

Examining the Effects of the Recent AML/CFT Legislation in Mauritius

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ABSTRACT

Objective – This paper focuses on examining the implications of money laundering in Mauritius and providing recommendations to mitigate its negative effects. Another objective of this study is to assess the effectiveness of anti-money laundering (AML) efforts by financial institutions in Mauritius, which was accomplished through the analysis of both primary and secondary data.

Methodology – The research targets professionals in the compliance and in the AML field within the financial sector of Mauritius. Through qualitative interviews of AML professionals and a quantitative survey of 209 respondents, the study reveals a positive relationship between variables related to money laundering.

Findings – The findings indicate that 86% of the respondents consider the initiatives taken by the Mauritian government to combat money laundering on the island as ineffective.

Conclusion – Based on primary data obtained from participants in Mauritius' financial institutions, there is disagreement regarding the efficacy of the country's AML legislation in combating money laundering. Furthermore, secondary statistics reveal that the introduction of the AML rules and regulations in 2018, as well as the establishment of the Financial Intelligence Unit (FIU), were responses to a significant increase in suspicious transactions in Mauritius between 2003 and 2014.

Novelty – The study contributes to existing knowledge and highlights the importance of proactive measures to combat money laundering in Mauritius.

Keywords: *Money Laundering; Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT); Financial Intelligence Unit; Eastern and Southern Africa Anti-Money Laundering Group; Prevention of Corruption Act; Prevention of Terrorism Act; Terrorism Financing*

JEL Classification: E4, E52, E6

Article Info: Received 13 July 2023; Revised 28 July 2023; Accepted 30 July 2023

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Recommended Citation: Fulena, V., Chitto, H. B., & Henriette-Bolli, D. G. (2023). Examining the Effects of the Recent AML/CFT Legislation in Mauritius. *Journal of Business, Management, and Social Studies*, 3(1), 50-65.

I. INTRODUCTION

Money laundering has a historical background predating the twentieth century, as Chinese merchants sought to conceal their earnings from government scrutiny by engaging in complex financial transactions and cycling money through various businesses. The term “money laundering” gained popularity through the struggles faced by Al Capone, a notorious mobster, in explaining the source of his illicitly acquired funds. Capone utilized cash-only laundromats as a cover to hide earnings from illegal activities such as prostitution and bootleg alcohol sales. The belief that Italian mafia members, including Capone, coined that the term has gained recognition. Money laundering involves the transfer of unlawfully obtained funds

through legitimate businesses or unsuspecting individuals' bank accounts to create an appearance of legitimacy. The association with laundromats likely contributed to the term's symbolic language. The involvement of Capone in money laundering played a significant role in shaping the terminology used to describe such illicit financial activities.

Money laundering involves the illicit use and movement of significant amounts of unlawful currency across various monetary systems. The presence of inadequate and ambiguous regulations has contributed to a notable rise in illegal transactions. Furthermore, the lack of opposition or control from different law firms has exacerbated these violations. In today's world, money has become indispensable, and individuals are engaged in a race to accumulate wealth through various means. While some resort to legitimate methods, others engage in unlawful and unethical activities, including fraud and corruption schemes. Those involved in such acts face the risk of prosecution. Money laundering serves as a means for individuals to acquire wealth and present its source as legitimate, despite the associated risks.

Background of the Study

Concealing illegal funds has been identified as a significant vulnerability that can adversely impact the productivity of the global economy. Teichmann (2017) highlights that numerous successful corporations maintain cash records in multiple financial institutions, a practice that can complicate legal proceedings against them. Such actions often involve the violation of laws and the concealment of financial assets. The Financial Action Task Force (FATF) (n.d.) estimates that the concealment of illegal funds accounts for 2% of the world's wealth. This figure is considered excessive, particularly in industrialized countries, as noted by Naheem (2018). Researchers have also found that hiding illegal funds can generate substantial income within a specific country or region, leading to ambiguity in financial reports.

The inefficiency of anti-money laundering laws in certain jurisdictions has been identified as a contributing factor. Scholars have argued that this inefficiency serves as the primary catalyst for various program infractions and acts of intimidation. Kemal (2014) emphasizes that these illicit behaviours are deliberately concealed, making it challenging to uncover their underlying motivations.

Money laundering encompasses various tactics and methods, as highlighted by Naheem (2019). These include smuggling, involvement of banks and insurance companies, real estate and gaming businesses, underground banks, international trade, front agencies, and electronic money transfers such as Western Union. Professionals like accountants and lawyers play a role in facilitating these illicit activities. It is important to recognize that money laundering can manipulate legal procedures. For instance, Azevedo Araujo (2020) explains how an insurance company may attempt to conceal illegal funds by paying out life insurance policies, thereby altering the origin of resources.

To prevent the misuse of illegal money transactions, effective security measures are necessary. Teichmann (2020) points out that money laundering transactions can be linked to a web of criminal activities. Consequently, employing competent procedures for investigating illegal actions is crucial in combating the various offences associated with money laundering. The impact of money laundering extends to the reputation of a country, particularly the trustworthiness of its financial institutions, as emphasized by Balani (2019).

The Republic of Mauritius, known for its reputable status, is considered an attractive destination for currency transactions. Jaunky et al. (2017) describe Mauritius as a middle-to-high-income country with a well-established banking system. The economy of Mauritius encompasses various sectors such as textiles, sugar cane, financial services, and tourism. In order to safeguard the island's reputation and security, the government has been actively developing and implementing anti-money laundering (AML) legislation. The robust financial system in Mauritius provides support and assistance to business owners.

To effectively address money laundering concerns, Mauritius has enacted several regulations, including the Anti-Money Laundering Act (FIAMLA 2002, Act 6/2002) and the Financial Intelligence Unit (FIU).

The FIAMLA plays a crucial role in preventing the concealment of illegal funds and contributes to the overall development of Mauritius. Furthermore, Mauritius serves as the entry point for African businesses, and the financial intelligence section is responsible for monitoring all transactions. However, it is also recognized as a tax haven, and in 2020, Mauritius faced blacklisting, as reported in the news.

Challenges Faced by Mauritius

Despite the implementation of laws and measures to combat money laundering in Mauritius, the country has faced financial violations and has been included in the black list of the European Union, as highlighted by Bunwaree (2014). The involvement of Mauritius in illicit activities related to illegal funds led to its exclusion from the EU and revealed weaknesses in the anti-money laundering legislation and anti-terrorism framework. This violation of EU norms and recommendations has raised concerns among investors in Mauritius, particularly in the financial industry, as it impacts the island's economy.

Jaunky et al. (2017) emphasize that political influence plays a significant role in making Mauritius susceptible to financial troubles, with political institutions exerting control over specific transactions. Additionally, Mauritius has been described as a tax evasion and tax haven in reports by the OECD (2000) and the International Bureau of Fiscal Documentation, tarnishing its image. The island's classification as a tax haven has led to its blacklisting by the European Union, and the perception of financial secrecy has made it a destination for tax evaders.

The infiltration of organised money laundering into the banking system is also a cause for concern, as highlighted by Tsingou (2014). Banks may unknowingly facilitate money laundering through bank transfers, cash deposits, and safekeeping, allowing illicit funds to flow through the banking system. Vaithilingam and Nair (2017) note that criminals exploit the financial privacy provided by banks to carry out their illicit activities.

The blacklisting and exclusion from the EU have had negative consequences for Mauritius, impacting investor confidence and potentially disrupting the banking system and financial resources. The government of Mauritius has expressed its commitment to implementing diplomatic, political, and methodological strategies to safeguard the country's reputation and interests.

This research aims to examine the anti-money laundering and counter-terrorism legislation in Mauritius and its impact on money laundering activities. It also seeks to propose solutions and recommendations to address these negative effects and mitigate them effectively.

II. LITERATURE REVIEW

Money Laundering Process

The method of money laundering has been a subject of scrutiny among researchers, with the complexity of evaluating this method highlighted by Gilmour (2016). Dreżewski et al. (2012) emphasize the importance of understanding this method, as it encompasses a wide range of techniques involving various financial services and goods, facilitating the process of laundering criminally derived property. Traditionally, the money laundering process has been described to occur in three stages, as illustrated below.

Stage 1: Placement

The placement phase of money laundering, according to Albrecht et al. (2019), involves the conversion of a large amount of illegal money into a smaller, more easily concealable sum. This small sum is then circulated through various financial institutions, insurance companies, casinos, money exchanges, shops, and other local and foreign businesses. Although authorities are aware of the process of depositing small amounts, Dreżewski et al. (2012) argue that corruption among officers has made it difficult to detect such

activities at this stage. To address this issue in the early stages, researchers have proposed the implementation of Risk-Based Due Diligence measures.

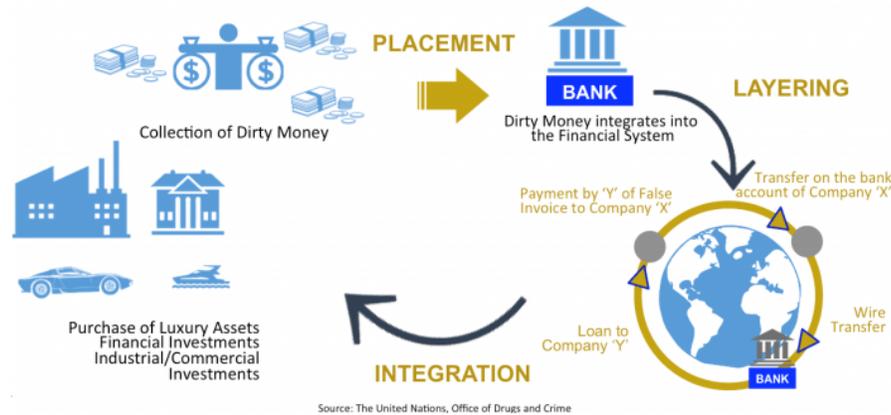


Figure 1. The Process of Concealing Illegal Funds

Stage 2: Layering

According to Naheem (2019), the second stage of money laundering, known as layering, involves complex electronic transfers designed to make it difficult for enforcement authorities to detect and uncover the illicit funds. The funds are dispersed across different accounts to obfuscate the trail of the illegal proceeds. Research suggests that this method primarily targets banks, financial institutions, and management companies, as highlighted by Naheem (*ibid*). In terms of investment, money launderers often opt for real estate due to weak guidelines against money laundering in this sector, as pointed out by Cassella (2018). Moreover, Albrecht et al. (2019) argue that individuals engaged in money laundering activities often seek guidance and advice from expert financial consultants to facilitate the electronic transfer of funds between countries.

Stage 3: Integration

The integration stage of money laundering, according to Dreewski et al. (2012), is a matter of concern because it makes the source of illegal proceeds untraceable. Laundered money from previous stages is introduced into the financial and economic systems, primarily through banks, to make it appear as legitimate business earnings. Money launderers then use these funds to invest in activities regulated by law and society, such as bonds and stocks, with the intention of generating more wealth that appears legal, as highlighted by Albrecht et al. (2019). Unlike the layering process, the detection and identification of laundered funds in the integration stage often rely on informants, as stated by Manjunath (2015). The existing anti-money laundering (AML) guidelines and rules are considered inefficient and ineffective in uncovering and revealing the diverse illegal money being laundered, leading to their continued concealment instead.

International AML Framework

In order to effectively combat money laundering, it is essential to have transparent policies and international cooperation, as highlighted in the international framework of anti-money laundering (AML). However, it is acknowledged that not all jurisdictions are aligned with the procedures to combat money laundering on an international level, which allows money launderers to convert illicit funds into legitimate

assets. Naheem (2017) emphasizes the need for each country to regulate its own AML measures to address this issue. Consistent AML measures are necessary to accurately identify and address monetary corruption, including illicit financial transactions, as argued by Naheem (2016). Similarly, Naheem (2018) suggests that dual legislation would be more effective in tackling illegal money transactions. It is crucial for all countries to establish robust regulations to track and apprehend individuals involved in money laundering, regardless of the jurisdiction where the offence is committed.

International Accords

Several contracts and conventions have been established with the aim of addressing and mitigating various financial offences. The Strasbourg Convention, as highlighted by Naheem (2016), is a specific convention applicable to certain jurisdictions and designed to address monetary crimes within the European Union by facilitating the sharing of information. While this convention has been embraced by one continent, it serves as a model for combating money laundering.

In the fight against money laundering, the OECD convention has been implemented, as well as the UN convention which primarily focuses on crimes and offenses related to drug trafficking in order to identify any entities involved in illicit transactions. Additionally, the Suppression of Financing of Terrorism convention, as identified by De Koker (2006), plays a crucial role in combatting the financing of terrorism.

Mauritius AML Framework

Mauritius, as a prominent financial centre and diversified economy, has made significant improvements in its financial sector in recent years. However, the serious social and economic consequences of money laundering necessitate effective measures to combat this illicit activity. In 1995, Mauritius took its initial step in implementing anti-money laundering (AML) standards by enacting the Dangerous Drugs Act (DDA 2000, Act 41/2000), which prohibits money laundering related to drug offences. The Economic Crimes and Anti-Money Laundering Act of 2000 (ECAMLA) was later replaced by the Financial Intelligence and Anti-Money Laundering Act (FIAMLA), both adopting a threshold-based approach to criminal activity.

Mauritius is a member of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) and has endorsed key legislative acts, including the Financial Intelligence and Anti-Money Laundering Act 2002 (FIAMLA 2002, Act 6/2002), the Prevention of Corruption Act 2002 (POCA, Act 5/2002), and the Prevention of Terrorism Act 2002 (POTA, Act 2/2002). Through the implementation of the DDA 2000, Mauritius ratified the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (Vienna Convention) on February 19, 2001. It also became a party to the United Nations Convention against Transnational Organized Crime (Palermo Convention) on April 21, 2003, and the International Convention for the Suppression of Terrorist Financing on December 14, 2004. Mauritius operates in accordance with the Stolen Assets Recovery Initiative (STAR) and the Financial Action Task Force (FATF), ensuring compliance with international AML standards. Levi et al. (2017) emphasize the implementation of rigorous financial laws in Mauritius to combat money laundering effectively.

Mauritius, recognized as a top financial centre, has taken measures to strengthen its anti-money laundering (AML) laws and practices to ensure the prevention of suspicious transactions. The Financial Intelligence and Anti-Money Laundering Act (FIAMLA) is a key legislation in Mauritius aimed at combating money laundering, as highlighted by Uppiah (2018a). To enforce AML standards and requirements, the Financial Intelligence Unit (FIU) was established.

To address unexplained wealth, the Good Governance and Integrity Reporting Act was introduced, targeting individuals who possess more than Rs 10 million since 2010, as mentioned by Mahadew (2017). Mauritius has also made recent enhancements to its laws, including acts, rules, regulations, and guidelines, in order to align with international AML standards and requirements.

Recent Acts, Regulations, Rules and Guidelines Highlights

BoM Guideline on AML/CFT Proliferation

The AML/CFT (Anti-Money Laundering/Combating the Financing of Terrorism) Guideline in Mauritius has been updated, superseding the previous version from 2017. The revised guideline incorporates amendments made to the Financial Intelligence and Anti-Money Laundering Act (FIAMLA) and the FIAML Regulations in 2018. It includes more comprehensive information on topics such as terrorist financing, sanctions, and proliferation.

The updated guideline also reflects the requirements of the United Nations (Financial Prohibitions, Arms Embargo, and Travel Ban) Sanctions Act 2019, providing detailed guidance in this regard. Additionally, it emphasizes the importance of conducting an Enterprise Wide Risk Assessment on AML/CFT and provides further details on risk mitigation measures to be implemented by banks. This includes additional information on risk classification of clients, ongoing monitoring, and review of clients. Furthermore, the guideline highlights the enhanced training requirements for all relevant staff involved in AML/CFT compliance.

FSC AML/CFT Handbook

The new guideline on AML/CFT proliferation by the Bank of Mauritius (BoM) provides detailed information on the risk-based approach, dividing risk into threat, vulnerability, and consequence. It offers clarifications on customer risk, country risk, product and service risk, and transaction risk. The guideline emphasizes the importance of conducting client risk assessment on a case-by-case basis rather than using a standardized approach.

The guideline also addresses the system used for electronic verification of natural persons, outlining the necessary steps to ensure its appropriateness and proper functioning. It includes provisions for digital information storage, covering areas such as cloud computing, electronic documentation storage, electronic verification of documentation, data and transaction screening systems, and virtual/digital currencies.

Furthermore, the guideline highlights the importance of AML/CFT training for directors, officers, and workers. It emphasizes the need for employees to understand and embrace their roles in safeguarding the financial institution against money laundering and terrorist financing threats. The training should be tailored to the specific duties of each employee.

New Enforcement Manual

The new enforcement manual released by the Financial Services Commission (FSC) (n.d.) serves as a credible deterrent tool and provides an overview of the FSC's approach to enforcement and exercise of its enforcement powers. It sets out general policies and procedures to be followed by the FSC and serves as a reference tool for the regulated community regarding the Commission's enforcement powers and processes.

The manual includes additional details and clarifications on investigations, outlining how investigations should be conducted. It also highlights the FSC's powers in dealing with instances of market abuse and money laundering investigations, emphasizing the importance of submitting accurate information during investigations. Factors considered during an investigation may include the risk that the licensee's business has been involved in facilitating financial crime and money laundering, among other considerations.

The Anti-Money Laundering and Combating The Financing of Terrorism (Miscellaneous Provisions) Act 2020

In response to Mauritius being included in the Financial Action Task Force (FATF)'s list of jurisdictions under increased monitoring and the country's listing on the EU List of High-Risk Third Countries, the Anti-Money Laundering and Combating the Financing of Terrorism and Proliferation

(Miscellaneous Provisions) Act 2020 (Act No. 5 of 2020) was passed by Parliament on July 7, 2020. The purpose of this act is to ensure closer compliance with the recommended international best practices of the Financial Action Task Force (2020). The legislative reforms introduced by Act No. 5 of 2020 aim to enhance Mauritius' legal and regulatory framework in the fight against money laundering and the financing of terrorism.

Controlling Bodies

Mauritius has established several statutory and supervisory bodies to combat and monitor money laundering activities. These authorities play crucial roles within the anti-money laundering (AML) framework. The Financial Intelligence Unit (FIU) is responsible for collecting, analysing, and disseminating information related to money laundering. It is also a member of the Egmont Group, an international network of FIUs. The Independent Commission Against Corruption (ICAC), established in 2002, is the primary authority for investigating and prosecuting corruption and money laundering cases.

The Police, including the Central Crime Investigation Division (CID) and the Anti-Drugs and Smuggling unit (ADSU), along with the Attorney General's Office, the Drugs Assets Forfeiture Office (DAFO), and the Courts, also contribute to the enforcement of AML measures. The Ministry of Finance and Economic Development provides direction on economic policies that reinforce AML/CFT legislation.

The Financial Services Commission (FSC) and the Bank of Mauritius (BoM) have been granted powers to issue and enforce guidelines and codes on AML/CFT for their licensees. Additionally, other supervisory bodies such as the State Law Office, the Mauritius Revenue Authority (MRA), and the Assets Recovery Investigation Division (ARID) assist in monitoring and controlling money laundering activities. The Gaming Authority, established through the Gaming Regulatory Authority Act in May 2007, has the authority to issue AML/CFT guidelines to its licensees, including casinos, bookmakers, and gaming houses. Overall, these statutory and supervisory bodies in Mauritius work together to enforce AML/CFT measures and ensure compliance within the financial sector.

AML Policies

Countries worldwide are re-evaluating their policies and regulations to address the growing problem of money laundering. Levi et al. (2017) note that many nations are amending their anti-money laundering (AML) frameworks to combat money laundering effectively. While some jurisdictions adopt common policies, others tailor their legislation and regulatory frameworks to their specific needs, considering that approaches effective in one jurisdiction may not be suitable for others facing similar challenges. International conventions, powers of confiscation and arrest, and cross-border cooperation are recognized as essential tools to combat money laundering at both domestic and international levels (Levi et al., 2017). Balani et al. (2019) emphasize the importance of cross-border protections to eradicate money laundering practices across multiple jurisdictions, as such structures facilitate traceability and enforcement. McCarthy et al. (2015) highlight the relevance of addressing money laundering involving individuals in positions of power, such as politically exposed persons or corrupt officials, who may exploit monetary corruption and attempt to evade detection.

AML Policies Effectiveness

Various studies have highlighted the shortcomings of anti-money laundering (AML) regulations and emphasized the need for effective control over transactions in financial institutions. Masciandaro and Filotto (2001) stress the importance of supervisory bodies, such as Financial Intelligence Units (FIUs) and Compliance Directorates, in monitoring financial transactions and enforcing AML regulations. Arnone and Borlini (2010) argue that it is the government's responsibility to establish these supervisory bodies and develop appropriate rules and regulations to combat money laundering.

In certain countries, company registrars have been assigned the task of preventing the formation of suspicious or fictitious firms to combat money laundering. Compliance measures, as highlighted by Huang (2015), are implemented to ensure that registrars adhere to AML procedures. Moreover, investors are required to provide comprehensive information about their investments, including details of directors, shareholders, registered office address, source of funds, and business strategy (Hülse & Kerwer, 2007). Financial institutions are then mandated to conduct enhanced due diligence (EDD) when the disclosed data does not align with the investments, thereby addressing the issue of money laundering.

State of Money Laundering in the World

In certain jurisdictions, secrecy laws have been utilized to protect individuals from financial instability and to maintain the confidentiality of their assets. Wealthy individuals and politically exposed persons (PEPs) can keep their properties and possessions hidden to mitigate the risks associated with instability, weak currency, and inflation (Hendriyetty & Grewal, 2017). Disclosing secret banking data, whether intentional or not, is considered punishable by law (Vaithilingam & Nair, 2007).

However, money launderers exploit banking secrecy laws as a defence, with countries like Panama, Switzerland, and Hong Kong being identified as “banking secrecy havens” despite having stricter money laundering regulations. In 2000, a regulation was introduced requiring financial institutions to report suspicious transactions, resulting in the reporting of 6,100 transactions, with 95% of them originating from banks (Ferwerda, 2013a). Money laundering prosecutions are relatively rare compared to drug-related offenses, as law enforcement agencies often focus on investigating the underlying crimes rather than solely pursuing money laundering charges.

In 2020, Mauritius was ranked 52nd on Transparency International’s Corruption Perceptions Index, indicating a significant issue of corruption that is being addressed and investigated by the Independent Commission Against Corruption (ICAC). However, there have been no indications of terrorist financing or reported instances of terrorist acts in the country. Authorities have reported no positive matches among designated persons based on their lists.

Research Hypotheses

Research hypotheses are regarded as potential resolutions to the research problem, which can be examined through statistical methods. In the investigation of the repercussions of money laundering in Mauritius, three theories have emerged.

Hypothesis 1

H0: Laundering of funds does not lead to economic distortion in Mauritius.

H1: Laundering of funds leads to economic distortion in Mauritius.

Hypothesis 2

H0: Laundering of funds does not lead to the erosion of financial sector in Mauritius

H1: Laundering of funds leads to the erosion of financial sector in Mauritius

Hypothesis 3

H0: Laundering of funds does lead to a decrease in government revenue and socioeconomic cost

H1: Laundering of funds leads to a decrease in government revenue and socioeconomic cost

III. METHODOLOGY

Sampling

Target Population

The study primarily concentrates on the influence of money laundering in Mauritius, and as a result, the target demographic is selected accordingly. Employees who specialize in anti-money laundering (AML)

within financial institutions, as well as individuals who have direct experience and involvement in controlling money laundering within financial institutions, are considered more suitable participants. This selection is based on their enhanced familiarity with the pertinent AML laws and regulations, as well as their understanding of their effectiveness.

Sample Size and Response Rate

Quantitative:

It is crucial to select an appropriate sample size to ensure that the collected data is representative of the entire population. In the case of the selected financial institution in Mauritius, which employed 457 individuals as of June 30, 2021 (being the population), the sample size was determined using the Raosoft statistical calculator.

In terms of the numbers selected above, the sample size n and margin of error E are given by

$$\begin{aligned} x &= Z(c/100)^2 r(100-r) \\ n &= \frac{N x}{((N-1)E^2 + x)} \\ E &= \text{Sqrt}[\frac{(N-n)x}{n(N-1)}] \end{aligned}$$

where N is the population size, r is the fraction of responses that we are interested in, and $Z(c/100)$ is the critical value for the confidence level c .

At a 95% confidence level, the calculator indicated a sample size of 209 as being the statistically correct sample size to which survey could be administered. Consequently, the study utilized an actual sample size of 209 participants.

To select the participants from the financial institution in Mauritius, the random sampling method, which falls under the category of probability sampling methods, was employed. This method ensures that each individual within the population has an equal chance of being selected for the study.

During a period of approximately three weeks, a total of 186 questionnaires were collected for analysis in the study. This represents a response rate of 89% based on the determined sample size of 209, a reasonable response rate much higher than the minimum normally accepted response rate of 60%.

Qualitative Method used:

The financial industry in Mauritius comprises more than 50 financial institutions. For this study, it was necessary to gather primary qualitative data through in-depth interviews with anti-money laundering (AML) experts and regulators. Due to time constraints, the data collection period was limited to a maximum of 2 weeks. As a result, non-probability sampling was employed, relying on the researcher's judgment to select participants from the population. The selection process ensured that the chosen respondents met the study's requirements and represented the entire population base adequately.

Given the timeline restrictions, the study ultimately conducted four interviews with AML experts, which formed the basis for the qualitative data analysis

IV. RESULTS AND ANALYSIS

Pilot Study

Prior to administering the questionnaire, conducting a pilot survey is crucial to ensure the validity and consistency of the responses. Following the recommendation by Kumar (2018), a small sample of 5 questionnaires was distributed to employees of the financial institution for the pilot survey.

During the pilot survey, the employees reported no difficulties in comprehending and responding to the questions. They found the questionnaire to be easily understandable and non-confusing. Based on this feedback, the questionnaire was finalized using Google Forms and subsequently initiated for the main data collection process.

Correlation Analysis

H1: Laundering of funds leads to economic distortion in Mauritius.

Table 1 presents the results of the Spearman correlation analysis between money laundering allegations and the three statements in the economic distortion category.

Table 1. Spearman Correlation Analysis between Money Laundering and Economic Distortions

Spearman's rho	Money laundering impairs the development of the legitimate private sector through the supply of products priced below production cost, making it therefore difficult for legitimate activities to complete.	Correlation Coefficient Sig. (2-tailed) N	1.000 186
	Criminals may turn enterprises which were initially productive into sterile ones to launder their funds leading ultimately to a decrease in the overall productivity of the economy.	Correlation Coefficient Sig. (2-tailed) N	0.628 0.000 186
	The laundering of money can cause unpredictable changes in money demand as well as great volatility in international capital flows and exchange rates.	Correlation Coefficient Sig. (2-tailed) N	0.676 0.000 186

According to the results of the Spearman correlation analysis conducted on the responses of 186 participants in this survey, the three variables examined in the economic distortion category exhibit a strong positive correlation with money laundering allegations (Table 1). The obtained p-value is less than 0.05, indicating that the correlations are statistically significant. Therefore, the null hypothesis (H₀) is rejected, while the alternative hypothesis (H₁) is supported.

The Spearman correlation coefficients range from 0.628 to 1.000, indicating a high degree of positive association between the economic distortion variables and money laundering allegations. This suggests that all three factors in the economic distortion category have a beneficial impact on Mauritius' economy. This viewpoint is supported by Ferwerda (2013b), who argues that criminals often invest their illicit proceeds in luxury countries rather than drawing attention to themselves by acquiring assets in their home country, thereby affecting the real input and output of their home economy (Ferwerda, 2013b).

H2: Laundering of funds leads to the erosion of financial sector in Mauritius

The findings of the Spearman correlation analysis examining the relationship between the statement about money laundering and the degradation of Mauritius' banking industry are presented in Table 2.

Table 2. Spearman Correlation Analysis and Degradation of Mauritian Banking Industry

Spearman's rho	While the financial sector is an essential constituent in the financing of the legitimate economy, it can be a low-cost vehicle for criminals wishing to launder their funds.	Correlation Coefficient Sig. (2-tailed) N	1.000 186
	The flow of large sums of laundered funds poured in or out of financial institutions might undermine the stability of financial markets.	Correlation Coefficient Sig. (2-tailed) N	0.633 0.000 186
	The laundering of money can cause unpredictable changes in money demand as well as great volatility in international capital flows and exchange rates.	Correlation Coefficient Sig. (2-tailed) N	0.648 0.000 186

Based on the Spearman correlation analysis conducted on responses from 186 participants in this survey, all three variables examined demonstrate a strong positive correlation with the degradation of Mauritius' financial industry. The obtained p-value is less than 0.05, indicating that the correlations are statistically significant. Consequently, the null hypothesis (H₀) is rejected, while the alternative hypothesis (H₁) is not rejected.

The Spearman correlation coefficients range from 0.633 to 1.000, indicating a high degree of positive association between the variables and the degradation of Mauritius' financial industry. Therefore, these three factors have a significant impact on the observed degradation.

H3: Laundering of funds leads to a decrease in government revenue and socioeconomic cost

Based on the Spearman correlation analysis conducted on responses from 186 participants in this survey, all three variables examined show a strong positive correlation with the impact of money laundering on government revenue and societal expenses. The obtained p-value is less than 0.05, indicating that the correlations are statistically significant. Thus, the null hypothesis (H₀) is rejected, while the alternative hypothesis (H₁) is not rejected.

The Spearman correlation coefficients range from 0.610 to 1.000, indicating a high degree of positive association between the variables and the influence of money laundering on government revenue and societal expenses. Therefore, these three factors significantly impact the extent to which money laundering affects government revenue and societal expenses.

Table 3. Spearman's Correlation Analysis between Money Laundering and Government Revenue and Social Cost

Spearman's rho	Money laundering reduces tax revenue as it becomes difficult for the government to collect revenue from related transactions which frequently take place in the underground economy.	Correlation Coefficient Sig. (2-tailed) N	1.000 186
	The socio-economic effects of money laundering are various because as dirty money generated from criminal activities are laundered into legitimate funds.	Correlation Coefficient Sig. (2-tailed) N	0.623 0.000 186
	They are used to expand existing criminal operations and finance new ones.	Correlation Coefficient Sig. (2-tailed) N	0.630 0.000 186
	Money laundering may lead to the transfer of economic power from the market, the government, and the citizens to criminals, abetting therefore crimes and corruption.	Correlation Coefficient Sig. (2-tailed) N	0.610 0.000 186

V. CONCLUSION

The primary focus of this section is to demonstrate the successful addressing of the research objective and study topic. It is important to note that the objective of this study is to examine the impact of money laundering in Mauritius and to develop strategies to mitigate its negative consequences. The fundamental aim of the study is to collect and analyse both descriptive and inferential statistics to investigate the effectiveness of Mauritius' anti-money laundering (AML) legislative framework.

Based on primary data obtained from participants in Mauritius' financial institutions, there is disagreement regarding the efficacy of the country's AML legislation in combating money laundering. Furthermore, secondary statistics reveal that the introduction of the AML rules and regulations in 2018, as well as the establishment of the Financial Intelligence Unit (FIU), were responses to a significant increase in suspicious transactions in Mauritius between 2003 and 2014. Additionally, the enactment of the GRR Act aimed to strengthen the country's anti-money laundering legislation (Uppiah, 2018b).

Another objective of this study is to assess the effectiveness of anti-money laundering (AML) efforts by financial institutions in Mauritius, which was accomplished through the analysis of both primary and secondary data. The findings indicate that 86% of the respondents consider the initiatives taken by the Mauritian government to combat money laundering on the island as ineffective.

Regarding the effectiveness of governing entities, the analysis of primary data revealed that the Independent Commission Against Corruption (ICAC) and the Financial Services Commission (FSC) are leading in effectively combating money laundering in Mauritius.

Recommendations

The primary objective of the study is to propose effective methods that financial institutions can employ to mitigate the negative economic consequences of money laundering in Mauritius.

Training and Guidance to AML Staff

Raising public awareness and providing education are identified as critical components in effectively combating money laundering activities. The strategic recommendation put forward is the implementation of a comprehensive training program for employees, serving as a roadmap for companies to design effective learning and development initiatives for Anti-Money Laundering (AML) personnel. The study highlights the significance of developing essential skills and competencies among employees, emphasizing their crucial role in combating money laundering effectively.

ICT Skills Development

Regarding this matter, the literature review revealed the significance of employees' ICT skills, research skills, and personality traits in forming an effective team. It is recommended to recruit experienced individuals for suitable positions, conduct comprehensive training for all employees within financial institutions (FIs), and establish strong collaborations with regulatory and enforcement authorities to fulfil reporting obligations. Consequently, the study proposes that regulatory bodies should offer continuous training programs to financial institutions, particularly non-banking FIs, to enhance the skills of their Anti-Money Laundering (AML) staff.

Specialised Skill Development Programme

Considering the scarcity of Money Laundering Reporting Officers (MLROs) in the market, it is recommended to develop specialized tertiary courses tailored for this field. Additionally, the option of grandfathering from former financial crimes specialists can be considered as a means to address the shortage. However, it is crucial to implement a biannual staff skill development program to ensure that the AML team members possess the necessary competencies and to rectify any identified shortcomings. By continuously updating and reorienting staff skills through this program, financial institutions can effectively respond to emerging money laundering threats and schemes in the long run.

Security of ICT Systems

Furthermore, the study proposes the development of a secure Information and Communication Technology (ICT) system as its primary strategic recommendation, based on the review of money laundering sources. The investigation identifies a vulnerability in the placement phase of money laundering. Therefore, enhancing the security of ICT systems, such as implementing additional automated controls and focusing on high-risk areas, can alleviate this issue. By doing so, financial institutions can better anticipate Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) risks and effectively mitigate them by directing efforts where they are most needed.

Central Repository Implementation

The digitalization of processes and the automation of controls can be significantly advanced through the establishment of a central Know Your Customer (KYC) repository for local customers. This repository

would serve as a centralized platform for tracking and managing Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) risks.

Corporate Governance and AML Governance Adherence

Corporate governance involves the adoption of best management practices to ensure the interests of all stakeholders, both internal and external, are addressed. To achieve this, a corporate governance plan incorporates the use of transparent systems that provide visibility into organizational operations, meeting market expectations through expected procedures and system implementation.

In order to create a conducive environment, financial institutions have a responsibility to implement transparent governance procedures. These systems should be sufficiently transparent for regulatory agencies to assess, while still preserving client privacy and confidentiality. By subjecting their internal AML systems to external reviews by market regulators, financial institutions can ensure their preparedness and effectiveness in dealing with various money laundering scenarios, proactively detecting and addressing any weaknesses.

Authorities emphasize that firms must establish and implement comprehensive policies, processes, and procedures to detect and prevent financial crimes. Anti-Money Laundering (AML) efforts should align with regulatory standards, such as:

Board Supervision: Demonstrating that the board has a governance model in place to ensure compliance with regulatory requirements and prevent money laundering.

Effective Teamwork: Ensuring that the firm has sufficient AML personnel, systems, and data.

Monitoring and Reporting: Conducting formal evaluations of AML governance and operations.

Whistle Blowing Policy

Whistleblowing refers to the act of individuals disclosing information in good faith about questionable practices or misconduct within a company, often bypassing the normal reporting channels to report elsewhere within the organization. Common whistleblowing matters encompass a range of issues, including but not limited to criminal offences, corruption and bribery, inaccurate financial reporting, breakdowns in internal controls, non-compliance with regulations and laws, non-compliance with policies and procedures, and non-compliance with corporate behaviour and code of ethics.

This policy outlines the framework for establishing a whistleblowing policy in compliance with regulatory requirements for financial institutions. The policy emphasizes the institution's commitment to maintaining the highest standards of openness, honesty, and accountability in all aspects of work, service to the public, and operational practices. Employees, officers, and directors are expected to conduct themselves with integrity, impartiality, and honesty while fulfilling their duties and responsibilities, adhering to applicable laws and regulations. Any form of unlawful activity is strictly prohibited.

Consistent with this commitment, it is expected that employees, officers, directors, and individuals associated with the company who have legitimate concerns about any practices within the organization will come forward and raise those concerns through a defined process without fear of retaliation.

Limitations and Directions for Future Research

This research aimed at examining the anti-money laundering and counter-terrorism legislations in Mauritius and their impact on money laundering activities. Money Laundering and Terrorism activities are very sensitive issues and subject to penalties and easy prey to involvement in illegal and/or unethical activities. In such scenarios, it can be logically assumed that deviances if any could also be happening with the complicity of people working in the very industry of anti-money laundering or anti-terrorism in Mauritius as possibly would be the case elsewhere. If Mauritius could have found itself in some grey not to say black list for some time/s of some international organizations, it means that while compliance is

being satisfied by officers in the industry in Mauritius, international observers could have noticed abuses. Such being the case, the responses from surveyed people, including interviewed ones do leave some room for not blindly trusting responses. Future studies can envisage to dig even deeper under the surface and it can be expected that with more rigorous methodology and deeper insights new elements can emerge, both, in understanding of the phenomenon and more creative remedial actions.

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