

Inese Gise-Sproģe, Julija Liodorova,
Karina Murniece, Irina Voronova

MONEY LAUNDERING INVESTIGATION: THE CASE OF LATVIA

DOI: [https://doi.org/10.9770/szv.2020.2\(8\)](https://doi.org/10.9770/szv.2020.2(8))

The problem of money laundering has received increased attention in recent years. Currently, other standards, which have been developed in accordance with the latest technologies, are applied in the investigation of money laundering cases. The leading countries studying money laundering are the United States, Switzerland, Australia, China, the United Kingdom, and the Netherlands. The topicality of the research is based on the lack of scientific theoretical foundations in the field of anti-money laundering and the application of methods and techniques for investigating money laundering in practice. The article provides the definition and stages of money laundering and explains the stand-alone (autonomous) money laundering. Particular attention is paid to the money laundering typologies for the investigation of stand alone money laundering, including the methodological recommendations developed by the Financial Intelligence Unit of Latvia in 2020 which are adapted to national circumstances. The authors describe a number of important events in Latvia in the fight against money laundering in the country that influenced further developments in this area: changes in legislation and in the investigative approach, and professional and scientific interest in this topic. The article examines the economic and social aspects of money laundering, which have so far not received sufficient attention in informing the public about the negative impact of money laundering. The novelty of the research is presented as an extension of the scientific theoretical basis for more effective money laundering investigation and examining a new approach to money laundering investigation based on typologies. The authors, using the results of an empirical study of typologies developed by the Financial Intelligence Unit, present the results of their application based on six criminal proceedings on money laundering. The results of the pilot project show that the set of features of the developed typologies mainly corresponds to the specific typology identified by the investigators themselves. The study shows the possibility of applying typologies in practice, which is especially valuable in cases of autonomous money laundering, where there is no direct evidence of a predicate offense. The research methods include bibliometric research, historical analogy method, conceptual analysis, comparative analysis and synthesis method, and graphical method.

Key words: money laundering, stand-alone money laundering, typologies, Latvia.

Noziedzīgi iegūtu līdzekļu legalizācijas izmeklēšana: situācija Latvijā

Noziedzīgi iegūtu līdzekļu legalizācijas problemātikai pēdējos gados ir pievērsta pastiprināta uzmanība. Šobrīd, veicot noziedzīgi iegūtu līdzekļu legalizācijas izmeklēšanu ir piemērojami citi standarti, kas attīstās atbilstoši jaunākajām tehnoloģijām. Vadošās valstis, kas pēta noziedzīgi iegūtu līdzekļu legalizāciju, ir Amerikas Savienotās Valstis, Šveice, Austrālija, Ķīna, Lielbritānija un Nīderlande. Tēmas aktualitāte balstās uz zinātniski teorētiskā pamatojuma nepietiekamību noziedzīgi iegūtu līdzekļu legalizācijas novēršanas jomā un metožu un paņēmieni piemērošanu noziedzīgi iegūtu līdzekļu legalizācijas izmeklēšanai praksē. Rakstā sniegta noziedzīgi iegūtu līdzekļu legalizācijas definīcija un tās stadijas, izskaidrota autonoma (stand-alone) noziedzīgi iegūtu līdzekļu legalizācija. Īpaša uzmanība tiek pievērsta noziedzīgi iegūtu līdzekļu legalizācijas tipoloģijām, lai izmeklētu autonomu noziedzīgi iegūtu līdzekļu legalizāciju, tostarp Latvijas

Finanšu izlūkošanas dienesta 2020. gadā izstrādātās metodiskās rekomendācijas, kas pielāgotas nacionālajiem apstākļiem. Autore apraksta dažus svarīgus notikumus Latvijā cīņā pret noziedzīgi iegūtu līdzekļu legalizāciju valstī, kas ietekmēja turpmāko attīstību šajā jomā: izmaiņas likumdošanā un izmeklēšanas pieejā, profesionālā un zinātniskā interese par šo tēmu. Rakstā apskatīti noziedzīgi iegūtu līdzekļu legalizācijas ekonomiskie un sociālie aspekti, kuriem līdz šim brīdim nebija pievērsta pietiekama uzmanība, informējot sabiedrību par noziedzīgi iegūtu līdzekļu legalizācijas negatīvo ietekmi. Pētījuma novitāte prezentēta kā zinātniski teorētiskās bāzes paplašinājums efektīvākai noziedzīgi iegūtu līdzekļu legalizācijas izmeklēšanai, izpētot jaunu pieeju noziedzīgi iegūtu līdzekļu legalizācijas izmeklēšanai, balstoties uz tipoloģijām. Autore, izmantojot empīriskā pētījuma rezultātus par Finanšu izlūkošanas dienesta izstrādātajām tipoloģijām, prezentē to pielietošanas rezultātus, balstoties uz sešiem kriminālprocesiem par noziedzīgi iegūtu līdzekļu legalizāciju. Pilotprojekta rezultāti liecina, ka izstrādāto tipoloģiju pazīmju kopums galvenokārt atbilst konkrētajai tipoloģijai, ko identificējuši paši izmeklētāji. Pētījums rāda iespēju pielietot tipoloģijas praksi, kas ir īpaši vērtīgi autonomas noziedzīgi iegūtu līdzekļu legalizācijas gadījumos, kad trūkst tiešu pierādījumu par predikatīvu nodarījumu. Izmantotās pētījumu metodes ir bibliometriskais pētījums, vēsturisku analogiju metode, konceptuālā analīze, salīdzinošās analīzes un sintēzes metode, grafiskā metode.

Atslēgas vārdi: noziedzīgi iegūtu līdzekļu legalizācija, autonoma legalizācija, tipoloģijas, Latvija.

Расследование легализации доходов, полученных преступным путём: ситуация в Латвии

В последние годы повышенное внимание уделяется проблеме легализации доходов, полученных преступным путём. В настоящее время к расследованиям легализации применяются другие стандарты, которые развиваются в соответствии с новейшими технологиями. Ведущими странами, исследующими легализацию доходов, полученных преступным путём, являются США, Швейцария, Австралия, Китай, Великобритания и Нидерланды. Актуальность темы обусловлена отсутствием научно-теоретического обоснования в области предотвращения легализации доходов, полученных преступным путём, и применения методов и приёмов расследования легализации на практике. В статье даётся определение легализации доходов, полученных преступным путём, и её этапов, объясняется автономная легализация. Особое внимание уделяется типологиям легализации доходов, полученных преступным путём, для расследования автономной легализации доходов, включая методологические рекомендации, разработанные Службой финансовой разведки Латвии в 2020 году, адаптированные к национальным условиям. Авторы описывают некоторые важные события в Латвии в борьбе с легализацией доходов, полученных преступным путём, которые повлияли на дальнейшее развитие в этой области: изменения в законодательстве и подходе к расследованию, профессиональный и научный интерес к данной теме. В статье рассматриваются экономические и социальные аспекты легализации доходов, полученных преступным путём, которым до сих пор не уделялось достаточного внимания при информировании общественности о негативных последствиях легализации доходов, полученных преступным путём. Новизна исследования представлена как расширение научно-теоретической базы для более эффективного расследования легализации доходов, полученных преступным путём, изучение нового подхода — с применением типологизации — к расследованиям легализации доходов, полученных преступным путём. Авторы, используя результаты эмпирического исследования типологий, разработанных Службой финансовой разведки, представляют результаты их применения на основе шести уголовных дел о легализации доходов, полученных преступным путём. Результаты пилотного проекта показывают, что набор признаков разработанных типологий в основном соответствует какой-либо конкретной типологии, выявленной самими следователями.

Исследование показывает возможность применения типологий на практике, что особенно ценно в случаях автономной легализации доходов, полученных преступным путём, когда отсутствуют прямые доказательства предикатного преступления. Используемые методы исследования: библиометрическое исследование, метод исторических аналогий, концептуальный анализ, метод сравнительного анализа и синтеза, графический метод.

Ключевые слова: легализация доходов, полученных преступным путём, автономная легализация, типологии, Латвия.

Introduction

According to the report of the Financial Intelligence Unit of Latvia, the number of initiated criminal cases for money laundering in 2019 increased by more than 100% compared to 2017, i.e. up 218 against 104 cases; the increase in the number of prosecuted cases exceeds 150% – up 82 against 33 cases, including stand-alone money laundering. The amount of Financial Intelligence Unit frozen funds suspected of money laundering reached 342.51 million EUR in 2019 (Latvijas Finansu izlukosanas dienests 2020a).

According to the Basel Governance Institute assessment, Latvia ranks 97th out of 141 countries ranked by the AML index or money laundering risk (the higher the rank is, the lower the risk is). The neighbouring countries Lithuania and Estonia rank 131 and 141 respectively (Basel Institute on Governance 2020).

The potential impact of the financial sector stability on maintaining investment, and on the development of the Latvian economy as a whole after the changes in the anti-money laundering system is a hot topic that is being discussed. The activities of law enforcement agencies cause dissatisfaction and disputes among different people.

According to the position paper of the Foreign Investors Council in Latvia, the progress achieved in adjusting the legal framework for combating money laundering and the effectiveness of the system is welcomed. In general, foreign investors evaluated the progress as above average, i.e. with 3.2 on a scale of 1 to 5, but there are still shortcomings. The Foreign Investors Council calls for the removal of all possible restrictions arising from existing legislation, by removing those that hinder prompt and effective criminal proceedings and promote the perception of impunity. When foreign investors were asked if they felt any negative impact on their companies with regard to the situations in the financial sector over the past 2 years, some positive opinions were received, yet the negative ones prevailed. Namely, foreign investors highlighted the reputation risks of Latvia that often impact upon the operation of their companies and create challenges when working with foreign banks (Foreign Investors Council in Latvia 2020; Sauka 2020).

Similarly, there is no clear understanding among scientists around the world about combating money laundering. In addition, the range of research topics is very wide. S. Cindori and J. Slovic believe that money laundering is a problem that requires a continuous risk-based approach, which must be systematically developed and the ways of their implementation need to be detected. It is important to exploit the potential of each regulated system, which can significantly help to identify suspicious activity within predicates. In order to identify risk factors, it is necessary to pay due diligence

to all transactions in which cash and other forms of assets enter the company. The authors demonstrate the assessment of the risk of money laundering through business transactions in the form of a suspicious transaction approach in the “Butterfly Diagram” (Cindori, Slovic 2017).

E. Takats notes that banks face fines for failing to report money laundering. However, excessive fines force banks to report less suspicious transactions. Excessive reporting, called “cry wolf”, reduces the information value of reports. By analogy with a fairy tale, the boy cried wolf so often, that his cries became meaningless. On the other hand, money laundering is an economically significant crime. E. Takats offers a mathematical model that obtains the best balance of the benchmark and explores the agency problem between the bank and government law enforcement agencies (Takats 2007).

F. Teichman and M. Falker point out that understanding the minds of money launderers provides valuable insights for legislators, compliance officers, and authorities. In order to understand exactly how money launderers circumvent requirements of the existing preventive measures, their approaches need to be examined. To effectively combat money laundering, it is necessary to obtain a holistic overview of the issue, which entails the observation of both perspectives (Teichman, Falker 2020).

The reasons for expanding the anti-money laundering regime have been widely criticised, but risk-based approaches have nevertheless become a cornerstone of anti-money laundering regimes worldwide. As set out by the Financial Action Task Force (FATF), there is a requirement for members to be aware of the risks at a national level and for obliged entities to be aware of the risks within their businesses (Hopkins, Shelton 2019).

As regards the anti-money laundering behavioural culture in the country, the quality of such investigations must be guaranteed by ensuring the legitimacy, accuracy, and clarity of investigative approaches. According to P. He, “the fight against money laundering is the fight between justice and evil” (He 2010). That is why it is very important to pierce the secret veil of money laundering so that we can combat money laundering more effectively.

The object of the research is the situation with money laundering in Latvia. The subject of the study is money laundering investigation.

The aim of the study is to examine money laundering and investigation from various aspects in order to identify the best practices for money laundering investigations.

The research is organized as follows: introduction, two parts with studies and conclusion. The first part presents the results of bibliometric research on money laundering investigation. This part provides an overview of the behavioural patterns and typologies in money laundering investigation, and outlines the legal aspects of money laundering investigation. The second part presents the practical stage of the research. This part provides an overview of the money laundering situation study in Latvia, and a pilot project for testing money laundering typologies, developed by the Financial Intelligence Unit of Latvia.

Theoretical background of money laundering investigation

Literature review

Money laundering is a global problem. Many solutions to prevent money laundering are already known, but combating money laundering must constantly face the challenge of adapting to ever-changing methods, because in today's technology-based world, the criminals use all the tools at their disposal. This justifies a relatively small number of scientific studies in this area, compared to a number of publications in professional journals.

The authors carried out a bibliometric study on scientific publications in the field of money laundering in the Scopus database which contains the most cited articles. Publications were selected according to the key phrase in English – “money launder”.

As a result of the search, 117 articles published between 1986 and 2020 were found. The leading countries publishing these works are the United States (21 articles), Switzerland (15), Australia (14), China (12), the United Kingdom (9), and the Netherlands (8).

Most publications are by a Swiss researcher F. Teichman (7 articles), including joint research with his co-author M. Falker (5), and by Australian and Chinese researchers S. Gao and D. Xu (5), including their joint research with H. Wang (4).

A number of articles on money laundering were published in the Special Edition Journal of Money Laundering Control.

The topics covered in these publications are diverse: money laundering, crime, corruption, cybercrime, compliance, illegal activities, etc. In recent years, publications in money laundering investigations have focused more on the potential of information technology.

To identify areas of interdisciplinary research in selected works, the authors created a cluster map using VOSviewer. As a result, three clusters of topics studied were identified. Simultaneous clusters of displayed keyword sets are shown in Figure 1 (see on the next page).

According to the analysis of publications by Australia's scientists on money laundering, the research topics fall into six areas (Tiwari et al. 2020):

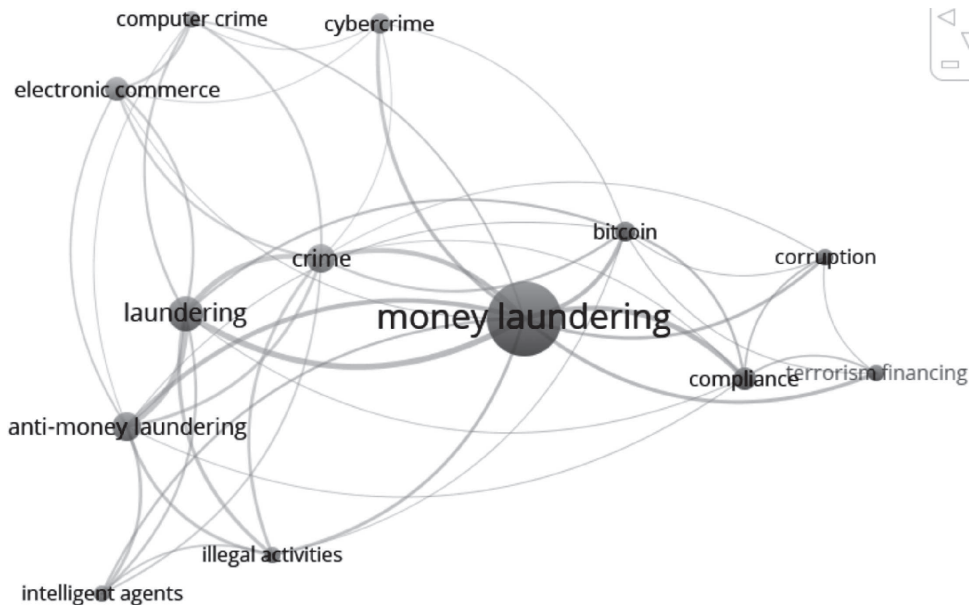
- anti-money laundering regulatory framework and its effectiveness;
- the impact of money laundering on the economy;
- the role of actors and their relative importance;
- magnitude of money laundering;
- new opportunities for money laundering;
- detection of money laundering.

M. Tiwari, A. Gepp and K. Kumar noted that most research has focused on the use of innovative technologies, credit business, etc., while there is a lack of literature on the use of shell companies in money laundering (Tiwari et al. 2020).

The authors of a series of articles F. Teichman and M. Falker conducted above 200 interviews with criminals and anti-money laundering experts to find out how criminals evade detection by exploring the perspectives of both parties. Research conducted in various business areas – jewellery, antiques, consulting and real estate companies using cryptocurrencies, through diamonds, gold, currency exchange offices, banks, etc., in Austria, Germany, Liechtenstein, and Switzerland. Specific techniques used by criminals to circumvent anti-money laundering mechanisms were identified (Teichman 2020a, 2020b; Teichman, Falker 2020).

Figure 1

Search results for publications in the SCOPUS database,
divided by topic groups



Source: compiled by the authors.

Australia's scientists analysed the significance of typologies identified by professional organizations, confirming their application. The study found that money laundering differs from terrorist financing with the amounts of funds involved in the schemes and the stages of money laundering (Irwin et al. 2012). A China's researcher P. He in his study based on simplified money laundering cases described different money laundering methods, analysed the reasons why these methods predominate, and points to future efforts in the fight against money laundering (He 2020).

A group of Australia's and China's scientists studied the new approach to automating bank transaction monitoring (Gao et al. 2009). The work by Australia's scientists K. Singh and P. Best dedicated to the use of visualization that helps to effectively identify patterns of money laundering (Singh, Best 2019).

Netherlands' scientist B. Unger studied the economic and social impact of money laundering, concluding that despite its apparent positive effect in the short term, it has overall negative consequences (Unger 2007):

- short-term effects: distortion of consumption and savings, investment sector; abnormal price increases; unfair competition; changes in exports and imports; impact on labour force and its income; changes in the demand of money, interest rates; availability of credit; distortion of economic statistics;
- long-term impacts: changes in foreign direct investment; liquidity and stability risk in the financial sector; reputation of the sector; over-the-illegal business;

corruption; impact on GDP; undermining of political institutions and the goals of foreign investment; increased crime related to money laundering.

Works by Latvia's researchers are devoted to the aspect of criminal law (Lieljuksis 2001; Juriss 2012; Stukans 2019). The research emphasizes criminal liability issues related to money laundering and the analysis of the composition of this criminal offense in the context of Latvia's laws; regulatory enactments and international regulations, and the concept of money laundering are analysed.

The study by I. Gise and her colleagues presents the opinion of experts from four countries (Latvia, Lithuania, Ukraine, and Armenia) on the use of analytical methods to investigate money laundering of individuals (Gise et al. 2020). The study by J. Baltgailis and his colleagues highlights that the overall characteristics of the national institutional environment, including banking analysis and quality of monitoring, have an impact on the stability of credit institutions (Menshikov et al. 2019).

Behavioural patterns and typologies in money laundering investigation

The need to understand money laundering behavioural patterns and typologies (schemes), as well as the terms "dirty money" and "money laundering", is associated with the America's mafia in the 1920s and 1930s. According to J. Robinson, based on the history of the conviction of the most famous gangster A. Capone in connection with tax exemption, a 29-year-old bootlegger M. Lansky came up with a scheme to avoid persecution (Robinson 2002). The "Lansky syllogism" became: "if the Feds can't follow the money, they won't be able to find it; if the Feds can't find it, it's not taxable; consequently, if you can camouflage this untaxable money to make it look like taxable money, then the Feds won't recognize it when you show it to them, which means you can bring it home and use it".

The term "typology" stems from the ancient Greek words "typos", which means imprint, form, patterns, and "logos" – the concept, teaching. The term has two definitions:

- a scientific knowledge method based on the division of object systems and their grouping using a generalized, idealized model or type;
- result of typological description and comparison.

Typology is based on the identification of essential features of the subjects, the similarities and differences between the objects, a comparative study of compounds, relationships, levels of organization, etc. It is used in all sciences dealing with heterogeneous issues (chemistry, biology, psychology, linguistics, sociology, etc.). In the prevention of money laundering through "typology" means a description of the notional schemes of crime or suspicious activity, their characteristics, and the methods of identifying these features (Korchagin 2015). The authors' research interest is the practical implementation of money laundering investigation approaches to conduct more effective investigations, including the use of money laundering typologies. Findings from case studies of money laundering behavioural patterns and typologies are presented in Table 1.

Table 1

**Findings from case studies
of money laundering behavioural patterns and typologies**

Author, year	Country	Research methodology and main results
Tiwari et al. 2020	Australia	Analysis of 176 studies resulted in the identification of six typologies of money laundering literature topics
Teichman, Falker 2020	Switzerland	Over 200 interviews with criminals and money laundering experts to identify differences between criminals and regulations in mind
Irwin et al. 2012	Australia	Analysis of 300 typologies to identify the differences between the 150 typologies of money laundering and 34 typologies to terrorism financing
He 2010	China	Based on 20 simplified money laundering cases, the various money laundering techniques are described, the reasons for their predominance are analysed, and further efforts are needed to combat money laundering
Gilmour 2020	New Zealand	Analysis of the criminal's approach "with money in technologically advanced money laundering", examining several examples based on the author's own professional experience. An examination of the practical aspects of anti-money laundering from the compliance and investigation point of view is provided

Source: compiled by the authors.

Typological research on money laundering trends, risks, and threats is included in the specialized publications of professional organizations:

- the Financial Action Task Force (FATF) has published more than 60 different typological studies since its inception in 1989: www.fatf-gafi.org;
- the Asia/Pacific Group on Money Laundering (APG), founded in 1995, publishes typological studies each year: www.apgml.org;
- the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG), established in 2004, has published more than 30 studies: www.eurasiangroup.org;
- MONEYVAL has published 6 typological studies since 2010, before publishing reports on identified money laundering typologies since 1998: www.coe.int;
- the Financial Intelligence Unit in Latvia (FIU Latvia) has published the second national risk assessment report (Financial Intelligence Unit of Latvia 2018) and some thematic studies: www.fid.gov.lv.

Legal aspects of money laundering investigation

The concept of money laundering is described by the Financial Action Task Force (FATF), which was set up following the 1989 G7 Summit in Paris.

According to FATF, money laundering is processing of criminal profit to hide its illegal origin. It enables the criminals to enjoy this profit without jeopardizing their

source (Financial Action Task Force 2020). This processing can be described by two main characteristics: the stages and types of money laundering (ML) presented in Table 2.

Table 2

The concept of money laundering by FATF

	Characteristic	Description	Typologies (examples)
Stages of ML	Placement (initial stage)	the launderers introduce their illegal profits into the financial system	<ul style="list-style-type: none"> • splitting a large amount • purchase a series of monetary instruments, etc.
	Layering (second stage)	the launderers engage in a series of conversions or movements of the funds to distance them from their source	<ul style="list-style-type: none"> • activities with investment instruments • use of series of accounts • fictitious transfers, etc.
	Integration (third stage)	the third stage in which the funds re-enter the legitimate economy	<ul style="list-style-type: none"> • real estate investments • luxury assets purchase • business investments, etc.
Types of ML	Third-party money laundering	laundering of proceeds by a person who was not involved in the commission of the predicate offence	<ul style="list-style-type: none"> • professional services providers • shell companies • use of mules, etc.
	Self-laundering	laundering of proceeds by a person who was involved in the commission of the predicate offence	<ul style="list-style-type: none"> • exportation through dividends • loan holders, etc.
	Stand-alone (autonomous)	laundering of proceeds independently, without predicate offence	<ul style="list-style-type: none"> • insufficient evidence of the particular predicate offence • lack of territorial jurisdiction over offence

Source: compiled by the authors based on the Financial Action Task Force 2019, 2020.

Thus, the money laundering can be described as any act or attempt to conceal or change the identity of the proceeds of crime in order to give them the status of seemingly legally acquired property. The second and the third stages of money laundering are typical in Latvia. Stand-alone is a representative type of money laundering due to Latvia’s geographical location.

In accordance with Section 5, Paragraph one of the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing (Saeima of the Republic of Latvia 2008), before that – in accordance with the Law on the Prevention of Money Laundering (Latvijas Republikas Saeima 1997), the following actions are money laundering in Latvia:

- 1) the conversion of proceeds of crime into other valuables, change of their location or ownership while being aware that these funds are the proceeds of crime, and if such actions have been carried out for the purpose of concealing or disguising the illicit origin of funds or assisting another person who is involved in committing a criminal offence in the evasion of legal liability;
- 2) the concealment or disguise of the true nature, origin, location, disposition, movement, ownership of the proceeds of crime, while being aware that these funds are the proceeds of crime;

- 3) the acquisition, possession, use or disposal of the proceeds of crime of another person while being aware that these funds are the proceeds of crime.

These actions will also be regarded as money laundering, when a person deliberately assumed the funds to be criminally acquired.

Since 1999, criminal liability for money laundering has been provided for in Section 195 of the Criminal Law (Saeima of the Republic of Latvia 1998).

According to Section 124, Paragraph seven of the Criminal Procedure Law (Saeima 2005), in order to prove the laundering of proceeds from crime, there is no need to establish the specific predicate criminal offence, therefore such investigations may be conducted independently.

This corresponds to Article 3 (3) of Directive 2018/1673 of 23 October 2018 on combating money laundering by criminal law (European Parliament and Council of the European Union 2018). According to this Directive, the member states shall take the necessary measures to ensure that:

- 1) a prior or simultaneous conviction for a criminal activity from which property has been derived is not a prerequisite for a conviction of money laundering;
- 2) a conviction for money laundering is possible where it is established that the property was derived from a criminal activity, without it being necessary to establish all the factual elements or all circumstances relating to that criminal activity, including the identity of the perpetrator;
- 3) money laundering extends to property derived from conduct that occurred on the territory of another Member State or of a third country, where that conduct would constitute a criminal activity had it occurred domestically.

The procedures related to proceedings regarding criminally acquired property provided in Chapter 59 of the Criminal Procedure Law (Saeima of the Republic of Latvia 2005) are implemented in Latvia. An investigator with the consent of the prosecutor has the right, in the interests of solving the financial matters which have come about in pre-trial criminal proceedings, in timely manner and in the interests of the economy of proceedings, to separate the materials from a criminal case regarding criminally acquired property and to initiate proceedings if:

- 1) the totality of evidence provides grounds to believe that the property that has been with drawn or seized is criminally acquired or related to a criminal offence;
- 2) due to objective reasons, the transferral of the criminal case to court is not possible in the near future or such transferral may cause substantial unjustified expenses.

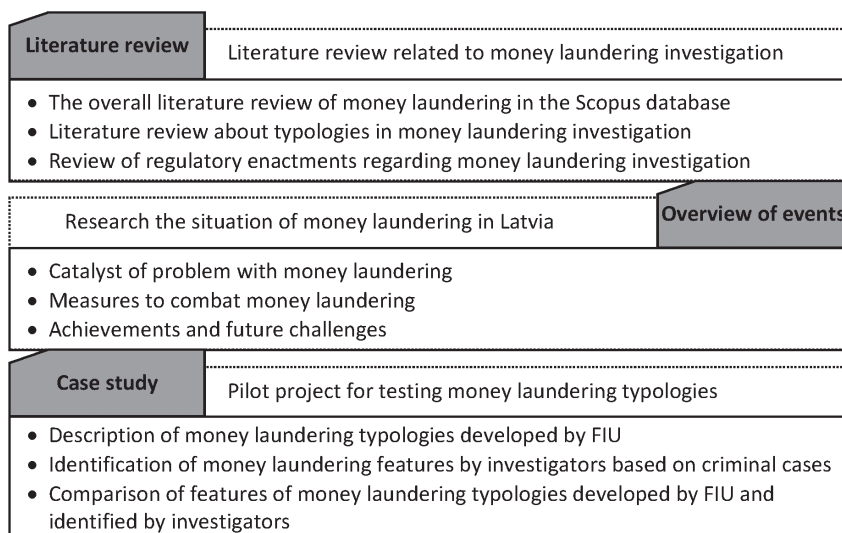
Money laundering typologies investigation: the case of Latvia

Research methodology

The research methodology consists of three stages: a literature review of money laundering investigation and typologies that is presented in the initial part of the study; an overview of some important events in Latvia in the fight against money laundering; a pilot project for testing money laundering typologies, developed by the Financial Intelligence Unit in Latvia (FIU Latvia), based on the findings of investigators in criminal proceedings. The research methodology is shown in Figure 2.

Figure 2

The research methodology



Source: compiled by the authors.

The pilot project was carried out in September 2020. The representative sample in the pilot project consists of six observations – 6 criminal proceedings which examined the issue of the criminal recognition of property in Chapter 59 of the Criminal Law. All criminal proceedings were initiated in 2017–2019, i.e. before the Financial Intelligence Unit of Latvia developed the methodological recommendations of money laundering typologies.

The identification of features of money laundering was performed by four experts – the investigators of the State Police of Latvia who have the high education in the sphere of economics or law, and the experience in money laundering investigations.

During the testing, the experts, based on the data collected in the criminal proceedings, noted the findings, which, in their opinion, indicate money laundering.

The experts compared identified facts with the features of money laundering typology developed by the Financial Intelligence Unit of Latvia, by analysing the specific typology, which in their view is most appropriate in the criminal proceedings under investigation. The results of matches were summarized by the authors.

The ability to recognize and prevent money laundering problems

The risks identified in the Organisation for Economic Co-operation and Development (OECD) examination can be considered as a catalyst for the money laundering problem in Latvia. In 2015, when assessing Latvia’s ability to fight corruption, OECD experts pointed to significant problems with money laundering, which accelerated

the assessment of the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) in the country. Initially, MONEYVAL experts critically assessed Latvia's ability to fight money laundering; there was a risk of including the country in the "grey list". The pessimistic scenario meant a decline in partner countries' confidence in Latvia as a country capable of effectively combating the use of the financial and non-financial sectors for money laundering, terrorism, and proliferation financing. Insufficient attention to the problem of money laundering threatened Latvia with a decrease in the country's reputation rating and a blow to the country's economy – restrictions on international payments, increase in settlement terms, and increase in lending rates, deterioration of the investment environment, job losses, and other adverse economic and social consequences.

The prevention of money laundering and terrorism financing follows as an important priority from the Declarations on the planned activities of the Cabinet of Ministers starting from 2016 (Latvijas Republikas Ministru Kabinets 2016, 2020), envisaging immediate action to strengthen Latvia's ability to fight money laundering in order to meet the requirements of the MONEYVAL (2018). This priority is also defined in the Financial Sector Development Plan 2017–2019 (Latvijas Republikas Ministru Kabinets 2017) which clearly states the need for unconditional and decisive implementation of the principles of risk management and compliance with international practices and standards.

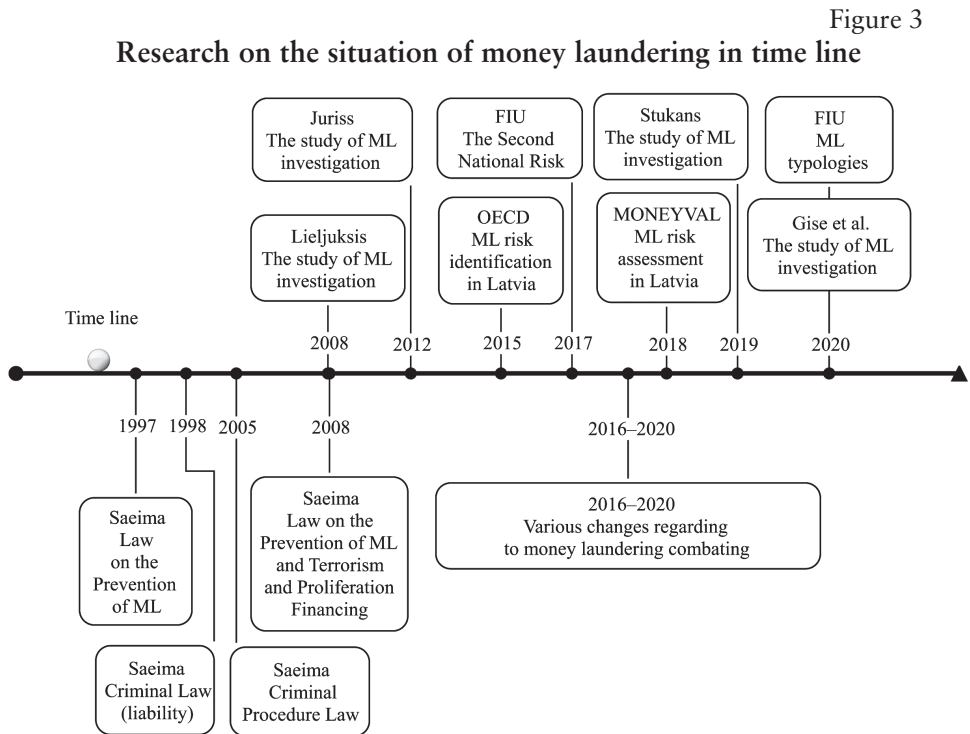
In order to make further progress in improving the financial system by addressing the shortcomings identified in the MONEYVAL efficiency and technical compliance assessment process and implementing the recommendations, the Anti-Money Laundering Action Plan was approved by 31 December 2019 (Latvijas Republikas Ministru Kabinets 2018). The Anti-Money Laundering Action Plan is structured according to the methodology of the Financial Action Task Force, developed in 2013 and updated in 2019 (Financial Action Task Force 2019), the activities of the plan correspond to the 11 performance indicators of the MONEYVAL assessment system (MONEYVAL 2018).

Thanks to the joint work of public and private sector institutions, following the MONEYVAL recommendations, Latvia was able to recognize and prevent global problems with money laundering. As a result, the financial sector underwent fundamental reconstruction and large-scale cash flow transit between the Commonwealth of Independent States and the European Union through Latvia. The following results were also achieved:

- money laundering cases became a priority;
- the awareness and approach to investigating cases in these categories have changed;
- a number of legislative changes have been introduced;
- the internal control of credit institutions has been strengthened;
- the role of the credit institution and business register in identifying the true beneficiaries of a business has been improved;
- the increase in the Financial Intelligence Unit activities;
- fines for economic crimes have increased significantly;

- the capacity of law enforcement agencies to combat money laundering has been strengthened;
- creation of the “Moneyval” section of the information portal (lvportals 2020);
- the increase in scientific interest in the field of money laundering investigation, etc.

Research on the money laundering (ML) situation in Latvia, conducted by Latvia’s scientists and foreign professional organizations, in the context of changes in legislation is shown in Figure 3.



Source: compiled by the authors.

Despite the progress made in the fight against money laundering, a number of challenges remain for the country. Referring to the representatives of the Latvia’s Finance Industry Association (Brazovskis, Pastars 2019), we need to change the approach that we use to fight financial crimes and related risks, not only because MONEYVAL and FATF tell us to do so, but also because it is a matter of our economic well-being.

One of the challenges Latvia face in the fight against money laundering is the country’s readiness to recognize and adopt an indirect, evidence-based approach to money laundering investigations based on money laundering typologies.

The pilot project for testing money laundering typologies

In 2020, the Financial Intelligence Unit in Latvia (FIU Latvia) developed a methodological material to promote a common understanding of the features of money laundering by systematising them in typologies (Latvijas Finanšu izlukosanas dienests 2020b), summarizing the identified money laundering typologies (schemes) in Latvia, as well as information highlighted in international institutions' practice.

The FIU's methodological material "Typologies and Features of Money Laundering" provides a description of 19 (nineteen) money laundering typologies in Latvia. Financial Intelligence Unit notes that the most common predicate crimes were committed using one of the types or methods described in the typologies.

Each typology is accompanied by a list of more features, denoted by a combination of a letter and number. The Financial Intelligence Unit divided the features of money laundering into 6 (six) groups, from A to F respectively, where:

- A. Features relating to the customer or its partners, related persons or other parties involved in the transactions (A1–A24);
- B. Features relating to transactions (payments, etc.) (B1–B45);
- C. Features relating to the personal account (C1–C8);
- D. Features relating to documentation supporting transactions, etc. (D1–D17);
- E. Features relating to politically exposed persons (E1–E16);
- F. Features indicating the functioning of laundromat (F1–F4).

For example, money laundering typology No. 1 describes the transfer of funds through different accounts of financial institutions in different jurisdictions that are open to shell formations involved in a complex scheme. Professional providers of this service are involved in the implementation of these schemes: persons with advanced knowledge in accounting, law enforcement, finance, etc. implement professional money laundering. The Financial Intelligence Unit describes this typology with 25 features from group A (8 features), B (9 features), C (4 features), D (2 features), and group F (2 features).

The match between the features identified in the FIU typology and confirmed by experts, which describe a particular typology is determined arithmetically by adding up the correspondence of each feature group (A–F) and the total number of features in the typology (Σ). In some criminal proceedings, given their complexity and the number of stakeholders involved, the experts identified several typologies in one case.

The match value is determined as a percentage for each typology separately and for each analysed criminal proceeding, determining the coincidence of the arithmetic mean features in all typologies. The results of the pilot project are shown in Table 3.

As a result of the pilot project, it was found out that in six criminal proceedings (the table shows "Case No."), the experts identified between one and five typologies. It consists of 14 identical types of typologies corresponding to the eight typologies developed by the Financial Intelligence Unit of Latvia: No. 1, 5, 6, 7, 9, 11, 13, and 17 (the table shows "Typology No.").

Table 3

Results of money laundering typologies testing

Case No.	Typology No.	Number of features identified in FIU typology						Number of features confirmed by experts corresponding to FIU typology						Match value, %						Average in case, %
		A	B	C	D	F	Σ	A	B	C	D	F	Σ	A	B	C	D	F	Σ	
1	1	8	9	4	2	2	25	6	8	2	2	2	20	75	89	50	100	100	80	80
2	11	2	6	2	1	-	11	5	8	3	5	-	21	100	100	100	100	-	100	100
	7	6	10	2	2	-	20	4	2	2	-	-	8	67	20	100	100	-	40	
	9	1	2	-	3	-	6	-	2	-	3	-	5	0	100	-	100	-	83	
3	11	2	6	2	1	-	11	2	2	2	1	-	7	100	33	100	100	-	64	56
	13	1	5	1	2	-	9	-	3	1	1	-	5	0	60	100	50	-	56	
	17	4	4	-	3	-	11	2	1	-	1	-	4	50	25	-	33	-	36	
4	6	2	4	1	1	-	8	1	1	1	-	-	3	50	25	100	0	-	38	39
	7	6	10	2	2	-	20	4	3	1	-	-	8	67	30	50	0	-	40	
	5	4	2	-	2	-	8	1	2	-	2	-	5	25	100	-	100	-	63	
5	6	2	4	1	1	-	8	1	2	1	-	-	4	50	50	100	0	-	50	53
	7	6	10	2	2	-	20	4	4	2	1	-	11	67	40	100	50	-	55	
	17	4	4	-	3	-	11	1	2	-	2	-	5	25	50	-	67	-	45	
6	1	8	9	4	2	2	25	10	12	5	2	1	30	100	100	100	100	50	100	100

Source: compiled by the authors.

The match value of the features of typologies developed by the FIU has been found to be on average between 39.0% and 100.0%. The accuracy of the matches in each individual typology is from 36.0% to 100.0%.

Typology No. 7 (shell formations accounts are used to transfer funds from the original place with fraudulent transactions to distance them from the source of the funds) has been identified in three criminal proceedings.

In two criminal proceedings simultaneously with typology No. 7, typology No. 17 (accounts of foreign natural persons, safes in Latvia used to hide funds obtained from a predicate criminal offence committed abroad), and in two criminal proceedings – typology No. 6 (funds from criminal offences are concealed, combined in commercial transactions with legal means) were identified.

In two criminal proceedings typology No. 1 (professional money laundering) and No. 11 (investment of illegally acquired funds in financial instruments, real estate) were identified. These typologies have been identified separately in criminal proceedings and together with other typologies.

Typologies No. 1, 5, and 11 show a high match value of features of up to 100.0%. Typologies No. 6, 7, and 17 show a smaller coincidence of features (36.0–55.0%), indicating that these typologies should be considered together.

In the case No. 2 (typology No. 11) and case No. 6 (typology No. 1), the experts identified a number of features that were collected in the methodological recommen-

datations by the Financial Intelligence Unit of Latvia. Accordingly, in typology No. 11, the experts identified 21 features compared to 11 features according to the FIU methodological recommendations; in typology No. 1 the experts identified 30 features compared to 25 features according to the FIU recommendations. This indicates that the features of these typologies may need to be supplemented.

The results of the pilot project have shown that the set of typologies' features developed by the Financial Intelligence Unit of Latvia mainly corresponds to a specific typology that would allow it to be applied in practice, especially in investigations of stand-alone money laundering, where direct evidence is lacking.

In order to determine statistically the level of confidence in the use of typologies developed by the Financial Intelligence Unit of Latvia, the number of observations should be increased. The authors note that typologies are not static and may change depending on economic and social aspects (economic development, legislative change, etc.), and should therefore be reviewed periodically.

Conclusions

The article analysed money laundering in Latvia. It should be noted that the history of money laundering and its control have so far been subject to minor intellectual discussions. The most important thing to conclude from the results of a bibliography research carried out on scientific studies on money laundering is that there are not many such publications in the world. The topics studied focus more on the possibilities of information technology in the fight against money laundering. In Latvia, scientific research has been launched since 2008 and it is generally focused on the criminal aspect of money laundering.

In general, Latvia has been able to demonstrate the unwavering desire and ability of Latvian society and international organizations to be equal to the developed Western democracies in the fight against money laundering. It is a matter of our legal and economic prosperity, not a will imposed by the MONEYVAL or the FATF.

One of the challenges Latvia faces in investigating money laundering is to recognise the approach based on typology and other analytical methods. Interpreting the results obtained from typologies testing in practice, based on the criminal proceedings for money laundering investigations, it is concluded that the number of observations is currently insufficient and that this study should be continued and developed.

The study concludes that money laundering investigation is a complex and thorough process that requires the expertise of specialists and well-coordinated work between investigators and financial intelligence officers.

It is important to further develop scientific and practical research on money laundering and the use of analytical methods for the investigation of money laundering in order to gather reliable and relevant financial information and use it effectively. In order to promote a common understanding of suspicious transactions and signs of criminal activity, the Financial Intelligence Unit develops money laundering typologies by summarizing and analysing actual money laundering cases in Latvia based on similar internationally recognised practices. The results of typological research allow

to identify the largest risk areas and industries, and to create an effective risk management methodology.

The results of the pilot project showed that this methodology can be a working tool for investigators. For further research, the authors hypothesized that the identification of typologies and their systematization would allow a better understanding of the signs of money laundering, which may lead to suspicion of money laundering.

References

- Basel Institute on Governance. (2020) *Basel AML Index: Ranking Money Laundering and Terrorist Financing Risks Around the World*, 9th edition. Available: https://baselgovernance.org/sites/default/files/2020-07/basel_aml_index_2020_web.pdf (accessed on 30.12.2020).
- Brazovskis J., Pastars E. (2019) Risku kultura un parvaldība cīņai ar finansu noziegumiem. *Jurista vards*, 30. aprīlis, Nr. 17/18 (1075/1076). (In Latvian)
- Cindori S., Slovic J. (2017) Identifying money laundering in business operations as a factor for estimating risk. *International Journal of Innovation and Economic Development*, Vol. 3, No. 3, pp. 7–16. DOI: <https://doi.org/10.18775/ijied.1849-7551-7020.2015.33.2001>
- European Parliament and the Council of the European Union. (2018) *Directive (EU) 2018/1673 on Combating Money Laundering by Criminal Law*, 23 October. Available: <https://eur-lex.europa.eu/eli/dir/2018/1673/oj> (accessed on 30.12.2020).
- Financial Action Task Force. (2019) *Methodology for Assessing Technical Compliance with the FATF Recommendations and the Effectiveness of AML/CFT Systems*. Available: <https://www.fatf-gafi.org/media/fatf/documents/methodology/FATF%20Methodology%202022%20Feb%202013.pdf> (accessed on 30.12.2020).
- Financial Action Task Force. (2020) *Money Laundering*. Available: <http://www.fatf-gafi.org/fatf/moneylaundering/#d.en.11223> (accessed on 30.12.2020).
- Financial Intelligence Unit of Latvia. (2018) *Supplemented Latvian National Money Laundering/Terrorism Financing Risk Assessment Report*. Available: https://www.fid.gov.lv/images/Downloads/useful/ML_TF_ENG_FINAL.pdf (accessed on 30.12.2020).
- Foreign Investors Council in Latvia. (2020) *Foreign Investors' Council in Latvia on the Improvement of Combating Economic and Financial Crime*. Available: FICIL 8. Economic and Financial Crime issues Position Paper 2020 – ENG (accessed on 30.12.2020).
- Gao S., Xu D., Wang H., Green P. (2009) Knowledge-based anti-money laundering: a software agent bank application. *Journal of Knowledge Management*, Vol. 13, No. 2, pp. 63–75. DOI: <https://doi.org/10.1108/13673270910942709>
- Gilmour N. (2020) Illustrating the incentivised steps criminals take to launder cash while avoiding government anti-laundering measures. *Journal of Money Laundering Control*, Vol. 23, No. 2, pp. 515–526. DOI: <https://doi.org/10.1108/JMLC-12-2019-0095>
- Gise I., Liodorova J., Barkauskas M., Markina O., Mamikonian K. (2020) The use of analytical methods for identification of illicitly acquired funds of individuals. *Kriminalistika i sudova ekspertiza*, Vol. 65, pp. 542–557.
- He P. (2010) A typological study on money laundering. *Journal of Money Laundering Control*, Vol. 13, No. 1, pp. 15–32. DOI: <https://doi.org/10.1108/13685201011010182>
- Hopkins M., Shelton N. (2019) Identifying money laundering risk in the United Kingdom: observations from national risk assessments and a proposed alternative methodology. *European Journal on Criminal Policy and Research*, Vol. 25, pp. 63–82. Available: <https://link.springer.com/article/10.1007/s10610-018-9390-5> (accessed on 30.12.2020).

- Irwin A., Choo K., Liu L. (2012) An analysis of money laundering and terrorism financing typologies. *Journal of Money Laundering Control*, Vol. 15, No. 1, pp. 85–111. DOI: <https://doi.org/10.1108/13685201211194745>
- Juriss J. (2012) *Noziedzīgi iegutu līdzekļu legalizēšana*. Promocijas darbs. Rīga: Latvija Universitāte. Available: https://dspace.lu.lv/dspace/bitstream/handle/7/5198/33657-Juris_Juriss_2013.pdf?sequence=1 (accessed on 30.12.2020). (In Latvian)
- Korchagin O. (2015) Tipologii legalizatsii (otmyvaniia) dokhodov ot nezakonnogo oborota narkotikov: sovremennyi kriminologicheskii vzgliad. *Sovremennoe pravo*, № 5, str. 133–138. Available: <https://rucont.ru/efd/391390> (accessed on 30.12.2020). (In Russian)
- Latvijas Finanšu izlukšanas dienests. (2020a) *Noziedzīgi iegutu līdzekļu legalizācijas un terorisma finansēšanas novēršanas sistēmas efektivitātes uzlabošana*. Rezultātu apkopojums. Available: PowerPoint Presentation (fid.gov.lv) (accessed on 30.12.2020). (In Latvian)
- Latvijas Finanšu izlukšanas dienests. (2020b) *Noziedzīgi iegutu līdzekļu legalizācijas tipoloģijas un pazīmes*. Available: https://www.fid.gov.lv/images/Articles/2020/NILL_tipolo%C4%A3ijas_un_paz%C4%ABmes.pdf (accessed on 30.12.2020). (In Latvian)
- Latvijas Republikas Ministru Kabinets. (2016) *Deklarācijas par Māra Kuciņskas vadīta Ministru kabineta iecerēto darbību*. Available: https://www.mk.gov.lv/sites/default/files/editor/20160210-mkucinskis_vald_prior_gala_vers_0.pdf (accessed on 30.12.2020). (In Latvian)
- Latvijas Republikas Ministru Kabinets. (2017) *Finanšu sektora attīstības plāns 2017.–2019. gadam*. Available: <https://likumi.lv/ta/id/289590-par-finansu-sektora-attistibas-planu-2017-2019-gadam> (accessed on 30.12.2020). (In Latvian)
- Latvijas Republikas Ministru Kabinets. (2018) *Pasākumu plāns noziedzīgi iegūtu līdzekļu legalizācijas un terorisma finansēšanas novēršanai laikposmam līdz 2019. gada 31. decembrim*. Available: https://www.fid.gov.lv/images/Downloads/useful/Pasakumu_plans_Moneyval.pdf (accessed on 30.12.2020). (In Latvian)
- Latvijas Republikas Ministru Kabinets. (2020) *Deklarācijas par Artura Krisjāņa Kariņa vadīta Ministru kabineta iecerēto darbību*. Available: https://mk.gov.lv/sites/default/files/editor/kk-valdibas-deklaracija_red-gala.pdf (accessed on 30.12.2020). (In Latvian)
- Latvijas Republikas Saeima. (1997) *Par noziedzīgi iegutu līdzekļu legalizācijas novēršanu*. Available: <https://likumi.lv/ta/id/46537-par-noziedzigi-iegutu-lidzeklu-legalizācijas-noversanu> (accessed on 30.12.2020). (In Latvian)
- Lieljuksis A. (2001) *Noziedzīgi iegutu līdzekļu legalizācijas apkarošana*. Promocijas darbs. Rīga: Latvijas Policijas akadēmija. Available: <https://biblioteka.bank.lv/en/book.aspx/bibliographic?id=2544> (accessed on 30.12.2020). (In Latvian)
- lvportals. (2020) *Moneyval*. Available: <https://lvportals.lv/temats/moneyval> (accessed on 30.12.2020). (In Latvian)
- Menshikov V., Sipilova V., Baltgailis J. (2019) Factors of institutional environment encouraging the soundness of banks: their selection and analysis in the world countries. *Social Sciences Bulletin*, Vol. 2, No. 29, pp. 7–23. DOI: [https://doi.org/10.9770/szv.2019.2\(1\)](https://doi.org/10.9770/szv.2019.2(1))
- MONEYVAL. (2018) *Anti-money Laundering and Counter-Terrorist Financing Measures Latvia*. Available: https://www.fid.gov.lv/images/Downloads/useful/MONEYVAL2018_5th-Round-MER-Latvia.pdf (accessed on 30.12.2020).
- Robinson J. (2002) *THE SINK – Terror, Crime and Dirty Money in the Offshore World*. Available: <https://www.amazon.com/SINK-Terror-Crime-Dirty-Offshore-ebook/dp/B005LYOYNY> (accessed on 30.12.2020).
- Saeima of The Republic of Latvia. (1998) *The Criminal Law*. Available: <https://likumi.lv/ta/en/en/id/88966> (accessed on 30.12.2020).

- Saeima of The Republic of Latvia. (2005) *Criminal Procedure Law*. Available: <https://likumi.lv/ta/en/en/id/107820> (accessed on 30.12.2020).
- Saeima of The Republic of Latvia. (2008) *Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing*. Available: <https://likumi.lv/ta/en/en/id/178987> (accessed on 30.12.2020).
- Sauka A. (2020) FICIL Sentiment Index 2015–2019. *The Development of the Investment Climate in Latvia: The Viewpoints of Foreign Investors*. Available: Microsoft Word - 10012020_ENG_FICIL_SentimentIndex2019.docx (accessed on 30.12.2020).
- Singh K., Best P. (2019) Anti-money laundering: using data visualization to identify suspicious activity. *International Journal of Accounting Information Systems*, Vol. 34. DOI: <https://doi.org/10.1016/j.accinf.2019.06.001>
- Stukans J. (2019) *The Legal Framework for Recognising Property as Criminally Acquired and the Issues Related to It*. Summary of the Doctoral Thesis. Riga: Riga Stradins University. DOI: https://doi.org/10.25143/prom-rsu_2019-03_dts
- Takats E. (2007) *A Theory of “Crying Wolf”: The Economics of Money Laundering Enforcement*. Available: https://www.researchgate.net/publication/-227465026_A_Theory_of_Crying_Wolf_The_Economics_of_Money_Laundering_Enforcement (accessed on 30.12.2020).
- Teichman F. (2020a) Recent trends in money laundering. *Crime, Law and Social Change*, Vol. 73, pp. 237–247. DOI: <https://doi-org.resursi.rtu.lv/10.1007/s10611-019-09859-0>
- Teichman F. (2020) Money-laundering and terrorism-financing compliance – unsolved issues. *Journal of Money Laundering Control*, Vol. 23, No. 1, pp. 90–95.
- Teichman F., Falker M. (2020) Money laundering through exchange offices. *Journal of Money Laundering Control*. DOI: <https://doi.org/10.1108/JMLC-07-2019-0059>
- Tiwari M., Gepp A., Kumar K. (2020) A review of money laundering literature: the state of research in key areas. *Pacific Accounting Review*. DOI: <https://doi.org/10.1108/PAR-06-2019-0065>
- Unger B. (2007) *The Scale and Impacts of Money Laundering*. Cheltenham (UK), Northampton (USA): Edward Elgar Publishing Limited.