

The Role of Banks in Reducing the Smuggling of Foreign Currencies

Lolav Ahmed Khalil

College of Administration and Economics, Department of Financial and Banking Sciences,
University of Duhok-Kurdistan region Iraq lolav.bamerny@uod.ac

Abstract

Many individuals and institutions deceive to smuggle foreign currencies by using several means, including smuggling currency through import and export, as it is considered one of the most common ways to escape the difference from hard currency to foreign banks or to keep the rest of the value abroad, and also by depositing money that arises from legally prohibited actions In foreign banks, depositing cash amounts from the value of foreign debts borrowed from abroad, forming branches of fictitious foreign companies to transfer money abroad, and depositing some money arising from the savings of workers abroad in foreign banks...etc. from innovative smuggling methods. In this context, it was necessary to organize control operations from By banks to address this phenomenon, by monitoring the movement of foreign currency entering and leaving the country.

Keywords: smuggling - currency – censorship

DOI: 10.7176/RJFA/14-9-05

Publication date: May 31st 2023

1. Introduction

One of the most serious economic crimes is the crime of smuggling foreign currency. When this crime is committed and increases and expands, the level of purchasing power of the national currency declines. One of the pillars of a successful country's economy is its currency and the level of its purchasing power. Recent years have witnessed remarkable interest in the phenomenon of smuggling foreign currencies, as the processes of globalization and the accompanying tremendous development in the means of communication and scientific and technological progress were accompanied by various fields and openings across borders, and the spread of corruption on a large scale. The phenomenon of smuggling foreign currency has many negative repercussions that harm the national economy. Which requires combating this phenomenon and mitigating its severity, and because the crime of smuggling foreign currency is an economic crime that affects the national income of society, while other traditional crimes are individual crimes that do not exceed the income of the individual, so this phenomenon had to be examined. From this standpoint, the research has gained importance in giving a perception about the smuggling of foreign currencies, which has become a part of the national economy, which eventually leads to distortion of the economy. The role of the banking system in confronting and limiting it, and shedding light on the measures taken by the banking system to limit the phenomenon.

2. Previous studies

Mechanisms of Suppressing the Crime of Counterfeiting, Counterfeiting or Counterfeiting the Algerian Currency: A Critical Analytical Study, Haroun Noura, pp. 1534-1548.

Crimes of counterfeiting and counterfeiting currency according to the provisions of the Penal Code, Suad Amir, pp. 283-295.

Smuggling and its various dimensions "currency smuggling" What is the role of the movement in this? Hamidush Ali, Berah Mohammed, pp. 45-63.

The role of reframing and reforming the foreign trade sector in developing the national economy (foreign trade from restriction to liberalization). Bin Zakari Bin Alo Madiha, Shayban Nasira, pp. 382-392.

Preventive measures to combat the smuggling of migrants by sea (an analytical study in international texts) Samghoni Zakaria, Al-Aifawi Sabrina, pp. 297-306.

3. Research problem:

The research problem is that the smuggling of foreign currencies is one of the huge economic scourges in many countries, and it began to grow and innovate according to technological development, and this requires addressing this phenomenon to reveal the multiple aspects that surround it to reduce it.

Research hypothesis:

In the field of smuggling foreign currency, there are still few laws and regulations in place to follow up and address this phenomenon.

4. Research aims:

The study aims at the following:

- 1- Identifying the activities of smuggling foreign currency and detecting the social network.
- 2- The position of banks on the smuggling of foreign currencies through the mechanisms used, and the methods of combating the smuggling of foreign currencies.

5. Research Methodology:

The research consists of two chapters dealing with theoretical and practical aspects of smuggling foreign currencies and ways to confront them through banks. The first chapter deals with the theoretical framework of the study, which includes two chapters. The second chapter was devoted to presenting the practical side of the role of banks in limiting the smuggling of foreign currencies. The research has helped to present its theoretical side on books and electronic sources. As for the practical side, the researcher collected the required information from within the banking system in the province. The research follows the analytical method to test its hypotheses. In the end, conclusions and proposals were reached according to the study.

Some basic concepts

Smuggling foreign currency

First: the concept of smuggling foreign currencies:.

The word “smuggling foreign currency” denotes operations against law and public order, and it is among the criminal violations that the law strictly governs and within the economic crimes, which began with the currency auction, which was a means of smuggling and money laundering due to the lack of control procedures for banks on it.

Second: The negative effects of smuggling foreign currencies:

- 1- The impact on investment and growth opportunities in the future:

Where it reflects the smuggling of foreign currency

Differences between the rates of private return and the social return on invested capital smuggling foreign currency

- 2- The effect on the tax base:

Where this smuggling leads to a reduction in government revenues in many ways, as it reduces the balance of wealth and income.

- 3- The effect on monetary policy:

The impact of this smuggling is dangerous on monetary policy, especially in times of crisis, as political or economic crises result in the smuggling of more foreign currencies.

4- also the effects of smuggling foreign currency is that the level of purchasing power of the national currency is declining, and that the decline in the level of purchasing power of the national currency has led to the emergence of multiple economic problems, including; The increase in the percentage of the poor and needy, and this is a very serious problem that has contributed and will contribute to the expansion of the scope of crimes, including the spread of robbery and theft, and the increase in bribery and others.

In addition, the decline in the purchasing power of the national currency has led to inflation in the prices of goods and services, especially basic ones.

Third: The different forms of currency smuggling:

- 1- Depositing the money resulting from legally prohibited activities in foreign banks, for example, the money resulting from the smuggling of legally prohibited goods.

- 2- Depositing cash amounts of foreign debts borrowed from abroad in the names of individuals in foreign banks in the form of commissions or bribes.

- 3- Establishing branches of fictitious foreign companies to transfer currencies abroad

- 4- Manipulating export and import invoices by agreement between exporters and importers

- 5- Depositing some of the funds of the foreign workers' savings in foreign banks and the state not benefiting from these funds, which did not enter the country in the first place, and then did not leave it.

Fourth: Reasons for smuggling foreign currencies:

- 1- The spread of administrative and political corruption, bribery, illegal sources of gain, and weak oversight agencies

- 2- Government interference in economic activities, especially in imposing restrictions on the movement of currencies to and from the country

- 3- The presence of economic stagnation and stagnation in developing countries, high interest burdens on loans, low real return on deposits in light of inflation, instability of economic policies and high tax burdens

- 4- Declining investment opportunities, high production costs, devaluation of the national currency...etc

- 5 Administrative obstacles and strict procedures for obtaining licenses, tax accounting, arbitrariness of inspection agencies, etc.

The role of the banking system in confronting smuggling of foreign currencies

The confrontation process requires effective planning, organization and training for bank workers and preventive follow-up, all within a conscious scientific management that receives suspicions and collects doubts and sufficient evidence that rises to the level of evidence and presumptions and their maturity and fulfills the necessary

information and documents.

And all those working in the field of combating foreign currency smuggling must realize that this crime is based on good planning, organization, and innovation of modern means for smuggling foreign currencies, and accordingly, the control employees in banks must be able to continuously develop and innovate new means to detect this smuggling.

First: Methods of smuggling foreign currency:

There are many methods that evaders resort to for foreign currency. The evader may use these means independently, or more than one evasion method may be used at the same time. Among the most prominent smuggling methods are the following:

- 1- The process of smuggling cash receipts takes place either through physical transportation, whereby those involved in the process themselves or through other persons, and this money is transferred by various means of transport outside the country. The process may be carried out by depositing the money in a bank or any financial institution in an existing current account, so that it is possible to transfer it freely, and there is difficulty in distinguishing these funds from illegal funds deposited in the same account previously after they are transferred through financial systems. Through bank transfers.
- 2- Currency is also smuggled through import and export, where fake invoices are made for fake goods and fake companies.
- 3- Some people use electronic payment methods and provide travelers with prepaid cards or credit cards under the pretext of feeding the need of the beneficiary traveler for foreign currency, specifically for the purposes of tourism and travel, where the distance spends a little of this currency, and the largest percentage of it uses it for its main purpose, which is currency smuggling
- 4- And that there are those who work to smuggle currency by withdrawing money from automatic teller machines in mostly foreign countries and using its liquidity that indicates the rights of others and for the benefit of one beneficiary or a group of beneficiaries from the elements of crime, including its later use in black transfers.
- 5- Foreign currency may be smuggled directly through customs and secretly....etc. from smuggling methods.

Second: fighting smuggling foreign currency:

The most important ways to combat them are:

- 1- The right to view: This means that bank employees may view the taxpayer's records, books, files and private documents in order to discover any violations that may occur.
- 2- Reporting by others: This is permissible in some countries, and sometimes where a person provides information that is useful in controlling declarations and making sure that they are not correct.
- 3- Non-multiplication of taxes, awareness development, and simplification of procedures for collection, assessment, and application.
- 4- Imposing financial or physical penalties on the evader of foreign currency.
- 5- Monitoring the movement of capital at its entry and exit (ie, inward and outward transfers) by means of governmental and international control systems.
- 6- Banks must collect information related to financial transactions and analyze them, and create channels of cooperation and interaction with the relevant local and international authorities to combat smuggling of foreign currencies. They must establish adequate control measures for foreign transfers, while setting the necessary penalties for those who do not comply with the laws in force in the field of preventing currency smuggling foreign.

Description and analysis of sample data

Sample data analysis:

1- Developing banking efficiency by opening courses:

It was found in the research sample that the percentage of participants in banking competency development courses is (70%) and (30%) is the percentage of those who did not participate in these courses. It refers to the knowledge that the topics of the courses are limited to teaching and developing banking competence, but rather extend them to other fields, and these fields include descending percentages as follows:

- a. Financial management by 40%
- b. Writing financial reports by 40%
- c. 10% financial analysis
- d. Economic, cultural, control and follow-up, and each of them separately was at a rate of (10%).
- e. The political rate was (0%).
- h. The topics of the courses reveal the strong need to pay more attention to management, analysis and financial topics, to create an effective banker in the field of banking supervision and control.

It was also found in this sample that a ratio of (20%) confirms that there is in the bank's intention to develop efficiency and functionality by opening courses outside the country, and a percentage of (80%) confirms that there is no intention of the bank in this idea.

As for the number of these courses, (60%) is for participants in (one course), (30%) is for participants in (two courses), (10%) is for participants in (5 or more) courses, and (0%) is for participants in (4). ,3) courses.

Table-1-Development and growth of banking competence through opening courses

Number	Data
7 3	Q1 Participation in banking competency development courses a. Yes b. NO
0 1 1 1 4 1 4	Q2 The fields that the courses exceeded A-politics B-cultural C-economical D - financial analysis E- Finance Department F- Monitoring and follow-up G-Writing financial and accounting reports
7 3	Q3 Are the topics of the courses limited to teaching and developing professional competence, or do you extend them to other fields? a. Yes b. NO
9 1	Q4 Work in all branches? a. Yes b. NO
10 0	Q5 Availability of experience and competence in the work of the Thermal Deposits Division? a. Yes b. NO
2 8	Q6 Is the bank's intention to develop competence and employment by opening courses outside the country? a. Yes b. NO
6 3 0 0 1	Q7 How many banking competency development courses have you participated in? 1. A 2. B 3. C 4. D 5. E

Source: From the researcher's work and from the questionnaire form

2- Activities of the bank's divisions:

It was clear in this sample that the majority of bank employees worked in all branches of the bank and their percentage was (80%), while the minority percentage is (20%) who did not work in all branches of the bank. Likewise, it has been shown that the percentage of those who have an idea about the nature of the work carried out by the Banking Inquiries Division is (50%). As for (50%), it is an acceptable percentage, and it refers to those who do not know any idea about the subject, and therefore those who have an idea of what the work is. It is carried out by the Banking Inquiries Division, as they expressed their opinion on these actions as follows:

1- Inquire about the reason for opening the account.

2- Inquire about the customer's address and work.

3- The banking inquiry directs the auditor or the client towards the party that facilitates his work or the nature of the client's review.

4- The banking inquiry is the front end of the bank, and it determines how the customer's transaction should proceed.

5- The banking inquiry is the one that provides the customer with check books, and it is the point from which the movement of entries is cleared of withdrawal and deposit.

6- Banking inquiry is the party that shows the customer his balance in the bank, and this shows that the view of the bank receiving division is different.

In this research, questions were asked about the Current Deposits Division, and the results were as follows: The percentage of those who have experience and competence in the work of the Current Deposits Division is (60%) and (40%) is the percentage of those who do not have this experience and competence. Their opinion on the issue of procedures for opening current and future accounts, in percentages of four levels, as follows:

- 1- Easy and simple (30%)
- 2- It is carried out by any employee per year at a rate of (20%)
- 3- It is carried out by the most efficient employee in the division (40%).
- 4-minutes (10%)

This indicates the weakness of work in the current accounts division despite the danger, and this reveals the ignorance of the banking employee of the seriousness of tax evasion.

Table -2- (Banking division activities)

Number	Data
10 0	Q1 The presence of employees in the division who follow up the movement of accounts receivable and credit. a. Yes b. No
5 5	Q2 Do you provide an idea of what kind of work is carried out by the Banking Inquiries Division? a. Yes b. No
1 5 2 0 2 0	Q3 What are the works carried out by the Banking Inquiries Division? 1-Inquire about the reason for opening the account 2- Inquire about his address and work 3- The banking inquiry directs the reference or the customer towards the party that facilitates his currency or the nature of the review for the customer. 4- The banking inquiry is the front end of the bank, and it determines how the customer's transaction should proceed 5- The banking inquiry is the one that provides the customer with check books, and it is the point from which the movement of entries begins from withdrawing and depositing 6- Banking inquiry is the party that shows the customer his balance in the bank.
3 2 4 0 1 0	Q4 In the case of availability of experience and competence in the work of the Current Deposits Division, what is the opinion about the procedures for opening current and term accounts? a- Plain and simple b- Performed by any employee in the year c- It is carried out by the most qualified employee in the division d - complex and long e- A minute f-inaccurate

Source: From the researcher's work and from the questionnaire form

3- Mechanisms of bank accounts:

It has been shown in the research sample that there are employees in the division who follow up on the movement of accounts receivable and payable, so everyone performs this procedure, which is (100%), and as for (0%), which is the percentage that is not supported, as for the type of this control and its usefulness, it is on four levels and with different percentages as follows:

- A- For the purpose of organizing periodic reports to the Central Bank, it is (50%).
- B- By order of other parties at a rate of (30%).
- C- For the purpose of organizing periodic reports to the head of the division at a rate of (10%).
- D- For the purpose of organizing periodic reports to the director at a rate of (10%).

Likewise, it has been shown that in the case of the intensity of deposits and withdrawals in a specific current account with a low balance, that there are many reactions and in varying proportions, as shown:

- A- Informing the line manager of this (80%)
- B- Discussing this within the scope of the division only, at a rate of (10%).
- C- Holding the customer accountable for the reasons for this, at a rate of (10%).

Likewise, it has been shown that in the event that one of the accounts has multiple and varied transfers (internal and external), the following procedures are taken:

- A- Informing the direct official of this, with a special estimate or by telephone, for example, at a rate of (60%).
- B- Failure to do both of the above options by (30%).
- C- Discussing with the client in order to find out the reasons at a rate of (10%).

It may also clarify that in the case of the movement of accounts for a customer that does not reflect the economic activity and he bears many costs, commissions and benefits, then the following is done:

- A- Informing the line manager of this at a rate of (50%).
- B- Not talking about it completely (30%).
- C- Discussing with the client to find out the secret in that at a rate of (20%).
- D- Writing relevant reports and submitting them to the responsible authorities at a rate of (0%).

It has also appeared that if major and sudden changes are noticed in the customer's account, the following is done:

- A- Asking the client about the source of these changes by (50%)
- B- Informing the General Administration of this at a rate of (30%).
- C- Lack of interest in this matter at a rate of (20%).
- D- Inform the Central Bank of this at a rate of (0%).

It was also concluded that in the case of deposits made by people without their identities appearing, the following procedures are taken:

- A- Informing the responsible authorities of this by (50%).
- B- Discussing this with the current account holder at a rate of (40%).
- C- Placing a question mark about that at a rate of (10%).
- D- Not talking about it at all (0%).

Table -3- (Bank Account Mechanisms)

Number	Data
1	Q1 Type of control and its usefulness
1	A- For the purpose of organizing periodic reports to the head of the division
1	B- For the purpose of organizing periodic reports to the director
5	C- For the purpose of organizing periodic reports to the Central Bank
3	D- By order from other parties
8	Q 2 Is the intensity of deposits and withdrawals in a specific current account with a low balance?
1	1- Inform the direct supervisor of this
1	2- This is discussed within the scope of the division only
1	3- Ask the client about the reasons for that
6	Q3 If one of the accounts has multiple and varied internal and external transfers, is it?
1	A- Informing the direct official of this, by special estimation, or by telephone, for example
3	B- The client discusses this to find out the reasons
3	C- Don't do both options
5	Q4 If you notice that the account movement of a customer does not reflect his economic activity and he bears many costs, commissions and benefits, does it?
0	A- Inform the direct supervisor of this
2	B- Write special reports and submit them to the responsible authorities
3	C- Discuss with the client to find out the secret
3	D- Don't talk about it at all
3	Q5 Do you notice major and sudden changes in the client's account?
0	A- The General Administration shall be notified of this
5	B- Notify the Central Bank of that
2	C- Ask the client about the source of these changes
2	D- Don't worry about it at all
1	Q6 When noticing deposits by people without showing their identities?
5	A- Put a question mark on that
4	B- Informing the responsible authorities of that
0	C- Discussing the current account holder with this
0	D- Don't talk about it at all

Source: From the researcher's work and from the questionnaire form

4- Smuggling foreign currency:

In the end, a conclusion was reached, which is after the issue of smuggling foreign currencies was questioned, which is the aim of this research is to know the smuggling of foreign currencies and the role of banks in confronting them. As for (70%), it is the percentage of those who do not have the slightest idea about the subject of smuggling

foreign currencies, and then it was found that those who have an idea about this subject, their level of knowledge and awareness of this subject is on three levels with varying percentages as follows:

- A- Deep and comprehensive (50%)
- B- medium (20%)
- C- Simple (30%)

Table -4- (foreign currency smuggling operations)

Number	Data
3	Q1 Do you have an idea about the issue of smuggling foreign currencies?
7	A- Yes B- No
3	Q2 In the case of an idea about the issue of smuggling foreign currencies, is it the idea?
2	A- Simple
5	B- Medium
	C - deep and comprehensive

Source: From the researcher's work and from the questionnaire form

Conclusions:

Through the research, a set of conclusions were reached, which can be reviewed in the following:

- 1- The smuggling of foreign currencies is one of the biggest economic crimes
- 2- It is possible to confront the smuggling of foreign currencies through banks, because of the banking secrecy that banks give to their customers, which makes banks an easy channel for smuggling, so banks are considered one of the best means to try to eliminate these operations and fill the loopholes in front of the taxpayers.
- 3- I concluded from the research sample that the courses related to the development of banking efficiency and effectiveness are good, but not ideal, as they were at a rate of (70%), whether inside or outside the country.
- 4- The topics of these courses were good, with a rate of (70%). The topics of the courses reveal the strong need to pay more attention to the topics of financial management and writing financial reports to create an effective banking employee in the field of banking supervision and control.
- 5- However, the number of courses that were attended was good, so the largest percentage was (70%) for participants in one course.
- 6- (80%) support that the bank has no idea of developing banking efficiency by opening courses outside the country.
- 7- The idea of bankers about the Banking Inquiries Division is very few, and they do not know the importance of this division, as it is the front end of the bank's work and performs many different functions.
- 8- It was also concluded that the majority of the bank's employees worked in all branches of the bank and their percentage was (90%). This indicates that their experience and banking competence are good.
- 9- It was concluded that the work in the current account division is average, at a rate of (60%).
- 10- As for the control over the movement of bank accounts, it is excellent, and most bankers are highly transparent with their direct officials when they notice and reveal any errors, manipulations and fraud on the movement of bank accounts.
- 11- Regarding the procedures for opening current and future accounts, the majority of them supported that this idea is easy, with a percentage of (60%), and it is carried out by the most efficient employee in the division, with a percentage of (40%).
- 12- It was concluded in the research sample that the knowledge and awareness of the two banks to smuggle foreign currencies is very little despite its high risk, which is (30%).

Suggestions:

- 1- Abide by the banking rules and procedures perfectly when performing any banking work such as internal and external transfers, deposits, withdrawals, opening an account, etc.
- 2- Realizing and introducing bankers to smuggling foreign currencies due to its high and continuous danger.
- 3- Expansion of the banking rules and procedures currently in force in order to keep pace with the tremendous technological development in this field, especially in the procedures for opening accounts and internal and external transfers.
- 4- Compliance with the laws and regulations in the field of smuggling foreign currencies.
- 5- Banking cooperation to limit the smuggling of foreign currencies, and that pre-studied plans and strategies be drawn up agreed upon by all bankers.
- 6- Estimating the smuggling of internal and external foreign currencies.
- 7- Opening courses inside and outside the country to increase the banking culture, and that the topics of these courses be focused on management and financial analysis, in order to create an effective banking employee in the field of supervision.
- 8- Improving work mechanisms in the banking inquiry unit.

References

- Bhagwati, Jagdish, 1964, On the underinvoicing of imports, *Bulletin of the Oxford University Institute of Statistics* 26, 389-397.
- Bhagwati, Jagdish, 1967, *Economy* 88, 1069-1087.
- Boulding, K.E., 1947, A note on the theory of the black market, *Canadian Journal of Economics and Political Science* 13, 153-155.
- Economic Review 37, 107-120. Falvey, Rodney, 1978, A note on preferential and illegal trade under quantitative restrictions, *Quarterly Journal of Economics* 92, 175-178.
- Krueger, Anne, 1974, The political economy of the rent-seeking society, *American Economic Review* 64, 291-303.
- Michaely, Michael, 1954, *A Journal of International Economics* 11, 447- 458.
- Sheikh, Munir, 1976, Black market for foreign exchange, capital flows and smuggling, *Journal of Developmental Economics* 13, 9-26.