control
Ardizzi, G., Petraglia, C., Piacenza, M., Schneider, F. and Turati, G.	2013	“Money Laundering as a Financial Sector Crime”	Emerald insight, Journal of Money Laundering Control
Ferwerda, J.	2013	“The Effects of Money Laundering”	Research Handbook on Money Laundering, Edward Elgar.
Gonzalez, M., Khosa, U., Liu, P., Schipke, A. and Thacker, N.	2013	“Offshore Financial Centers: To Be or Not To Be?”	IMF Publications, International Monetary Fund.

Groot, L.	2013	“Money Laundering, Drugs and Prostitution as Victimless Crimes”	Research Handbook on Money Laundering, Edward Elgar.
Beekarry, N.	2013	“Combating Money Laundering and Terrorism Finance: Past and Current Challenges”	Book from Edward Elgar Publishing Ltd
Brettl, J.	2013	“Measuring Money Laundering Threat”	Research Handbook on Money Laundering, Edward Elgar
Krieger, T. and Meierrieks, D.	2013	“Terrorism: Causes, Effects and the Role of Money Laundering”	Research Handbook on Money Laundering, Edward Elgar
Masciandaro, D.	2013	“Is the Anti-money Laundering Convenient?” Discussion Compliance Convenient?”	IDB Pape/ Inter-American Development Bank
Schipke, A.	2013	“Offshore Financial Centers: Finding the Right Balance”	IFC Review
Unger, B. and Rawlings, G.	2013	“Competing for Criminal Money”	Global Business and Economics Review
Zabyelina Y.	2015	“Reverse Money Laundering in Russia: Clean Cash for Dirty Ends”	Emerald insight, Journal of Money Laundering Control
Masciandaro D., Balakina O.	2015	“Banking Secrecy: Economics and Politics. In: Banking Secrecy and Global Finance”	Emerald insight, Banking Secrecy and Global Finance
Kirton, J.	2016	“The G20’s Growing Security Governance Success”	G20 Information Center, Trinity College. Canada-Toronto
Halawi, R	2018	“Dirty money in the banking sector”	Emerald insight, Journal of Money Laundering Control

Source: Researchers Illustration