



Risk Management of Preventing Money Laundering and Terrorist Financing

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Abstract

Aware of the danger that the risk of money laundering and terrorist financing has on the whole society, and with the aim of increasing awareness of the effective fight against the same risk in Bosnia and Herzegovina (BiH), the paper deals with the research of mechanisms for managing the risk of money laundering and terrorist financing activities.

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The research of this work will be focused on determining the degree of application of the requirements of the legislative and institutional framework for the fight against money laundering and terrorist financing by those obliged to apply law. Also, the paper points to the cooperation of state institutions with entities of the BiH, and examines the degree of compliance of the BiH system with international standards related to the fight against money laundering and terrorist financing. In order to assess the management of this risk as efficiently as possible, the paper will cover financial and non-financial money transfer systems, and indicate the level of measures taken in this fight by the competent institutions. For the purposes of research in the paper, the data published by the competent institutions through their reports/publications will be used, with a special focus on the data published by the Banking Agency of the Federation of Bosnia and Herzegovina as the legal entity that reported the largest number of suspicious transactions in the analyzed period. The results of the research indicate that there is no concern regarding the management of the risks of money laundering and terrorist financing in BiH, and that the risk can be quantified in the category of moderate risk.

Keywords: Risk, Money Laundering, Terrorist Financing, Suspicious Transactions, SIPA Financial Intelligence Department.

1. Introduction

Money laundering (ML) is a process during which perpetrators of criminal offenses use the financial and non-financial system to make transactions/transfer money from one transaction account/place to another transaction account/place in order to conceal the source of the funds, the real owner, to bring the illegally acquired money into legal cash flows, thereby causing material damage to the other party and obtaining an illegal financial benefit for themselves. The process of money laundering is closely related to another illegal act, the terrorist financing (TF). TF includes actions related to securing or collecting funds (directly or indirectly) with the intention of being used to carry out terrorist acts by an individual terrorist or by terrorist organizations. The above indicates that the ML and TF process is a high-risk category. The actions taken in order to manage the risk of ML and TF refer to activities related to the prevention of money laundering and financing of terrorist activities (PMLTF).

The risk management process of ML and TF in BiH is regulated by the legislative framework at the level of BiH and the regulatory framework of the supervisors of financial institutions at the entity level (Federation of Bosnia and Herzegovina - FBiH and Republika Srpska - RS) and at the level of the Brčko District of BiH (BD BiH). The above indicates that

the legislative and institutional framework in BiH is such that the PMLTF system in BiH is not under the competence of only one institution, but rather an area under the competence of institutions at all levels of government, with legally defined roles for all participants.

For the implementation of the Law at the state level, the tasks and competences are entrusted to the Financial Intelligence Department (FID), which operates within the framework of the State Investigation and Protection Agency (SIPA) and which has direct cooperation with those liable for the implementation of the Law or their supervisors if there is regulation. FID performs tasks related to the prevention, detection and investigation of ML and TF operations, tasks related to promoting cooperation between authorities within BiH, FBiH, RS and BD BiH in the area of PMLTF, as well as promoting cooperation and exchange of information with competent authorities of other states and international organizations responsible for PMLTF. The aim of this paper is to show the areas and procedures for assessing the risk of ML and TF in BiH, and to investigate how the identified risk is dealt with in BiH, through the implementation of a series of activities and measures.

2. Legal framework

The legal framework for the implementation of PMLTF activities in BiH includes: Law on Prevention of Money Laundering and Financing of Terrorist Activities (Official Gazette of BiH No. 47/14 and 46/16), Rulebook on Implementation of the Law on Prevention of Money Laundering and Financing of Terrorist Activities (Official Gazette of BiH, No. 41/15), by-laws prescribed by the supervisors of those obliged to implement the Law and the Guidelines for accountants, auditors and financial workers in FBiH in the implementation of obligations to prevent money laundering and financing of terrorist activities (Guidelines).

The first Law on Prevention of Money Laundering in BiH entered into force at the end of 2004, and in 2005 FID was accepted into a single body - Egmon group of financial intelligence units. Egmon consists of 165 financial-intelligence units that provide a platform for the safe exchange of expertise and financial-intelligence data for the fight against ML and TF.

The law regulates: general provisions; tasks and obligations of the obligee; restrictions on doing business with clients; informing FID about transactions; authorized person, professional training, list of indicators and internal controls; obligations and tasks of lawyers, law firms, notaries, audit firms and independent auditors, legal and natural persons who perform accounting and tax consulting services; records; tasks and competences of the FID, obligations

of other bodies according to the provisions of this Law; data protection and storage; supervision and penal provisions.

The purpose of the aforementioned legal framework is to define the scope, form and content of the activities of those obliged to implement the Law (obligators of the Law) on PMLTF, i.e. risk management of ML and TF and the implementation of adequate control procedures. In Article 4, the Law defined 15 groups of persons obliged to implement the measures of the Law on disclosure and PMLTF, which we will present through the following schematic representation.

Scheme 1. Obligees of the Law



Source: Law on Prevention of Money Laundering and Financing of Terrorist Activities of BiH (Article 4)

From the presented scheme 1., it is easy to conclude that the obligees of the Law are institutions/persons - natural and legal, that deal with monetary transactions, with the fact that banks are singled out first because they perform the largest number of monetary transactions in our country. The central position of the schematic view belongs to FID. The main task of the FID is to receive, collect, record and analyze information, data and documentation from obligees of the Law and to forward data and documentation to reliable prosecutors' offices and courts in BiH and abroad, which investigate criminal acts of ML and TF.

Supervision of the work of obligees in connection with the application of the provisions of the Law and other regulations related to the obligation to implement measures for PMLTF is carried out by special agencies and bodies in accordance with the provisions of the Law, as follows (Law, 2014, Article 80):

- Banking Agency of the Federation of Bosnia and Herzegovina (FBA);
- Banking Agency of Republika Srpska (ABRS);
- Relevant entity ministries of finance;
- Finance Directorate of the BD BiH;
- Relevant ministries of justice;
- Bar Association of FBiH;
- Bar Association of RS;
- FBiH Insurance Supervision Agency;
- RS Insurance Agency;
- Securities Commission of FBiH;
- Securities Commission of RS;
- Securities Commission of BDBiH.

The role of the FID is to perform indirect supervision over the implementation of the Law by all obligees by collecting data, information and documentation submitted in accordance with the requirements of the Law.

3. Definitions

The Law, in Article 2 and 3, defined terms related to PMLTF activities. In this part of the paper, through the following table 1., we will present the definitions of terms that are essential for the research in question.

Table 1. Definitions of terms

<p>MONEY LAUNDERING Article 2. of Law</p>	<ul style="list-style-type: none"> • Exchange or transfer of assets, if these assets were acquired through criminal activities, with the aim of concealing or concealing the illegal origin of the assets or providing assistance to a person involved in such activities in order to avoid the legal consequences of the committed actions; • concealing or concealing the true nature, place of origin, disposition, movement, right to or ownership of assets if that asset was acquired through criminal acts or by participating in such acts; • acquisition, possession or use of assets acquired through criminal actions or the act of participating in such actions; • participation or association for the purpose of execution, attempted execution, that is, helping, encouraging, facilitating or giving advice in the execution of any of the aforementioned actions; • actions performed on the territory of another country, which acquired the asset that is being laundered.
<p>TERRORIST FINANCING Article 2. of Law</p>	<ul style="list-style-type: none"> • Securing or collecting funds, in any way, directly or indirectly, with the intention that they will be used or with the knowledge that they will be used, in whole or in part, for the execution of terrorist acts by individual terrorists and/or by terrorist organizations; • encouraging and assisting in the securing and collection of asset, regardless of whether a terrorist act was committed and whether the asset was used to carry out a terrorist act.
<p>SUSPICIOUS TRANSACTION Article 3. of Law</p>	<p>Any transaction for which the obligee or the relevant authority assesses that there are grounds for suspecting the commission of a criminal offense of money laundering or terrorist financing, or that the transaction includes funds derived from illegal activities, in connection with the transaction or the person performing the transaction.</p>

	Suspicious transactions are also those that deviate from the normal patterns of client activity, as well as any complex and unusually large transaction that has no obvious economic, business or legal purpose.
RISKS OF ML AND TF Article 3. of Law	The risk that the client will use the financial system or activity of the obligee to commit criminal acts of money laundering or financing of terrorist activities, or that some business relationship, transaction, service or product will be directly or indirectly used for the aforementioned criminal acts.

Source: Author's analysis based on the Law

Table 1 shows the definitions of four basic terms that are directly related to the subject of this paper. In addition to the mentioned terms, the Law also defined other terms related to the fight against ML and TF, which will be defined for the purposes of the work in the parts of the work where they are mentioned.

4. Risk of money laundering and terrorist financing

Entering into a business relationship with a client carries with it a certain level of risk, especially in the case of monetary transactions. When determining the risk assessment of ML and TF, it is necessary to take into account the following risk factors:

- **Client country risk.** *This factor should be taken into account regardless of whether the client's country was on the list of non-cooperative countries or on the list of countries listed as "off shore" zones;*
- **Ownership structure and business transactions** *of the legal entity or other entities related to the client;*
- **Type of client's activity.** *With this factor, the specificity and scope of the business, the structure and complexity of the work it performs should be considered;*
- **Pronounced measures.** *See if the person with whom the activity is carried out has imposed measures for the purpose of establishing international peace and security,*
- **Source of funds.** *Focus attention on the source of funds to prove whether the source of funds is unknown or unclear;*
- **Change of ownership;**
- **Change in usual behavior;**
- **Expiration of valid documentation for identification;**
- **Acting on the order of a third party;**

- ***Reporting suspicious transactions;***
- ***Probability that the client deals with ML and TF transactions.***

Obligees of the Law, for assessing the client's risk in connection with PMLTF activities, most often use a mechanism based on "four policies", namely:

1. Accept the client,
2. Identify the client,
3. Monitoring of accounts and transactions,
4. Risk management of ML and TF.

For each client, the obligee will determine the client's risk level, in such a way that he will perform the appropriate identification and monitoring procedure, and one of the most frequently used methods is creating a matrix of the client's risk level. We will present the client's risk level matrix in the following tabular overview.

1. Accept the client. Based on the above factors, for the purposes of assessing the risk of ML and TF, the obligee of the Law classifies its clients into two groups:

- Clients ACCEPTABLE for business i
- Clients UNACCEPTABLE for business.

For each client, the obligee will determine the client's risk level, in such a way that he will perform the appropriate identification and monitoring procedure, and one of the most frequently used methods is the creation of a matrix of the client's risk level. The client's risk level matrix will be presented in the following table.

Table 2. Risk level matrix, acceptance criteria of clients and obligations of obligees

The client's risk level	Acceptability criteria of clients and obligations of obligees
LOW RISK (LR)	<p><i>Eligible clients of LR:</i></p> <ul style="list-style-type: none"> • Legal and natural persons registered on the territory of BiH with proper documentation; • State bodies and institutions, regardless of the level of organization; • Public companies/institutions/agencies whose owners or majority founders are state bodies or institutions; • Employees of obligees of Act.

	<p><i>Implement: standard measures in identification, examination, monitoring and documentation.</i></p>
MEDIUM RISK (MR)	<p><i>Eligible clients of MR:</i></p> <ul style="list-style-type: none"> • A client whose transaction account is blocked; • A client whose business (individual or as a related entity) involves intensive cash transactions; • Natural persons (craftsmen) who in their business have cash inflows related to: trade, gas stations, restaurants; • Clients of specific business (traffic of high-value goods); • Humanitarian or other organizations; • All types of trade (including turnover generated via the Internet); • Promotion agencies; • Catering; • Internet portals; • News agencies; • Legal, tax, consulting and accounting activities; • Travel agencies <p><i>Implement: standard measures with increased attention in identification, examination, monitoring and documentation.</i></p>
HIGH RISK (HR)	<p><i>Eligible clients of HR:</i></p> <ul style="list-style-type: none"> • Domestic and foreign politically exposed persons; • Clients whose activity includes the production of weapons, ammunition and explosives; • Legal and natural persons whose transactions are reported as suspicious by the obligee of the Law; • Persons for whom the FID requested information from the obligees of the Law/issued an order for action under special measures; • Persons for whom the relevant institutions/supervisors/agencies have requested the

	<p>obligee of the Law to submit data due to suspicion of ML and TF.</p> <p><i>Implement: enhanced measures in identification, examination, monitoring and documentation.</i></p>
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Source: Author's analysis

The "accept client" policy defines the clients that are acceptable for establishing a business policy. As shown in Table 2, this policy is based on action measures that are classified according to the level of risk assumed, and on the basis of which the obligees of the Law establish client registers and through them are able to adopt and apply an approach to clients based on risk analysis ML and TF.

Important information for the obligees by the Law regarding the client acceptance policy is: getting to know the client's activities, a systematic understanding of their business, getting to know financial and payment habits, reviewing information and documentation about business related to business relationships and cash flows, types of business relationships, identifying the usual sources of borrowing and the frequency and volume of transactions carried out by clients. The process of determining the client's acceptability is a constant and continuous task for the obligee, and all the knowledge he has about the client, especially those that have a negative impact, should be used to review the client's acceptability.

Clients who, on the basis of defined risk factors, are classified as UNACCEPTABLE clients by the obligee of the Law, will not be included in the defined risk matrix of ML and TF, because the request to establish a business relationship will be assigned the status "rejected". The following clients can have the status of ineligible client:

- Whose activity is focused on financing: lottery games, bookmaker, casino, investment in securities, trade in virtual currencies, arms trade;
- Who try to establish a business relationship with false/unclear documents;
- Who do not want to present documentation and information in accordance with positive legal regulations;
- Who insist on their anonymity or who present themselves under a false name;
- Who already have blocked accounts;
- Clients who present their business as significantly different from what is real and/or possible;
- Whose source of funds is unknown or unclear, etc.

If an employee of the obligee of the Law at any time finds out that a new or existing client has one of the aforementioned conditions in any way, he is obliged to inform the responsible persons of the obligees of the Law and the person responsible for PMLTF, and if it is determined that the information is correct the business relationship with the existing client will be terminated.

2. Identify the client. Obligees of the Law apply the "know your client" policy as a basic standard. There are numerous problems in implementing this policy for ML and TF risk management. The first problem that can be singled out is the updating of documentation, especially in the business relationship with clients who have the status of non-resident/foreigner. Updated documentation is necessary to verify an already established business relationship. The second problem present with this policy is the problem of identification and verification of the source of funds that the client uses to perform payment transactions (eg, annuity payments). The third problem accompanying the client identification policy is the lack of a register of real users and politically exposed persons, and the identification and verification of them is necessary for this policy. Due to the mentioned problems that accompany this policy, when looking at the quality of risk management of ML and TF, it was observed that there is no trend of improvement, which indicates that the obligees of the Law do not consistently apply identification measures, but when determining the risk measure, they implement this policy partially and most often use standardized measures for MR level clients, and not completely, which would require both simplified measures for LR level clients and strengthened measures for HR level clients.

3. Monitoring of accounts and transactions. The third policy most often used in ML and TF risk management is constant monitoring of accounts and transactions. For the realization of this policy, the obligees of the Law apply the measure of internally defined transaction limits for certain types of accounts and transactions. The support of information systems that enable the monitoring of accounts and transactions is used to implement the measure of defined limits. Due to the established limits and the support of the information system, the measure of formal monitoring of client accounts and transactions is being implemented less and less. The measure of defined limits serves a more preventive monitoring of accounts and transactions. As with the identify client policy, standard monitoring measures for MR level clients are mostly used for this policy. With this ML and TF risk management policy, there is a problem of monitoring accounts and transactions by which electronic transfers are made, using online platforms, and it is most present in banks.

4. Risk management of MLN and TF. In order to implement this policy, the obligee of the Law is obliged to define a commitment to the level of corporate governance, which promotes a high level of compliance with international standards as well as national and by-laws. In the framework of this policy, the procedures and lines of reporting on the risk of ML and TF are of particular importance. Obligees of the Law are obliged to ensure proper reporting to the competent institutions, namely:

- FID (SIPA) on all cash transactions of and over the prescribed amount and on all suspicious transactions,
- Supervisor/relevant institution,
- Other relevant institutions at the request of that institution.

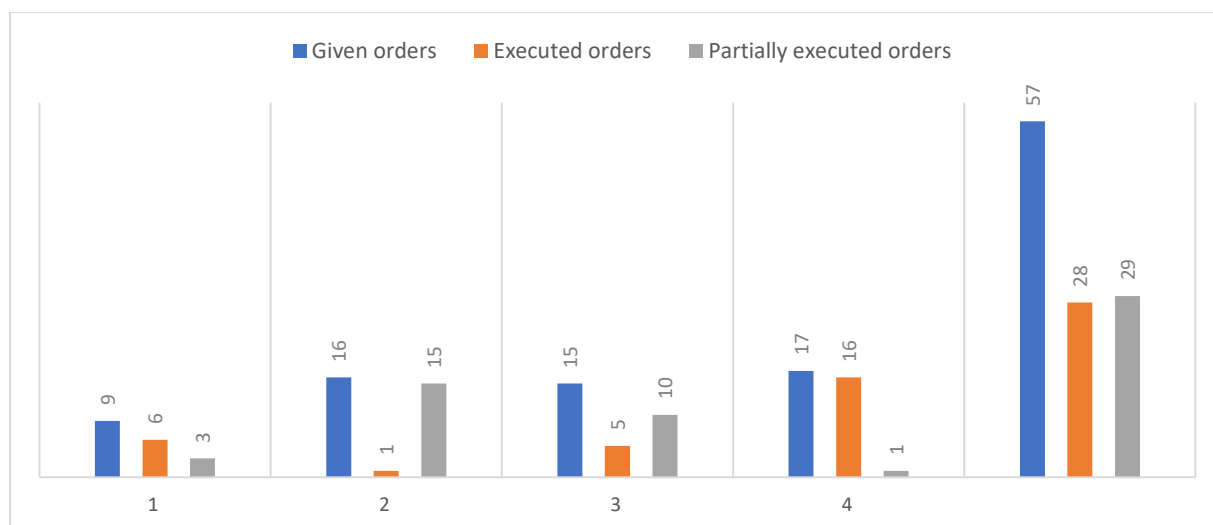
In accordance with the Law, the obligee/authorized person is obliged to inform FID about the following:

- Every attempted or completed transaction, client or person if there is suspicion of money laundering or financing of terrorist activities,
- Cash transactions whose value equals or exceeds the sum of 30.000 BAM,
- Related cash transactions whose total value is or exceeds the sum of 30.000 BAM.

The largest number of FID reports submitted by obligees of the Law is electronically, using the AMLS (Army Learning Management System) application software for reporting transactions. It is the obligation of the obligee to report the mentioned transactions to the FID immediately after the appearance of suspicion and before the execution of the transaction, and no later than three days after the execution of the transaction.

For the purpose of analyzing the quality of the application of the aforementioned policies in the FBiH banking sector, in 2018, the FBA published an overview of the status of the execution of given orders, which relate to the previously mentioned risk management policies of ML and TF. The overview includes data: the number of given orders, the number of executed orders and the number of partially executed orders for the four listed policies. We will show the status of given orders according to policies through the following graphic display.

Graph 1. Status of given orders according to policies issued by FBA



Source: Author's analysis based on data from the FBA report ¹

The data presented in the graph confirm the existing problems in the application of ML and TF risk management policies. FBA issued the largest number of orders for the "ML and TF risk management" policy (17), and the largest number of executed orders is related to this policy (16), which indicates that only 1 order has the status of partial execution, which indicates the percentage of total execution of 94.1%. The next policy according to the status of issued orders is "identification of clients", for which FBA issued 16 orders, of which only 1 order was executed, and 15 orders have the status of partial execution, which means that the percentage of execution for this policy is 6.2%. The execution percentage of 6.2% confirms the problems that are present in the implementation of this policy, and which were previously pointed out in this paper. For the "monitoring of accounts and transactions" policy, 15 orders were issued, of which 5 orders are in the status of execution, and 10 orders are in the status of partial execution, and the total percentage of execution is 33.3%. The "client acceptance" policy was issued the smallest number of orders by FBA (9), of which 6 orders were executed, and 3 orders were partially executed. The total percentage of execution for this policy is 66.7%. In accordance with the above, if we look at the number of issued and completed orders related to policies for determining ML and TF risk, it can be concluded that ML and TF risk management at banks in FBiH is at a satisfactory level and can be assigned a moderate risk rating.

¹ FBA report: *Publications for banks: Information on entities of the FBiH banking system with the balance as of 31/12/2018*. Available on: <http://www.fba.ba> [accessed 20.11.2022.].

5. Risk analysis of ML and TF and criteria for determining the level of risk

Establishing a business relationship with a client carries with it a certain level of risk. The obligee of the Law is obliged to create a client acceptance policy on the basis of which he will assess the risk of ML and TF. When determining the degree (level) of risk, the starting criteria that need to be taken into account are the risk factors listed in the 4th part of this paper.

The risk assessment of ML and TF is based on the established methodology, which refers to the analysis of risk assessment. When assessing risk, it is necessary to take into account risk factors that are specific to a certain profession, business relationship, product, transaction, as well as other factors that can influence the increase or decrease of risk. The measures taken by the obligee of the Law depend on the risk category in which the client is assigned.

For clients who have been assigned the HR level, it is necessary to implement enhanced measures of identification, examination, monitoring and documentation. One of the identification measures for HR level clients is the EDD (Enhanced Due Diligence) method. The application of the EDD method implies the analysis of each transaction, in such a way as to verify the client's legal status, visit the client's headquarters, the purpose of the transaction, and carry out all other activities related to the risk analysis of clients assigned to the HR level.

MR level clients are all persons to whom standard measures can be applied with increased attention in the process of identification, examination, monitoring and documentation. For clients of this risk category, it is necessary to pay detailed attention to the fact that the transactions they perform may be characterized as unusual or suspicious activities. In the case of indications that could point to certain illegal activities, consideration and analysis are carried out to assign the client a HR category.

Clients who meet the conditions that standard/usual identification and monitoring measures can be applied to them belong to the group of clients who are assigned to the LR level. Clients of the LR level are all clients that are determined by the analysis to have a low level of ML and TF risk.

The obligee of the Law is obliged to carry out constant monitoring of the client, accounts and transactions for the purpose of PMLTF, in order to detect transactions that are not reasonable, logical and that do not belong to the usual transactions of the client's business. With the aim of effective control and reduction of the risk of the client's business from ML and TF, it is necessary that the obligee of the Law:

- Defines transaction limits for certain types or categories of accounts,
- Directs attention on transactions that exceed defined limits,
- Defines transactions that are unusual, unusual or suspicious,
- Defines transactions that by their nature do not make economic or commercial sense,
- Defines the procedure in case of transactions of a large amount and unusual transactions,
- Defines what the list of suspicious transactions and ways of possible ML includes,
- Establish information system support.

ML and TF risk monitoring is the task of every employee who has direct contact with the client. Authorized employees of the obligees of the Law are responsible for monitoring the detection of suspicious transactions through regular turnover transactions. In the monitoring process, employees will check the transactions realized by the accounts in the previous period, and based on the defined limit, determine whether there is a deviation. Any deviation from the client's usual business needs to be identified and checked with the aim of reducing the risk of ML and TF.

The Union of Accountants, Auditors and Financial Workers in the FBiH through the Guidelines prescribed a list of indicators for the activities of accountants and auditors. Risk indicators, which may indicate suspicions of possible ML and TF (Guidelines, 2019, Section 3.2.) are:

- Client - a legal entity was established without a special business justification;
- The client's beneficial owner is domiciled/citizenship in a country designated as an "off shore" destination and/or a "tax haven";
- The client often changes his address;
- The address of the client's headquarters and the persons related with him is the same;
- The accountant or the auditor was never allowed to inspect the client's office space or production facilities;
- The client's organizational structure is complicated, that is, complex and inefficient, which is also the cause of its economic unjustification;
- The client is involved in tasks that are not characteristic of his business or enters into business relationships that are not economically justified for him;
- The client does business with non-profit or charitable organizations, for which there is no real economic reason;

- The client does business with partners from countries where narcotics are trafficked or where PMLTF regulations are not enforced;
- The client does business with entities from countries that are known as "tax havens";
- The client recapitalizes the company without an economically justified reason;
- The client has extensive assets (luxury cars, residential apartments, boat residences, etc.), which do not fall within the company's usual scope of business;
- The client is under investigation for criminal offenses of ML and TF;
- Large and unexplained fluctuations in income and/or expenses appear in the client's business;
- Insufficiently explained disposable income;
- Receivables or debts are written off without supporting evidence or without the presence and findings of commissions;
- In the client's business there are frequent occurrences of surplus and/or shortage of goods;
- The client records non-existent or already collected debts in the accounting documents, i.e., he does not record his own existing liabilities.

The updating of the risk level in order to detect suspicious transactions is carried out for the existing clients of the obligees of the Law. The update procedure is carried out by an authorized person at least once every three months or when, on the basis of new events, transactions, documentation and collected information, it is estimated that it is necessary to change the risk level for an existing client.

Changing the risk level for existing clients must be done in the following cases:

- MR level. Clients who had LR status and whose account is blocked are assigned the MR level.
- HR level. Clients for whom they are responsible (FID, agencies, prosecutor's offices, courts, etc.) requested information due to suspicion of ML and TF.
- HR level. Clients with LR and MR status who are found to be doing business with companies registered with "off shore" zones.
- All other cases when there is information or documentation that requires a change in the risk level of existing clients.

In addition to the above, additional factors that can influence the increase in the risk rating are:

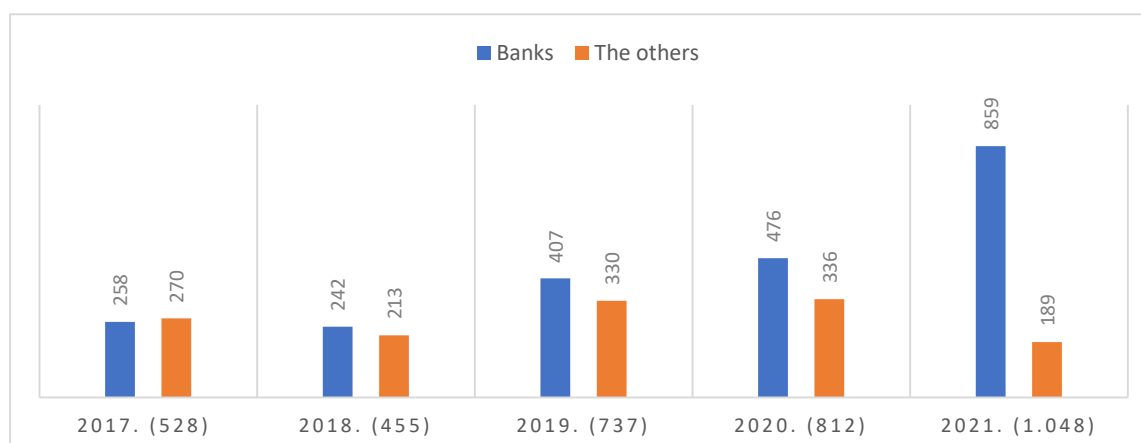
- Use of intermediary funds within the client that have unreasonably complex business transactions that are not accompanied by explanations or appropriate documentation;
- Accounts opened with the intention of carrying out transactions of large amounts, with clients who were unknown until then.
- • There are legitimate reasons to suspect ML and TF.

At any moment when it is established that the assigned status of the risk level does not correspond to the current status, the person responsible for ML and TF should prepare information (note) on the relevant evidence, which will contain the evidence for which it is necessary to change the assigned level for the existing client risks.

6. Statistical analysis of collected data on the risk of ML and TF

In this part of the paper, based on the data published by FID and FBA through reports on their websites, we will deal with the analysis of data related to suspicious risk transactions of ML and TF, and FID's actions on the same. Through 15 categories, the law defined the obligees to whom the obligation to monitor the risks of ML and TF applies. Obligees of the Law are obliged to report suspicious transactions to the FID. Through chart 2, informations on the number of reported suspicious transactions in the observed period of 2017-2021. year were presented.

Graph 2. Number of suspicious transactions reported to FID in the period 2017-2021



Source: Author's analysis based on data from the FID report²

² FID reports. Documents: *Reports of the Financial Intelligence Department for 2017, 2018, 2019, 2020, 2021*. Available on: <http://www.sipa.gov.ba/bs/dokumenti/izvjestaji-foo> [accessed 20.11.2022.].

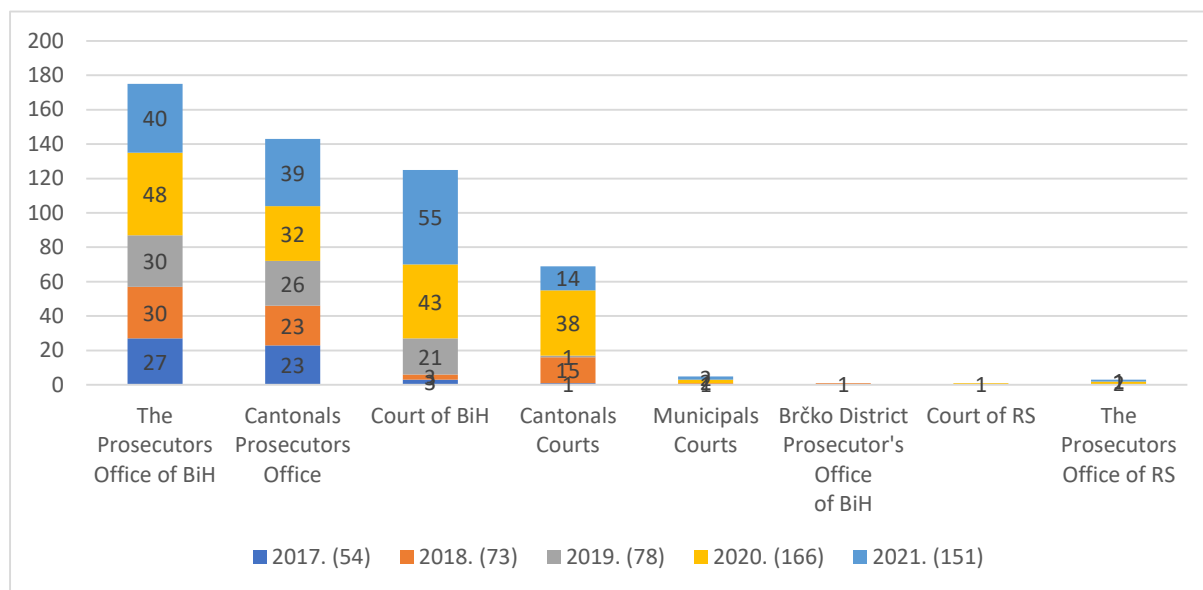
Chart 2 shows that the largest number of suspicious transactions are reported by banks, approximately 50% of total suspicious transactions in the first two observed years with a tendency to increase reported suspicious transactions by banks, as well as at the overall level. Looking at the previous graphic, it can be seen that the number of reported suspicious transactions in 2021 (1.048) is almost double the number of reported transactions (528) in the initial year of the observed period, 2017.

Collected information on suspicious transactions is used by the FID to prevent, detect and investigate criminal parts of ML and TF by taking measures and actions for which it is competent under the Law, which refer to:

- Submission of reports to prosecutors' offices for persons who are suspected of having committed the criminal offense of money laundering and other predicate crimes by which they acquired illegal money, which allowed legal cash flows to circulate, thereby causing material damage and obtaining material benefit;
- Issuing orders to banks for the temporary suspension of transactions for legal and natural persons. The temporary suspension of transactions may refer to safes and transaction accounts;
- Issuing orders to banks for continuous monitoring of the financial operations of suspicious legal entities;
- Making criminal and intelligence reports;
- Cooperation with other police and tax authorities of all levels of BiH government in the form of providing information/answers with data collected in accordance with the Law.

FID also conducts investigative activities in the form of acting on the orders/requests of the competent prosecutor's offices and courts of BiH. The following graph shows the number of requests/orders received by the FID from the competent prosecutor's offices and courts of BiH.

Graph 3. Overview of the number of orders/requests received by the FID in the period 2017-2021



Source: Author's analysis based on data from the FID report³

The data shown in Graph 3 indicate that in the observed period, the largest number of requests/orders of the FID was received by the BiH Prosecutor's Office (175), cantonal prosecutor's offices (143), the Court of BiH (125) and cantonal courts (69). The smallest number of received requests/orders is from the entity of the RS, and one of the reasons is that only part of the orders and requests of the courts and prosecutor's offices from the RS are implemented through the Ministry of Internal Affairs of the RS. Also, for the entity of the FBiH, in addition to the requests/orders received by the FID, a part of them is implemented through the Federal Police Administration and the cantonal ministries of the internal affairs.

Acting on the received requests of the competent courts and prosecutor's offices of BiH, the FID carries out some of the following activities:

- Search of persons, apartments, premises and movable property,
- Temporary confiscation of objects,
- Conducting operational actions to deprive persons of their freedom,
- Investigation and reconstruction of events,
- Taking statements on the record regarding the questioning of witnesses and questioning of suspects.

³ FID reports. Documents: *Reports of the Financial Intelligence Department for 2017, 2018, 2019, 2020, 2021*. Available on: <http://www.sipa.gov.ba/bs/dokumenti/izvjestaji-foo> [accessed 20.11.2022.].

Graph 3 shows that in the observed period (2017-2021) the number of requests received by FID has a growing tendency, which is indicated by the fact that the number of requests received in 2021 (151) is approximately three times higher than in 2017. year (54). Upon implementation of the above orders and requests, the FID prepares two reports: a report on the measures and actions taken and a report on the financial investigations conducted, which it submits to the competent prosecutor's office and the BiH court from which it received the orders/requests.

Based on the data published by the FID, which are shown in Graph 2, banks have the most significant participation in reports of suspicious transactions. Therefore, in the continuation of the paper, for the purposes of analyzing suspicious transactions and risk management of ML and TF, data on suspicious transactions and suspicious clients will be used for the financial sector of the FBiH, whose supervisor is the FBA. Obligees of the Law (financial institutions) and supervisors (FBA) are obliged to report to the FID on completed cash transactions of 30 thousand BAM and more, related and suspicious transactions. The FBA reports the aforementioned data to the FID on a quarterly basis for banks and microcredit organizations (MCO) since 2017. and leasing companies from 2018, which are also available in the abbreviated report on the FBA website in the publication section.

For the purposes of FID reporting for the banking sector, FBA has classified suspicious transactions into three groups, namely:

1. Transactions reported before execution - (1) Table 3. Transactions reported before execution are the result of the bank's preventive action on PMLTF activities. The bank discovered these transactions before execution and informed FBA and FID about them.
2. Transactions reported within 3 days - (2) Table 3. This group includes transactions that the bank discovered through monitoring and informed FBA and FID. The data on reported transactions within three days speaks of the quality of the monitoring carried out by banks on activities related to PMLTF. In cases where we have a downward trend in these transactions, banks should focus additional attention on the analysis of conducted monetary transactions.
3. Transactions reported after the deadline of 3 days - (3) Table 3. This group includes suspicious transactions that were discovered through corrective action. Most often, corrective action refers to FBA proceedings and the issuing of action orders. Therefore,

these suspicious transactions were not discovered on the basis of the activities undertaken by the banks, but through the corrective actions of the FBA.

Below will be presented data on reported suspicious transactions (number and value) for banks for the observed period 01/01/2011-30/06/2022.

Table 3. Report on reported suspicious transactions by number and value (in 000 BAM) - banks

Descr.	2011.		2012.		2013.		2014.		2015.		2016.	
	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value
(1)	19	20.324	6	3.876	13	5.380	13	24.640	28	10.558	35	9.570
(2)	44	6.004	21	3.035	30	16.469	21	2.529	40	4.285	53	6.079
(3)	18	1.336	15	1.891	24	21.979	16	4.394	77	11.281	10	7.939
Σ	81	27.664	42	8.802	67	43.828	50	31.563	145	26.124	98	23.588
Descr.	2017.		2018.		2019.		2020.		2021.		30.06.2022.	
	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value
(1)	12	18.450	8	5.724	13	4.155	4	2.987	18	8.427	6	2.045
(2)	57	9.902	50	10.667	99	50.180	80	29.108	54	7.176	97	8.410
(3)	34	8.693	6	315	79	9.646	162	11.679	746	86.164	268	32.829
Σ	103	37.045	64	16.706	191	63.981	246	43.774	821	101.767	371	43.284

Source: Author's analysis based on data from the FBA report⁴

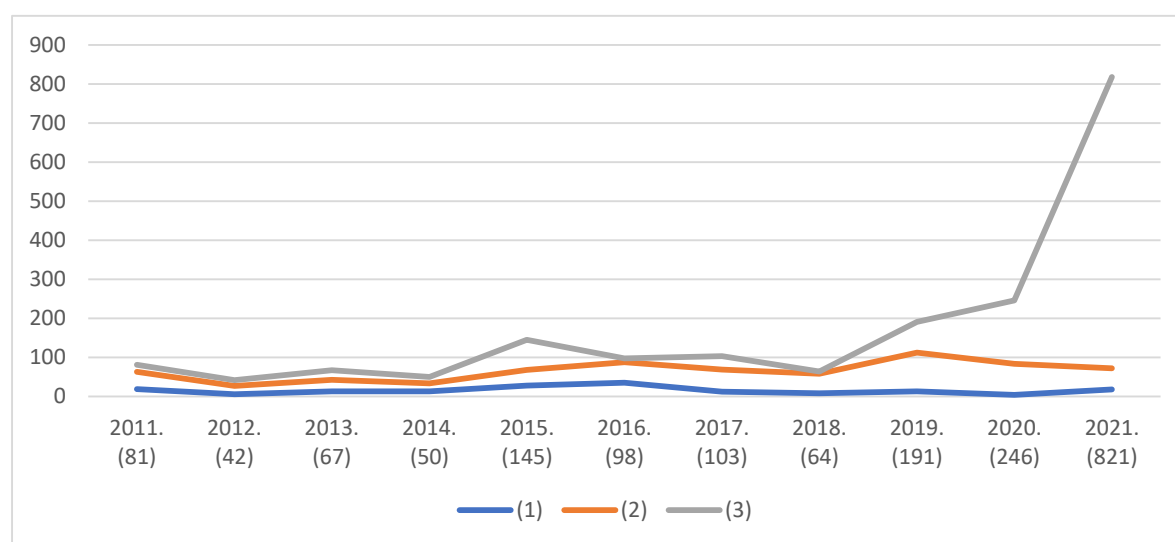
From the table shown, we see that banks in the FBiH reported suspicious transactions to the FBA (supervisor) even before the entry into force of the new Law from 2014. Since 2015, banks in the FBiH, in parallel with reporting to the FBA on cash related and suspicious transactions, also report to the FID via the prescribed PMLTF Form.

The data presented in Table 3 indicate the fact that the number of suspicious transactions reported in the observed period tends to increase, which is especially pronounced in the period 2019-2022. In the last years of the observed period, we see that the number of reported suspicious transactions is up to 10 times higher, 81 suspicious transactions were reported in 2011, and 821 in 2021. According to the data in Table 3, the reasons for the increased number of reported suspicious transactions in recent years are FBA orders issued to banks and increased monitoring activities of ML and TF by FBA (the number of transactions reported after the 3-day deadline - corrective action is the highest). The reason for the increased number of

⁴ FBA reports: *Publications for banks: Information on entities of the FBiH banking system with the balance as of 31/12/2011, 31/12/2012, 31/12/2013, 31/12/2014, 31/12/2015, 31/12/2016, 31/12/2017, 31/12/2018, 31/12/2019, 31/12/2020, 31/12/2021 and 30/6/2022.* Available on: <http://www.fba.ba> [accessed 10.11.2022.].

suspicious transactions may also be the pandemic caused by the COVID-19 virus, and that as a consequence of the same, increased threats of illegal activities by clients (emergence of new risks and trends of ML and TF). Due to the observed tendency of growth of suspicious transactions that banks from FBiH reported to FID in the observed period, the data from Table 3 will be presented in the following graph.

Graph 4. Number of reported suspicious FID transactions by banks in FBiH



Source: Author's analysis based on data from the FBA report⁵

From the presented Graph 4, in the last years of the observed period, an oscillation in the number of suspicious transactions (3) that were detected based on the activities carried out by the FBA can be clearly observed, while suspicious transactions of categories (1) and (2) have a slight tendency to change throughout the observed period.

In the years in which the number and value of transactions is significantly lower, it does not mean that there were no suspicious transactions, but that banks acted less preventively on PMLTF activities, which indicates the assessment of the quality of ML and TF risk management in the observed period. According to FBA reporting, in the period we are observing, until 2016, all reported suspicious transactions related to ML. In 2016, of the reported 98 suspicious transactions, 95 (23.478 thousands of BAM) related to suspected ML, and 3 (110 thousands of BAM) to TF. In 2017, of the reported 103 suspicious transactions, 102 (32,816 thousands of BAM) related to ML, and 1 transaction (4,229 thousands of BAM) to TF.

⁵ FBA reports: *Publications for banks: Information on entities of the FBiH banking system with the balance as of 31/12/2011, 31/12/2012, 31/12/2013, 31/12/2014, 31/12/2015, 31/12/2016, 31/12/2017, 31/12/2018, 31/12/2019, 31/12/2020 and 31/12/2021.* Available on: <http://www.fba.ba> [accessed 10.11.2022.].

For the rest of the observed period, data on how many suspicious transactions refer to ML and how many to TF are not available.

When we talk about reported suspicious clients by banks, in its reports for 2017 and 2018, FBA published data on the number of them for the period 2016-2018, and reported the same to the FID. Banks used criteria for data classification:

- FID asked for data – Table 4 [1] i
- FID did not asked for data – Table 4 [2].

The following table provides a comparative overview of the number of reported suspicious clients for the period 2016-2018.

Table 4. Overview of reported suspicious clients – banks

Descr.	2016.	2017.	2018.	2019.	2020.	2021.	30.06.2022.
	No.	No.	No.	No.	No.	No.	No.
[1]	22	4	4	-	-	-	-
[2]	90	71	58	-	-	-	-
Σ	112	75	62	-	-	-	-

Source: Author's analysis based on data from the FBA report⁶

Data on the number of suspicious activities of bank clients since 2019 are not available. If we analyze the data presented in Table 4, we see that the number of suspicious clients is decreasing, which indicates the monitoring activities of banks at PMLTF. In order to fully comply with the reporting standards, there is scope for action in this part, which primarily refers to the improvement of indicators for identifying suspicious transactions and suspicious activities of clients with the aim of timely and better reporting of FID.

Due to the changed legal and sub-legal framework for MCO, FBA has been publishing data on suspicious reported transactions and suspicious clients since 2017 for MCO as well. MCO is obliged to report to FBA and FID on cash transactions of 30 thousand BAM or more, related and suspicious transactions. Given that MCOs do not provide payment services to their clients, and therefore have a significantly lower number of monetary transactions compared to banks,

⁶ FBA reports: *Publications for banks: Information on entities of the FBiH banking system with the balance as of 31/12/2016, 31/12/2017, 31/12/2018, 31/12/2019, 31/12/2020, 31/12/2021 and 30/6/2022.* Available on: <http://www.fba.ba> [accessed 10.11.2022.].

the classification of suspicious transactions by MCOs for reporting purposes differs. MCO classifies suspicious transactions into two groups, transactions for which:

1. FID asked for data – [1] Table 5 i
2. FID did not asked for data – [2] Table 5.

For the analysis of reported suspicious transactions and clients for MCO, the data published since 2017, including the last published data on June 30, 2022, will be presented.

Table 5. Report on suspicious reported transactions by number and value in BAM - MCO

Descr .	2017.		2018.		2019.		2020.		2021.		30.06.2022.	
	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value
[1]	0	0	0	0	1	29	0	0	1	1	0	0
[2]	65	898.64	40	689.68	95	1.105	38	1.481	23	333	70	126
	6	2	7	5	3		6		4			
Σ	65	898.64	40	689.68	95	1.134	38	1.481	23	334	70	126
	6	2	7	5	4		6		5			

Source: Author's analysis based on data from the FBA report⁷

For the purposes of FID reporting on the number of suspicious clients, MCO uses the same criteria as for suspicious transactions:

- FID asked for data - [1] Table 6,
- FID did not ask for data [2] Table 6.

Observing the same period as with suspicious transactions (Table 5), data for the number of reported suspicious FID clients by MCO will be presented in the following table.

⁷ FBA reports: *Publications for banks: Information on entities of the FBiH banking system with the balance as of 31/12/2017, 31/12/2018, 31/12/2019, 31/12/2020, 31/12/2021 and 30/6/2022.* Available on: <http://www.fba.ba> [accessed 10.11.2022.].

Table 6. Overview of the number of reported suspicious clients - MCO

Descr.	2017.	2018.	2019.	2020.	2021.	30.06.2022.
	No.	No.	No.	No.	No.	
[1]	2	0	-	-	-	-
[2]	202	126	-	-	-	-
Σ	204	126	-	-	-	-

Source: Author's analysis based on data from the FBA report⁸

In the structure of reported suspicious transactions (Table 5) and suspicious clients (Table 6), by MCO in FBiH, a downward trend is noticeable in the observed period. The reason for the decrease in the number of reported suspicious transactions at the MCO is the revision of the approach by the MCO for identifying suspicious transactions and suspicious activities of clients. The revision of the approach to identifying suspicious transactions and clients took place when, based on feedback, the MCO received instructions from the FID on further actions and actions with the aim of reducing the risk of ML and TF. Although the trend in the number of reported transactions and clients is decreasing, it is still necessary to work on improving the reporting of competent institutions. The data presented indicate that FBA did not publish data for all the observed years of the observed period (as of 2019, no data is available on the number of reported suspicious clients for MCO). Our recommendation is that all financial institutions should submit data related to ML and TF to the relevant authorities (FBA and FID), regardless of whether they requested the same. Also, there is scope for improvement in this segment in the part of activities on revising indicators for identifying suspicious transactions and suspicious clients, all with the aim of better reporting of FID.

Applying the policy of compliance with PMLTF standards for the financial sector supervised by the FBA, in 2019, according to reports on cash transactions of 30 thousand BAM or more, related and suspicious transactions, data for 2018 and 2019 were published on reported suspicious transactions about were reported by the leasing companies to the FID. FBA used the same classification of transactions for leasing companies, for the purposes of reporting to FID on suspicious transactions, as with MCO, namely:

- FID asked for data – [1] Table 7 i

⁸ FBA reports: *Publications for banks: Information on entities of the FBiH banking system with the balance as of 31/12/2017, 31/12/2018, 31/12/2019, 31/12/2020, 31/12/2021 and 30/6/2022*. Available on: <http://www.fba.ba> [accessed 10.11.2022.].

- FID did not asked for data - [2] Table 7.

In Table 7, reported suspicious transactions by number and value for leasing companies in the observed period 01/01/2018-30/06/2022 will be presented.

Table 7. Report on suspicious reported transactions by number and value in (000 BAM) - leasing company

Descr.	2018.		2019.		2020.		2021.		30.06.2022.	
	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value
[1]	0	0	0	0	0	0	0	0	0	0
[2]	5	35	4	4	4	133	8	47	0	0
Σ	5	35	4	4	4	133	8	47	0	0

Source: Author's analysis based on data from the FBA report⁹

According to the data shown in Table 7, the number and value of reported suspicious transactions by the leasing company FID in 2020 is the highest, and all reported suspicious transactions are classified in the category of transactions for which FID did not request data, which indicates the quality of the activities carried out at PMLTF by leasing companies. It is important to point out that since 2017, the FBA has been looking at the risk management of ML and TF through the policy of financial institutions' business compliance with PMLTF standards, and based on the state of the financial sector, performed business compliance controls and reports submitted by banks, MCOs and leasing companies to the FBA and FID. It can be concluded that there is no concern regarding the management of risks from ML and TF, and that the risk can be quantified in the category of moderate.

In addition to FBA and ABRS, which supervise the financial system, special importance in the fight against ML and TF belongs to the Indirect Taxation Authority BiH (ITA BiH), which supervises the non-financial system of the flow of transactions. The role of the ITA BiH is reflected in the detection and recording of cash (most often the removal of cash from BiH by commercial banks), checks, securities, precious metals and precious stones, which are transferred across the state border. The special contribution of the ITA BiH in this fight is the physical activities and efforts to detect suspicious transactions, given that they are detected on the ground (border) by physical checks of ITA persons. In the fight against ML and TF, it is

⁹ FBA reports: *Publications for banks: Information on entities of the FBiH banking system with the balance as of 31/12/2018, 31/12/2019, 31/12/2020, 31/12/2021 and 30/6/2022*. Available on: <http://www.fba.ba> [accessed 10.11.2022.].

important to point out the cooperation of the FID with the competent entity bodies for registering the circulation of securities, and the FID successfully achieves this cooperation with the FBiH Securities Register and the RS Central Securities Register.

7. Conclusion

In the paper, the method of managing the risk of ML and TF in BiH is presented, in such a way that the basic provisions prescribed by the Law on Prevention of ML and TF are presented, and then, through the presentation of statistical data, the way of implementing its orders in practice is presented. In the paper, the function of certain bodies such as FID, FBA, ITA BiH was highlighted, the cooperation of these bodies with the prosecutor's offices and courts of BiH was pointed out, all with the aim of managing the risk of ML and TF as efficiently as possible. In the activities of PMLTF in BiH, the role of agencies - supervisors of the banking sector of BiH (FBA and ABRS) is of particular importance, because they monitor whether the Law, regulatory regulations, internal acts are followed, evaluate the adequacy of the established system for ML and TF, all with the aim of preventing abuses. It is important to point out that the largest number of reported transactions are from the bank, and they refer to transactions that have been assessed as suspicious in the payment transaction process. The role of agencies for the banking sector of BiH is to control payment transactions, and to undertake activities on PMLTF, through monitoring and issuing orders to banks, for suspicious transactions that the banks did not notice either preventively or through monitoring.

According to the results obtained through the research for this paper, we can conclude that the provisions of the Law are consistently applied, that the FID coordinates well the cooperation with the obligees of the Law, that there is good cooperation with the competent prosecutor's offices and the courts of BiH, that the number of suspicious transactions and the number of requests /orders received by FID in recent years on the rise. Also, FID intensively monitors and reports on developments at the international level, and applies the best regulatory solutions, which indicates that in the foreseeable future it will be necessary to harmonize domestic legislation with international standards in this area, and this primarily includes the regulations of the European Union, which is certainly one of the conditions in the process of joining BiH to full membership of the European Union.

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Zakon o sprečavanju pranja novca i finansiranja terorističkih aktivnosti. (Službeni glasnik BiH, 47/14, 46/16).

Sažetak

Svjesni opasnosti koju rizik od pranja novca i finansiranja terorističkih aktivnosti ima na cijelo društvo, a u cilju ukazivanja na povećanje svijesti efikasne borbe protiv istog rizika u Bosni i Hercegovini (BiH), predmetni rad bavi se istraživanjem mehanizama za upravljanje rizikom od pranja novca i finansiranja terorističkih aktivnosti. Istraživanje ovog rada biće usmjereno na utvrđivanje stepena primjene zahtjeva zakonodavnog i institucionalnog okvira za borbu protiv pranja novca i finansiranja terorizma od strane definisanih zakonskih obveznika. Također, predmetni rad ukazuje na saradnju državnih institucija sa institucijama na entitetskom nivou, te sagledava stepen usklađenosti sistema BiH sa međunarodnim standardima koji se odnose na borbu protiv pranja novca i finansiranja terorizma. U cilju što

efikasnije procjene upravljanja ovim rizikom, rad će obuhvatiti finansijske i nefinansijske sisteme prenosa novca, te ukazati na stepen poduzetih mjera u ovoj borbi od strane nadležnih institucija. Za potrebe istraživanja u predmetnom radu biće korišteni podaci koje su nadležne institucije objavile kroz svoje izvještaje/publikacije s posebnim fokusom na podatke koje objavljuje Agencija za bankarstvo Federacije BiH kao zakonski obveznik koji je u analiziranom periodu prijavio najveći broj sumnjivih transakcija. Rezultati istraživanja ukazuju da ne postoji zabrinutost u pogledu upravljanja rizicima od pranja novca i finansiranja terorističkih aktivnosti u BiH, te da se rizik može kvantificirati u kategoriji umjerenog.

Ključne riječi: *rizik, pranje novca, finansiranje terorističkih aktivnosti, sumnjive transakcije, Finansijsko-obavještano odjeljenje*