World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
Vol. 17, December 2022
ISSN: 2749-3628,

FINTECH IN IRAQ AND THE RISKS OF USING IT IN MONEY LAUNDERING OPERATIONS

Gailan Ismael Abdullah
College of Administration and Economics, Tikrit University, Iraq
gailan.ismael@tu.edu.iq

Article history:

Received: 18th October 2022
Accepted: 18th November 2022
Published: 28th December 2022

Abstract:

The research aims to identify the reality of Financial Technology (FinTech) in the Iraqi financial system, identify the developments that have affected it, and know the challenges and future prospects for them under the supervision of the Central Bank of Iraq, which supervises the work of FinTech companies and takes into account the developments in the financial and banking sector in light of global financial and banking innovations Many financial services have become dependent on FinTech for their implementation. Financial services are now provided outside of traditional financial institutions, which has contributed to improving financial access, increasing financial inclusion and thus increasing competition within the financial system, thus promoting economic growth. The use of FinTech –as an innovative means for granting credit and providing other financial services– involves many risks, perhaps the most important of which is the possibility of using FinTech in money laundering operations, which is one of the most important financial crimes affecting the financial system and then the economic system in general. Especially since FinTech has characteristics that make the process of transferring money through it more quickly and smoothly compared to traditional financial services, which would destabilize the economic system. Therefore, the research recommends the necessity of identifying and assessing money laundering risks related to financial products and services, as well as achieving financial integrity in light of FinTech and the systemic risks of cybercrime.

Keywords: FinTech, Money Laundering, Banking Supervision, Central Bank of Iraq.
JEL Classification: G0, G1, G2, O4, E44, O53

1. INTRODUCTION:

The FinTech sector has witnessed remarkable development over the past few years, as many financial services have become dependent on FinTech for their delivery, and these services have also become provided from outside traditional financial institutions, which has contributed to improving access to financial services and increasing competition in The financial system, thus promoting economic growth and financial inclusion, which in turn contribute to enhancing the stability of the financial system and then its development. FinTech also has advantages that make financial systems more competitive and attractive to customers in terms of ease of dealing and direct communication between dealers, low cost, speed of spread and access, which in turn drives the development of the financial system to keep pace with these developments, whether with regard to the nature of the work of financial institutions or the financial infrastructure within the financial system, which brings benefits to the financial system as a whole and then to the economy in general. However, the use of FinTech - as an innovative means of providing credit and other financial services - involves many risks that may affect the consumer sector in a narrow way or affect the financial system as a whole through the possibility of using FinTech in money laundering operations, which is one of the most important Financial crimes affecting the financial system, and then the economic system in general, especially since FinTech has characteristics that make the process of moving funds through it more quickly and smoothly compared to traditional financial services, which leads to destabilization of the economic system in Iraq.

Therefore, identifying the nature of FinTech, its scope of work, the services it provides, and the benefits and risks arising from that allows determining the extent to which FinTech can be used in money laundering - which is considered an economic crime - by identifying and evaluating money laundering risks related to financial products and services, In addition to achieving banking supervision by the Central Bank of Iraq in light of FinTech and the systemic risks resulting from it.

1.1 Research problem:

The use of FinTech involves many risks; The most important of which is the possibility of using FinTech in money laundering operations, because FinTech has characteristics that make the process of transferring funds through it more quickly and smoothly compared to traditional financial services. Therefore, the research problem can be formulated in the following question: What are the risks arising from the use of FinTech in money laundering in Iraq?

1.2 Research hypothesis:

The research stems from the hypothesis that "the use of FinTech involves many risks and therefore can be used in the crime of money laundering in the Iraqi economy."

1.3 Research aims:

The research aims to identify the nature of FinTech, its scope of work, and the services it provides within the Iraqi financial system, as well as the risks arising from the use of FinTech in the process of money laundering, and the role of the Central Bank of Iraq in monitoring to reduce that.

1.4 Research Method:

In order to achieve the aims of the research and test the validity of its hypothesis or not, the research relied on the descriptive approach and the deductive approach to study and diagnose the risks of using FinTech and its impact on the process of money laundering in the Iraqi economy.

2. LITERATURE REVIEW:

2.1 (Faccia et al., 2020):

The research is about "Electronic Money Laundering, The Dark Side of Fintech: An Overview of the Most Recent Cases." The main research objective was to investigate whether the behavior of economic actors in the financial technology sector can be contained within legal frameworks. The research also included another objective, which is the possibility of verifying whether there are tools that can be used by financial technology to be able to exploit techniques and conduct illegal practices in money laundering operations. This paper also provides a review of the European legal framework against money laundering and the latest cases of fraud about money laundering discovered by enforcements agencies. The paper concluded that clear rules and regulations and effective controls are very necessary to combine the goal of preventing illegal behavior (money laundering) and the incentive for innovation and efficiency in the use of financial technology for the benefit of operators and end users.

2.2 (Medjahed et al., 2020):

The research is about "Obstacles to Combating the Crimes of Money Laundering and Terrorist Financing." The main objective of the research was to review the most important technical and legal obstacles that prevent reaching the desired goal in confronting and reducing the crime of money laundering and terrorist financing. The research also included another goal represented in answering the question: How can the technical and legal difficulties that affect combating these criminal activities be addressed? The research paper concluded that the principle of banking secrecy, the collusion of banks, and the lack of experience in detecting suspicious transactions are among the most prominent obstacles that negatively affect efforts to combat money laundering and terrorist financing. In addition, international cooperation is the reliable key to success in confronting these crimes, especially since financial crimes have become more complex, not only because of the financing of terrorism, but also because of the development in the field of digital financing and the facilitation of cross-border transactions. The research paper recommended that countries adopt effective systems to monitor banks, official account holders, and financial technology dealers. When customer identification procedures are in place, they prevent dealing with fake people.

2.3 (Roide, 2022):

The research is about "Fintech and Anti-Money Laundering Regulation: Implementing an International Regulatory Hierarchy Premised on Financial Innovation." The research examines the effects of innovations in the field of financial technology that extend across global markets. With the escalation of systemic risks due to the nature of regulating financial technology, anti-money laundering regulators at the global level must search for an answer to maintain global financial stability and protect consumers from illegal activities global too. In general, domestic anti-money laundering regulatory frameworks tend to operate in a hierarchical fashion with three ordered objectives: (1) market integrity, (2) clarity of rules, and (3) innovation. Therefore, this research discusses the international anti-money laundering regulatory hierarchy that gives extreme importance to the innovative nature of financial technology and with the promotion of market integrity. The research reveals that innovation hubs nurture regulatory learning and permit regulators to employ a range of initiatives such as regulatory sandboxes and mentoring systems, which may be produced holistically to achieve the favored hierarchical outcome.

3. THE CONCEPTUAL FRAMEWORK OF FINTECH:

Financial technology is an emerging industry that emerged clearly after the global financial crisis in 2008 as a result of the decline in the confidence of the American citizen in traditional banks, as this type of technology seeks to provide financial products and services based mainly on technology in order to improve traditional financial services. Accordingly, the emergence of emerging companies in the field of financial technology is a major challenge to the traditional financial and banking sector.

3.1 Definition of FinTech:

At present, the term (FinTech) is called financial technology, as it is an abbreviated form of (Financial Technology). This term refers to companies or representatives of companies that combine financial services with modern and innovative technologies. As a general rule, new market participants introduce FinTech with the aim of attracting customers with products and services that are more user-friendly, efficient, transparent and automated than those currently available (Dorfleitner et al., 2017).

The Financial Stability Board defines financial services as "technically advanced financial innovation that can lead to new business models, applications, processes or products that have an associated material impact on financial markets, institutions and the provision of financial services." According to this definition, financial services include a wide range of services and activities. In addition to using banknotes, checks, or online banking, a mobile phone can be used to transfer money easily. All that needs to be done is to download the appropriate application, write a simple text message, and select The name of the recipient from the contact list, so the recipient receives the money in a few seconds and can even reuse it instantly for his own payments (Panetta, 2018).

According to the Digital Research Institute in Dublin - Ireland, financial technology is defined as "modern technological inventions and innovations in the financial sector." These inventions include a set of digital programs that are used in the financial operations of banks, which include transactions with customers and financial services such as money transfer, currency exchange and accounts Interest rates, profits, and knowing the expected profits for investments and other banking operations (Zeid & Boudraa, 2018).

FinTech has also been defined as "the stock of knowledge that allows the introduction of new and improved banking or insurance mechanisms, equipment, processes, and services" (Lazhari & Hajjaj, 2018).

From the foregoing, it is clear that financial technology is used to describe new technology that seeks to improve and automate the provision and use of financial services, that is, to help companies, business owners, and consumers manage their financial operations through the use of specialized programs and algorithms that are used on computers and smartphones in an increasingly better way.

3.2 Importance and objectives of FinTech in the financial system:

Financial technology is of great importance in the process of developing the financial sector. Its importance can be explained in the following: (Bin-Alqama & Saihi, 2018)

1. Enhancing financial inclusion and diversifying economic activity, through innovations that help provide financial services to those who do not deal with the banking sector.
2. Facilitate the opportunity to provide alternative financing sources for various small and medium enterprises.
3. Enhancing financial stability, through the use of technology to ensure compliance with regulatory and supervisory rules and manage potential risks.
4. Facilitating foreign trade and remittances of workers abroad, by providing efficient and effective mechanisms for cross-border payments.
5. The use of electronic payment methods leads to an increase in the efficiency of governance processes, which calls for further reforms to bridge the gaps in the frameworks concerned with regulatory rules, consumer protection, and information security.

Therefore, financial technology in the financial system seeks to achieve a number of goals, the most important of which are: (Abdul-Reda et al., 2020)

1. Lower cost: It is reducing the current cost allowing more users to access financial services.
2. More privacy: It is designed according to the personal desires of customers.
3. Speed: It often relies on technology to complete operations and procedures.
4. Expansion: FinTech can be cross-border, as it can serve customers who do not belong to one geographical area.
5. Comparison: It enables customers to compare financial services and prices between several companies and banks.

World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
Vol. 17, December 2022
ISSN: 2749-3628,

3.3 Characteristics of FinTech:

The most important distinguishing characteristics of financial technology can be identified as follows: (Mettai, 2016) (Bin-Alqama & Saihi, 2018)

1. Comprehensiveness: Financial service is the main field for applying financial technology. However, the application of financial technology is not limited to performing financial services only, but also extends to administrative methods in financial institutions.
2. Access to all users: In traditional financial institutions, the customer is evaluated on the basis of his ownership of large assets or his obtaining large income on a regular basis, which makes these services these institutions limited to certain social classes, while emerging companies in the financial technology are targeting all categories and segments of society, and continuously enhance their capabilities, for example, products are redesigned in a way that suits customers with limited incomes.
3. Flexibility and Affordability: FinTech startups have many payment offerings and plans for goods and services, especially clean energy that is flexible enough to suit different customers; On a daily, weekly, or even monthly basis.
4. Customer-centered design: FinTech companies focus on user demands, designing simple, easy-to-use products that suit all users.
5. Speed: Powerful analysis allows FinTech companies to move quickly, with transactions completed in a few minutes; Benefiting from big data, algorithms, and machine learning, and compared to traditional institutions that may take several days to get approval for a new policy or approval of a loan, while the lending process applies when verifying the digital identity.
6. Data Policy First (or Mobile Phones First): This policy provides an opportunity to improve the products and services provided and to design appropriate services. There is no doubt that strong data analysis allows for better decision-making and efficient exploitation of opportunities.

3.4 Requirements and Work Scope of FinTech:

FinTech had repercussions on many components of the financial system, which required: (Hamo & Zaidan, 2016)

1. From the Organizational Scope:
   A. The increased need for indirect labor, as well as the need for new jobs such as research and development specialists and maintenance technicians to deal with more complex equipment.
   B. The emergence of the need to re-design jobs, and then re-describe and analyze them in line with the developments.
   C. The emergence of the need to change performance with new jobs, as the introduction of automatic machines would contribute to an increase in the capital cost and an increase in provisions for depreciation.
   D. FinTech has reduced the time to perform a particular process, which requires re-designing or defining service performance standards.
2. Improving the efficiency of banking workers: It is natural that a change in equipment leads to a change in the structure of employment, as the shift to automatic machines will reduce the number of manual and unskilled workers, but will increase the skilled technical workers in the field of operation and maintenance.
3. Increasing expenditures on research and development programs: Financial technology was associated with spending on research and development programs and what this requires in terms of establishing research and development units and developing them in a way that includes an integrated mix of education technology and banking training.

Therefore, FinTech is used in several financial fields, starting from financing and investment management services to financial markets and financial infrastructure. The classification of financial technology applications can be limited to five areas: (Central Bank of Jordan, 2018)

1. Payments, Clearing, and Settlements.
2. Deposits, lending, and capital increase.
3. Insurance.
4. Investment management.
5. Market support.

3.5 Benefits and Risks of FinTech:

The most important benefits and risks arising from FinTech and its impact on the financial system - according to the Basel Committee on Banking Supervision - can be identified as shown in Table (1):

Table (1) Benefits and risks of FinTech and its impact on the financial system

Impact on the consumer sector	
Benefits	Risks
• Promote financial inclusion.	• Data freedom and security.

World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
Vol. 17, December 2022
ISSN: 2749-3628,

• Enhance and improve banking services. • Reducing transaction costs and increasing the speed of providing banking services.	• Disruption of banking services in the event of system failure or cyber-attacks. • Inappropriate marketing practices.
Impact on the financial system	
Benefits	Risks
• More efficient and sophisticated banking operations. • Innovative use of data for marketing and risk management purposes. • Possible positive impact on financial stability due to increased competition. • Use regulatory technology to develop process compliance with instructions.	• Strategic risks. • Risks of affecting the level of profitability of traditional banking systems. • Electronic risks. • Increasing the level of interdependence between financial institutions. • High operational risk. • Third-Party Risks. • Risks of non-compliance with the instructions, including the protection of the financial consumer and the security of his data. • Risks of money laundering and terrorist financing. • Risks of liquidity and fluctuations in the sources of funds for banks.

Source: Basel Committee on Banking Supervision (2018). "Implications of FinTech developments for banks and bank supervisors." Bank for International Settlements, Sound Practices, February.

3.6 The relationship between FinTech and money laundering:

FinTech provides individuals and companies with new financial services (innovative tools and products), such as online credit, wealth management, or virtual trading platforms. Since these new financial services are different from traditional financial services, there are new different algorithms for diagnosing and evaluating the risks. Therefore, FinTech companies need a new policy especially for managing evolving risks. In general, money laundering in FinTech is handled in two different ways: (Faccia et al., 2020) (Álvarez Martínez, 2022)

1. The first way: FinTech identifies as a set of technologies that create new risks in terms of money laundering, as most financial institutions do through non-compliance, thus enhancing risks in the interest of money laundering. FinTech allows a large volume of financial transactions to occur within a very short period of time, via interactive internet networks that are operational at all times.
   In this field, cryptocurrencies take an important role as a tool used for money laundering, as cryptocurrencies allow payment in new ways that provide privacy and anonymity of the customer. The inherent characteristics of cryptocurrencies allow complex money laundering operations to be carried out. These operations involve an integrated stage represented in the purchase of cryptocurrencies with the money to be laundered, then using some financial tools (such mixers and tumblers) to move them within the financial system, then concealing the identity of the customer in light of the difficulty in tracking. The various cryptocurrencies are thus replaced by FIAT currencies as legal money to make their way into bank accounts or be used for real purchases.
   This method has been used successfully, with individuals laundering over €350 million through major trading platforms and cryptocurrency exchanges. Another opportunity for money laundering is in the virtual financial markets that allow the cheap sale of FIAT currency of illegitimate origin in exchange for legitimate cryptocurrency, with money laundering commissions of up to 90%. However, FinTech has not only created new ways of money laundering, such as using cryptocurrency mixers or cryptocurrency wallets/portfolios, it has also allowed traditional money launderers to upscale their operations, with Danske Bank and Deutsche Bank laundering up to €200 billion in a seven-year period, a feat that required the speed and variety of transactions that can only be achieved in FinTech.
2. The other way is pre-emptive applications or disruptive applications. FinTech is a series of complex and diverse technologies, and thus can be proactively deployed to combat money laundering by analyzing process actions across the network using automated data mining or algorithmic detection of suspicious activity. Money laundering

World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
Vol. 17, December 2022
ISSN: 2749-3628,

operations are carried out through real paths of automated use of software technologies, therefore, powerful analytical tools are required that have the ability to use transaction data, and advanced and enhanced detection to fine-tune operations. Reports illustrate that "there are emerging research communities concerned with furthering the applications of specific forms of data mining and machine learning for anti-money laundering by FinTech, using increasingly complex and interdependent techniques". This allows for complementing human-led anti-money laundering initiatives within relevant economic actors, mounting their capability through automated anomaly detection supporting these practices.

However, like any varieties of financial services, there may be an inclination for FinTech to be misused for money laundering and terrorism financing purposes. A 2020 Interpol report on "mobile money and organized crime" in Africa highlights that "the development of mobile money services in Africa offer criminals a substantial opportunity to utilize these services to target victims in a variety of crimes as well as to further enable other forms of criminality including money laundering" (GIABA, 2020).

3.7 Tools of FinTech use in money laundering:

A result of the development of technology due to globalization, methods of providing financial and banking services have evolved with it. On the other hand, money launderers benefited from this technology by changing the means and methods of money laundering, depending on the vulnerabilities associated with using this technology. Thus, the methods and methods of money laundering have become far from the traditional methods that are easy to suspect and detect easily. Modern technology has played a role in the process of money laundering through a set of electronic tools and means, including: (Roide, 2022)

1. ATMs: These machines are used to deposit and withdraw dirty money from bank accounts to get rid of banking procedures that include filling out special forms for deposits and withdrawals that may reveal illegal operations that they have made. These machines are used to launder money by making many deposits and withdrawals of this money to ensure that no attention is drawn. Thus, avoiding the legal obligations imposed on banks to report deposits and withdrawals that exceed the amounts specified by the supervision (Al-Hamdani, 2005).
2. E-Money: It is one of the most important electronic tools for money launderers due to the impossibility of tracking it, its confidentiality, and its speed, as it is possible, in a short period, to transfer any amount through it without any obstacles and without the need for a financial intermediary (Laslus, 2009).
3. Internet Banking: The widespread use of the Internet allowed banks to deal with their customers by conducting all banking operations remotely. The Internet has led to the emergence of electronic commerce, through which many suspicious and illegal transactions that contribute to money laundering can take place. The transfer of illegal funds depends on any online financial investments such as stocks and bonds, through the use of websites that act as financial intermediaries. It facilitates the process of investing illegal funds, taking advantage of the difficulty in identifying the identity and residence addresses of customers with international banks that deal via the Internet (Sadiq, 1997).
4. E-banking services and communications: E-banking services are widely used in money laundering operations. Specifically in the recruitment and integration phases, such as electronic transfer of funds and bill payment. Electronic communications are also forms of communication that are not subject to restrictions and controls, the most important of which are e-mail, chat rooms, etc. Through this, money launderers can exploit these means in their communications and plans to carry out their criminal operations. This is done by providing misleading and inaccurate information about stock prices with the aim of misleading investors to exploit them in making huge profits from buying and selling operations. This would provide the legal and necessary cover for the dirty money that they launder (Al-Hamdani, 2005).
5. Smart Cards: They are widely used in money laundering. It is the most important card that electronic banks deal with. It is also a way to ensure the safety of banking operations. Money launderers use smart cards in their criminal operations. They can transfer the cash values charged on the card to any part of the world. They can also add any cash values on the electronic chip loaded on the card. Since the value is on the card, the merchant who accepts its payment is obliged to contact the bank or card issuer to obtain its approval to make a settlement entry for the transaction on the card. This means that it is easy to use as an electronic method of money laundering. On the other hand, they can smuggle money to more than one country using this card instead of smuggling money across the border (Laslus, 2009).

World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
Vol. 17, December 2022
ISSN: 2749-3628,

4 FINTECH AND MONEY LAUNDERING IN IRAQ:

4.1 The FinTech companies in Iraq:

The E-signature Law and E-transactions Law both govern E-transactions in Iraq. Online and technology enterprises, on the opposite hand, aren't regulated in Iraq. This means that with the exception of those who have a physical workplace address in Iraq, e-trade websites and cellular packages for mobile applications aren't legally deemed enterprises. As a result, most FinTech start-ups pick out to register their companies as "bricks and mortar" businesses so as to gain legal legitimacy.

FinTech companies in Iraq are currently limited to a few sub-sectors. In comparison to other countries in the Middle East, Iraq is slow in adopting FinTech. Public investment in the FinTech sector is low. The passage of regulations associated with this sector is also low. This has been attributed to quite a few reasons, including the following: (Koperly, 2021)

1. Large Unbanked Population, according to the World Bank Group, only 23% of Iraqi families have access to opening an account in a financial institution.
2. The price of Internet and mobile phone services is not low, and this affects the income of individuals, which limits the demand for digital (virtual) financial services.
3. Iraqis prioritize cash on delivery in e-trade transactions because of issues approximately the security of online payments.

4.2 The role of the Central Bank of Iraq in regulating the work of FinTech companies:

The large volume of trading achieved in the activity of FinTech companies calls for the need to monitor the work of these companies. For example, the total trading volume of Iraq Wallet Company and Asia Hawala Company which specialize in providing electronic payment services via mobile phone in 2017 amounted to (170) billion Iraqi dinars, which is a large amount that calls for precaution against which may cause risks to the financial system as a whole.

The Central Bank of Iraq is the only authority responsible for granting a license to FinTech companies (commonly called the companies of electronic payment service providers) in Iraq. FinTech companies are subject to the provisions of Regulation No. (3) of 2014 issued by Cabinet Resolution No. (186) of 2014 regarding electronic payment services for funds. This regulation defines the mechanism and requirements of the Central Bank of Iraq in establishing FinTech companies and their capital and the necessary procedures for granting licenses and regulatory requirements, and what are their obligations towards the Central Bank of Iraq, the records required of these companies, and the conditions for implementing the electronic payment process (Central Bank of Iraq, 2018). It must be noted that the provider of electronic payment services for funds, in order to be allowed to operate within the financial system in Iraq, must have the following characteristics: (Hussain & Mohammed, 2021)

1. Legal person: with being one of the persons allowed to provide electronic payment services for funds.
2. Obtaining a license from the Central Bank of Iraq.
3. Possession of organizational and technical skills: In order for the payment service provider to be able to provide electronic payment services efficiently, it must select qualified persons with sufficient skills, whether in terms of organizational or technical aspects, in addition to the necessity of having extensive experience in this field and providing security requirements to protect clients' funds.
4. Providing electronic payment services for funds: the most prominent of these services is the issuance of electronic payment tools for funds, managing cash deposits and withdrawals, implementing payment operations, as well as providing electronic transfer services of funds.

The Central Bank of Iraq issued a decision requiring that the data of electronic payment operations companies inside Iraq be processed and preserved, so in light of the strategic plan of the Central Bank of Iraq to organize electronic payment activities towards competition, non-monopoly, and the transfer of foreign expertise to Iraq and to achieve the goal it aspires to. The Central Bank of Iraq also explained that in the event that foreign companies that request a license to operate in Iraq wish to participate with locally established electronic payment companies, the participation rate must not be less than (51%) in favor of the local entity (Central Bank of Iraq, 2018).

The Central Bank of Iraq also issued instructions on the 9th of August 2018, to the financial intermediation companies for the sale and purchase of all authorized foreign currencies, stating these companies can work as agents for companies providing electronic payment services, and add cash withdrawal service, provided that they comply with what was stated in the matter (9/II) of the instructions regulating the work of companies Mediation in the sale and purchase of foreign currencies (No. 8) of 2015, and that the work of mediation companies be organized through maintaining a document group for the above-mentioned activity, and that it be independent (separate) from the main company activity, and then

World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
Vol. 17, December 2022
ISSN: 2749-3628,

the agency activity is found with the company's activity, and it is shown in the financial statements submitted to the bank Iraqi central.
In view of the development in FinTech and electronic payment operations and their spread during the (Covid-19) pandemic, and based on the fact that the Central Bank of Iraq is the independent sectoral body that is exclusively responsible for granting licenses to and supervising electronic payment service providers, new controls have been issued for the work of agents of payment services providers in May 2020 based on the matter (4) of the Central Bank of Iraq Law No. (56) of 2004 and in line with international standards and practices with the aim of regulating the work of electronic payment service providers with their agents throughout Iraq.

4.3 Money Laundering in Iraq:

The phenomenon of money laundering is escalating alarmingly, especially in light of economic globalization and the spread of electronic commerce, because electronic money laundering operations take place within minutes or seconds in order to expedite the concealment of this economic crime. There are many means and tools used in smuggling money for the purpose of laundering it, which indicates the extent of technological development in these means and tools. Banks represent the most important of these means. Money launderers place their deposits in the bank as a first step. This step is to open current accounts and obtain bonds and electronic banking transfers without naming the person to which the money will be transferred. The process of money laundering takes place through the ease of trading those instruments and transfers in fictitious operations, deposits, and internal or external investments, which takes them away from the dirty form and the source from which the money came.
In simple words, money laundering is defined as "the process of turning dirty money in order to clean money. The crucial element in the process of laundering is the act of concealment and cycling. So in general terms, money laundering is the process of converting cash or other property obtained by illegal, illegitimate, or inhuman activity to a legitimate and apparently legal one" (Shah et al., 2006).
Money laundering is defined as "every operation that would hide the illegal source from which the money gained, with the aim of camouflaging the authorities to make it seem like a legal income" (Al -Dulaimi, 2005). It is also defined as "the process of giving legitimacy to the funds arising from forbidden assets or its illegal sources, by carrying out projects acceptable socially and legally, and then it was included in the legal economic cycle in order to its circulation naturally and legitimate" (Al -Hamdani, 2005).
Money laundering has been recognized internationally in "the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances" (commonly referred to as the 1988 Vienna Convention) and "United Nations Convention Against Organized Crime" [Palermo Convention (2000)] (Shah et al., 2006).
Money laundering is defined as "an illicit money transfer". There are two main types of the illegal money transfer: (Takáts, 2007)

1. Classical money laundering entails a transfer of illegally obtained funds to keep hidden their origins and make them show legally. For example, drug traders deposit money revenues in banks and later transfer them until the funds show to result from legitimate sources.
2. Financing terrorist entails a transfer of mostly legal funds to illegal purposes. For example, legal charity donations are transferred for financing terrorist attacks.

In short, both types of money laundering are described as illicit and socially hurtful fund transfers. Money laundering causes social damage because it favors the crime and enables perpetrators to enjoy criminal yields.
In Iraq, it is noted that the Iraqi legislator has given clear attention to the money laundering process, but it did not give a specific definition of the money laundering process in the "Iraqi Anti-Money Laundering and Terrorist Financing Law" No. (39) of 2015 published in Issue (4387) of the Official Gazette of Iraq (Al-Waqaia Iraqi newspaper, 2015). In Iraq, it is noted that the Iraqi legislator has given clear attention to the money laundering process, but it did not give a specific definition of the money laundering process in the "Iraqi Anti-Money Laundering and Terrorist Financing Law" No. (39) of 2015 published in Issue (4387) of the Official Gazette of Iraq. Rather, in the matter (2) of the same law, it referred to the activities constituting the money laundering process, as this matter stipulated:

> "*The perpetrator of the crime of money laundering is whoever commits one of the following activities: First: Conversion, transferring or exchanging money from a person who knows or should have known that it is money obtained by the other person from a crime, and the purpose of that is to conceal or disguise the illegal source of this money or to assist the perpetrator of it, the perpetrator of the predicate crime, or whoever contributed to its commission or committing the predicate*

World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
Vol. 17, December 2022
ISSN: 2749-3628,

offense to escape responsibility for it. Second: Concealing or disguising the true nature of the money, its source, location, condition, disposition, transfer, ownership, and rights related to it from a person who knows or should have known at the time of receiving it: that it is money obtained from a crime. Third: The acquisition, possession, or the use of money from a person who knows or should have known that it is money obtained from a crime" (Al-Waqaia Iraqi newspaper, 2015).

It concludes from the text of matter (2) mentioned above that the Iraqi legislator though the "Iraqi Anti-Money Laundering and Terrorist Financing Law" has given a broad meaning to the activities that compose money laundering.

4.4 Procedures of Anti-money laundering in Iraq:

The crime of money laundering has undoubtedly become a serious phenomenon that threatens society, given the dimensions of this crime and the seriousness of the sources that fuel and finance it. Therefore, the Iraqi legislature, like others, paid special attention to this type of crime by finding new mechanisms compatible with this type of crime without neglecting the aspect of developing control procedures and international cooperation in this regard.

1. Procedures for anti-money laundering crime at the national level: Financial and banking institutions in Iraq are obligated by law to report any money laundering operations to the Information Collection Unit at the Central Bank of Iraq. The Central Bank of Iraq adopts internal policies and controls that prevent the exploitation of any bank for illegal purposes by any parties that want to launder money. The internal controls in any bank include the most important aspect, which is to ensure and verify the identity of the customer, according to the principle of 'know your customer'. Anti-money laundering procedures help the bank to comply with local and international anti-money laundering laws and regulations. The laws that contribute to anti-money laundering in Iraq are as follows:
   A. Iraqi Anti-Money Laundering and Terrorist Financing Law No. (39) of 2015, which is an adjustment to Anti-Money Laundering and Terrorist Financing Law No. (93) of 2004. This law defines the activities that constitute the crime of money laundering and sets penalties for it. It also established a council to combat money laundering and terrorist financing, in accordance with what was stated in the text of the matter (8/I) of this law, which stipulates that "An office called the Anti-Money Laundering and Terrorist Financing Office will be established in the Central Bank of Iraq at the level of a public department with moral personality and financial and administrative independence, and it will be represented by the Director General of the office or one authorized by the Director." The missions of this council were determined by the matter (7) of this Law. This law also referred to the obligations of financial institutions, especially banking procedures, to verify identity, verify documents, data records, and source of funds, and subject them to control and review continuously. It also defines the missions of oversight committees, as in the matter (26) of the same law (Al-Waqaia Iraqi newspaper, 2014). Therefore, the implementation of the Central Bank of Iraq law on Anti-money laundering and terrorist financing is the responsibility of the Anti-Money Laundering and Terrorist Financing Crime Office. This office is a part of the organizational structure of the Central Bank of Iraq and receives reports of money laundering crimes and notifies the relevant authorities. It is worth noting that despite the shortcomings and some legislative gaps, especially with regard to keeping up with the electronic aspect, to follow up and accurately disclose the sources of funds, the law represents an advanced step in combating this crime in Iraq (Mohammed, 2021).
   B. Central Bank of Iraq Laws: The Central Bank of Iraq plays an important role in the field of money laundering through the control it exercises over financial and banking institutions. The Central Bank of Iraq relies on the powers granted to it under the Central Bank of Iraq Law No. (56) of 2004, the Iraqi Banking Law No. (94) of 2004, and the Islamic Banks Law No. (43) of 2015. The Central Bank of Iraq monitors the crime of money laundering through specialized technical agencies and means different. Through the matter (40) of the Central Bank Law No. (56) of 2004 stipulates that "The Central Bank alone shall have the exclusive authority to take all necessary measures to license and regulate the work of banks and supervise them and their branches, in order for all banks to comply with the provisions of this law and the banking law...", and the matter (53) of the Iraqi Banking Law No. (94) of 2004, which stipulates that: "The Central Bank of Iraq

World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
Vol. 17, December 2022
ISSN: 2749-3628,

monitors banks…". Therefore, the Central Bank of Iraq is committed to monitoring all bank operations of all kinds.

2. Procedures for anti-money laundering crime at the international level: Based on the recommendations of the World Bank, the Basel Index of 2012, and international financial institutions, the Anti-Money Laundering and Terrorist Financing Council was established in Iraq. It is the body that represents Iraq in conferences related to combating this crime internationally. The Council, in coordination with the Central Bank of Iraq, attaches great importance to combating Anti-Money Laundering crime along with the attention paid by banks and international supervisory bodies such as the United Nations, the International Monetary Fund, the World Bank, Interpol, and Financial Action Task Force (FATF) (Mohammed, 2021). Legal aid is one of the methods of combating money laundering in the Vienna and Palermo conventions, as information is exchanged between countries, which would facilitate investigations and detection of money laundering crimes.

4.5 Obstacles to anti-money laundering in Iraq:

The anti-money laundering in Iraq, despite the efforts made, still faces many obstacles that would prevent the elimination of activities aimed at concealing or disguising the sources of illegal funds resulting from crimes. Among the most important of these obstacles are the following:

1. Insufficiency of anti-money laundering laws: These obstacles lie in the failure of laws and legislation to keep pace with the development of crime. Money launderers have begun to take advantage of electronic transfers in order to hide their operations from the supervision of the authorities. Therefore, the lack of laws regulating this crime is one of the obstacles that affect the lack of understanding of crime in all its forms and defining its criminal and economic description. It turns out that there is a constant need to review laws to ensure their suitability and sufficiency in deterring money laundering crime.
2. Penetration of computer systems of banks and banking institutions: The increased interest in computers, the Internet, and the emergence of electronic commerce in Iraq led to the emergence of electronic money laundering, which is the transfer of funds through electronic networks by making complex cash transfers. The emergence of electronic debit cards, automated teller machines (ATMs), and credit cards also contributed to money laundering. The reason for this is the lack of sufficient oversight, which made the principle of (know your customer) difficult to apply and adopt in order to reach the reality of transactions that are used in electronic exchange cards.
3. The immensity of external cash transfers volume: The increasing trend towards economic and financial liberalization in Iraq - through the trade of banking and financial services and opening the way to attract foreign investment - led to the establishment of free trade zones and fake companies. These developments impeded monitoring and follow-up as anti-money laundering procedures. As well, there is no developed central information system in Iraq that allows communication between financial institutions to provide information and submit electronic reports on the volume and source of money entering and leaving Iraq (Mohammed, 2021) (Roide, 2022).
4. Bank secrecy: Banks are trying to achieve the greatest degree of confidentiality in the banking business and not to provide information about customers except in accordance with what is stipulated in the law. The secrecy of accounts is one of the most important features of the work of banks. Banking custom has taken place on this, and it has become obligations on all customers and banks. Bank secrecy may be absolute or relative, which has implications for the different rules governing it. Opinions in favor of banking secrecy are based on the important and fundamental principle of protecting the customer's right to privacy. Every person has the right to protect his financial dealings with banks, which in turn establishes confidence in the economy and the banking system (Ammar, 1995). However, at the same time, banking secrecy makes it difficult to disclose accounts except by following complex procedures and methods, which makes it difficult for the bank to trace the effects of the illegal money's entry and exit. This encourages the spread of money laundering operations. It should be noted that the emphasis on the confidentiality of the customer's financial operations, and the bank's commitment not to disclose customer secrets, does not absolve the bank of its responsibility to inform the legally authorized authorities about suspicious cases. The bank is also not exempt from monitoring and routine follow-up of the movement of suspicious funds, provided that this does not constitute embarrassment or obstruction to the activity of honest customers (Laslus, 2009). It is noted that some banks did not cooperate with the anti-money laundering authorities by not reporting suspicious transactions, not monitoring some large operations

World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
Vol. 17, December 2022
ISSN: 2749-3628,

and deals that have no economic justification and are ambiguous, and not informing the control authorities of the information, which constitutes an obstacle and reduces the effectiveness of combating money laundering (Medjahed et al., 2020).

5. Weak of the qualifications of bank and financial institution employees: Some banks and financial institutions in Iraq still suffer from a lack of expertise among their employees in the financial and banking sector. This constitutes a major obstacle in combating money laundering, as owners of suspicious funds can conduct multiple financial operations to hide the illegal source of their money with ease and absolute freedom, given the weak capabilities of employees to identify the deals that the launderers follow in completing their operations. Therefore, in front of this important obstacle, it is necessary to train and develop the capabilities of employees in various banks, and all workers in the financial sector, on the method of detecting questionable deals and the special procedures to confront them, as well as on the legal procedures related to money laundering operations.
6. Lack of advanced information systems: Activating the role of the prevention devices and performing their duty to the fullest requires the provision of an advanced information system. It helps them to uncover and analyze information to reach the desired goal, which is combating money laundering. Especially since most countries that do not have a developed information system are still unable to control all money laundering operations, including countries that have established the latest control systems on electronic transfers (Woltash, 2015).
7. The problem of extradition: Although the "United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances" of 1988 dealt with the issue of extradition for a number of crimes stipulated in the matter (3). Among the crimes dealt with by this agreement are money laundering crimes by prosecuting the perpetrators of these crimes and imposing the penalties imposed on them. However, this did not solve the problem of extradition because there are countries that did not join this agreement. Even for the countries that have acceded to this agreement, some of them have not yet issued the necessary legislation to implement the agreement. This means that there is a possibility of not extraditing criminals in many money laundering crimes, which constitutes an obstacle in the face of combating this crime (Medjahed et al., 2020).

CONCLUSION:

Financial technology offers many capabilities and advantages, but it needs to provide an enabling environment, such as providing appropriate regulatory rules for the work of startups in financial technology, as well as information security and providing information and communication technology infrastructure. The development of financial technology depends on reviewing the legal and regulatory frameworks and risk management that arises from innovative financial and banking products and services. Financial technology also contributed to the development of methods of money laundering operations due to its speed in transferring funds and the difficulty of detecting them, which made modern banking technology a safe haven for money launderers to conduct their operations in a safer manner. The Central Bank of Iraq is the only entity responsible for granting a license to financial technology companies, as financial technology companies are subject to the provisions of Regulation No. (3) of 2014 issued by Council of Ministers Resolution No. (186) of 2014, but the legal measures taken by the Iraqi legislator in the matter Financial technology suffers from its shortcomings in limiting the spread of money laundering, as the practical reality has proven that the procedures on which the legislator relies are insufficient. Therefore, it requires improving the information and communication technology infrastructure and developing protection systems, especially with regard to protection against any type of electronic attack, which requires regulatory frameworks for information security, as well as against money laundering. Also, increasing awareness of the services provided by financial technology, which allows for greater use of digital services. The central bank must be ready to identify potential risks arising from the use of modern technological means in financial services, and to develop methods to reduce these risks through specialized departments that grant licenses for the use of these products.

REFERENCES:

1. Abdul-Reda, M. S., Karim, H. M., & Harjan, S. A. (2020). Financial Technology and its Role in Achieving Sustainable Development: An Exploratory Study of a Sample of Baghdad Commercial and Iraqi Bank Employees. Cihan University Journal - Erbil for Humanities and Social Sciences, Volume (4), Issue (2).
2. Al-Dulaimi, M. N. (2005). Money Laundering in Criminal Law. 1st Ed., Dar Al-Thaqafa for Publishing and Distribution, Amman-Jordan.
3. Al-Hamdani, R. I. (2005). The impact of the use of banking technology on the phenomenon of money

laundering and international efforts to combat it. Research presented at the Fourth Scientific Conference, Philadelphia University, College of Administrative and Financial Sciences.

4. Álvarez Martínez, B. (2022). Financial Technologies and Crime: An overview of the state of the art in research pertaining FinTech and its implications for crime. The University of Manchester Research, Document Version, (26. Nov. 2022).
5. Al-Waqaia Iraqi newspaper (2004). Central Bank Law No. (56) of 2004, Issue (3982), dated 6/7/2004, the Official Gazette of Iraq.
6. Al-Waqaia Iraqi newspaper (2004). Iraqi Banking Law No. (94) of 2004, Issue (3986), dated 1/9/2004, the Official Gazette of Iraq.
7. Al-Waqaia Iraqi newspaper (2014). Electronic Payment Services System for Funds No. (3) for the year 2014, Issue (4326) dated 6/23/2014, the Official Gazette of Iraq.
8. Al-Waqaia Iraqi newspaper (2015). Iraqi Anti-Money Laundering and Terrorist Financing Law No. (39) of 2015, Issue (4387) dated 11/16/2015, the Official Gazette of Iraq.
9. Al-Waqaia Iraqi newspaper (2015). Islamic Banking Law No. (43) of 2015, Issue (4390), dated 7/12/2015, the Official Gazette of Iraq.
10. Ammar, M. (1995). Bank Secrecy and the Problem of Money Laundering. Dar Al-Nahda Al-Arabiya, Cairo-Egypt.
11. Basel Committee on Banking Supervision (2018). Implications of FinTech developments for banks and bank supervisors. Bank for International Settlements, Sound Practices, February.
12. Bin-Alqama, M. & Saihi, Y. (2018). The Role of Financial Technology in Supporting the Financial and Banking Services Sector. Ijtihad Journal for Legal and Economic Studies, Volume (7), Number (3).
13. Central Bank of Iraq (2018). Financial Stability Report 2017. Baghdad, Department of Monetary and Financial Stability.
14. Central Bank of Jordan (2018). Financial Stability Report 2017. Amman, Financial Stability Department.
15. Dorfleitner, G., Hornuf, L., Schmitt, M., & Weber, M. (2017). FinTech in Germany. 1st Ed., Springer International Publishing, Switzerland.
16. Faccia, A., Moşteanu, N. R., Cavaliere, L. P. L. & Mataruna-Dos-Santos, L. J. (2022). Electronic Money Laundering, The Dark Side of FinTech: An Overview of the Most Recent Cases. Proceedings of the 2020 12th International Conference on Information Management and Engineering, September 2020, Pages 29–34.
17. GIABA (2020). Money Laundering/Terrorist Financing (ML/TF) Risks and Opportunities for FinTech Transformation in West Africa. Policy Advisory, December 2020, No. 001.
18. Hamo, M. & Zaidan, M. (2016). Banking technology management in order to improve the competitiveness of banks, with reference to Algerian banks. Academic Journal of Social and Human Studies, Issue (16).
19. Hussain, A. M. & Mohammed, Z. R. (2021). The concept of an electronic payment service provider. Journal of Legal Sciences, Special issue of faculty research with postgraduate students - Part II, Vol. 36 (September): 148-180.
20. Koperly, M. (2021). FinTech Laws in Iraq. Al Nesoor Law Firm Blog, retrieved from: <https://alnesoor.com/posts/fintech-in-iraq?locale=en>.
21. Laslus, M. (2009). Electronic money between curbing and encouraging the crime of money laundering. New Economy Journal, Khemis Miliana University, Algeria, Volume (0), Issue (0).
22. Lazhari, Z. & Hajjaj, N. (2018). Financial Technology, the Payment Revolution: Reality and Prospects. Journal of Ijtihad for Legal and Economic Studies, Volume (7), Issue (3).
23. Medjahed, T., Bensaber, B. & Hamich, M. (2020). Obstacles to Combating the Crimes of Money Laundering and Terrorist Financing. Journal of human rights and public freedoms, Vol. (5), No. (2), pp. 391-416.
24. Mettai, A. (2013). Requirements for establishing banking technology in supporting competitive intelligence in Algerian banks. Academic of Social and Human Studies, Department of Economic and Legal Sciences, Issue (10).
25. Mohammed, M. J. (2021). The crime of money laundering and its impact on economic development (Iraq as a model). Law Journal for Legal Studies and Research, Issue (22).
26. Panetta, F. (2018). FinTech and banking: today and tomorrow. Speech by the Deputy Governor of the Bank of Italy in Annual Reunion of the Harvard Law School Association of Europe, Harvard Law School Bicentennial.
27. Roide, N. A. (2022). FinTech and Anti-Money Laundering Regulation: Implementing an International Regulatory Hierarchy Premised on Financial Innovation. Texas A&M Law Review, Vol. 9, No. (2): 465-495.
28. Sadiq, M. (1997). International Money and Foreign Exchange Operations. Dar Gharib for Printing, Publishing and Distribution, Cairo-Egypt.
29. Shah, S. A. H., Shah, A. H. & Khan, S. (2006). Governance of Money Laundering: An Application

of the Principal-agent Model. The Pakistan Development Review, (45) : (4), Part II (Winter 2006).
30. Takáts, E. (2007). A Theory of "Crying Wolf": The Economics of Money Laundering Enforcement. International Monetary Fund, IMF Working Paper, WP/07/81, (April 2007).
31. Woltash, T. (2015). Obstacles to combating money laundering crime. Master's thesis, Faculty of Law and Political Science, Larbi Ben M'hidi University of Oum El Bouaghi, Algeria.
32. Zeid, A. & Boudraa, A. (2018). Islamic Financial Technology and the Need for Innovation: The Experience of the Three Banks ALGO Bahrain. Journal of Ijtihad for Legal and Economic Studies, Volume (7), Issue (3).