

**Strategies for sustainable
socio-economic development
and mechanisms their
implementation in the global
dimension**

**Collective monograph edited by
M. Bezpartochnyi**

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The authors of the book have come to the conclusion that it is necessary to effectively use modern approaches to developing and implementation strategies of sustainable socio-economic development in order to increase efficiency and competitiveness of economic entities. Basic research focuses on assessment of effectiveness the investment projects, use of cluster analysis the innovative activity of regions, formation and use of financial resources, competitiveness management and use of modern methods sale of the goods, effectiveness the activities of territorial communities. The research results have been implemented in the different models and strategies of project-oriented resource management, state management of development of territorial communities, implementation of the concept inclusive oriented economic development, efficient functioning and development of electric power enterprises, agricultural production, tourist industry, lifelong learning concepts. The results of the study can be used in decision-making at the level the economic entities in different areas of activity and organizational-legal forms of ownership, ministries and departments that promote of development the economic entities on the basis of models and strategies for sustainable socio-economic development. The results can also be used by students and young scientists in modern concepts and mechanisms for management of sustainable socio-economic development of economic entities in the condition of global economic transformations and challenges.

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Vnukova N., Kolodizev O.

Use of typologies and risk maps in the system of internal financial monitoring 169

Chapter 4

STRATEGIES OF COMPETITIVENESS IN ENSURING SUSTAINABLE SOCIO-ECONOMIC DEVELOPMENT 178

Kononenko T., Polstyana N., Chaikova O., Polstyanyoy A.

Management of the enterprises competitiveness under conditions of socio-economic development 178

Kopchykova I., Kytaichuk T.

Application of modern methods of goods sale in commodity loss management 186

Kuklin O., Pustoviit R., Kryvoruchko M.

Correlation of the institutional environment of Ukraine with economic development and European integration processes 194

Vinichenko I., Bulkin S.

Approach to economic stability in agricultural production 217

Chapter 5

PRACTICAL ASPECTS FOR IMPLEMENTING STRATEGIES OF SUSTAINABLE SOCIO-ECONOMIC DEVELOPMENT AT THE LEVEL OF SECTORAL ECONOMIC STRUCTURES 226

Biriukov Ie.

Functioning principles of electric power enterprises in the conditions of sustainable socio-economic development 226

Korinnyi S., Bondarenko A., Mikhaylutsa M.

Some peculiarities of the prospects of the alternative energetics in Ukraine 235

Kovalova O., Bashynska I.

Plan and scheme of measures to reduce the negative perception of innovations by carriers and the population (divided into groups) in international collective 245

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Vnukova Natalyia

*Doctor of Economics, Professor at
the Department of Banking and
Financial Services*

Kolodizev Oleg

*Doctor of Economics, Professor,
Head of the Department of Banking
and Financial Services
Simon Kuznets Kharkiv National
University of Economics
Kharkiv, Ukraine
(Kharkiv, Ukraine)*

**USE OF TYPOLOGIES
AND RISK MAPS IN
THE SYSTEM OF
INTERNAL
FINANCIAL
MONITORING**

The need for reforming the system of anti-money laundering, terrorist financing (ML/FT) and financing of the proliferation of weapons of mass destruction, one of the elements of which is the introduction of adaptation mechanisms in the field of state regulation and supervision is a very topical issue. Risk assessment and a risk-based approach are the first recommendation of international standards of Financial Action Task Force on Money Laundering (FATF) [12].

The problem of countering the legalization (laundering) of proceeds from crime and the financing of terrorism is of particular importance both for Ukraine and for the whole world, due to the general increase in the level of danger. According to FATF Recommendation 1, countries are required to disclose, review and assess national ML/FT risks using a

risk-based approach to compare the identified risks with preventive or post-preventive counteraction ML/FT activities [14].

For any state, regardless of the level of development of its socio-economic and legal systems, the penetration of “laundered” income into the national economy leads to a certain deformation of the financial and economic system.

In the process of preventing and combating the legalization of proceeds from crime in Ukraine, it is important to clearly define the criteria for identifying transactions by the subjects of primary financial monitoring (hereinafter-SPFM) and mechanisms for transmitting information about the operation, because this is the basis for the effective functioning of the system of internal and mandatory financial monitoring [10].

According to article 16 of the Law of Ukraine “on prevention and counteraction to legalization (laundering) of proceeds from crime, financing of terrorism and financing of proliferation of weapons of mass destruction” (hereinafter the Law) [10] in internal financial monitoring it is necessary to apply the results of typological studies, which requires their analysis, generalization and adaptation to the conditions of activity of specific financial institutions.

The following scientists devoted their works to the development of anti-money laundering systems: Andreichenko Zh. O. et al. [2], Dmitrov S. O. et al. [1, 4], Kovalenko V. V. et al. [6], etc.

The aim is to develop theoretical provisions and practical recommendations for the effective use of typologies and building a risk map in the internal financial monitoring of financial institutions.

The importance of using international standards and typologies lies in the development of measures to prevent and counteract the penetration of funds obtained by criminal means into various sectors of the economy, in particular, the financial services market [10, 14]. The international practice of financial monitoring can be transformed and implemented in Ukraine through the analysis and adaptation of typologies of international organizations [6], as well as generalizations carried out by a specially authorized Executive body on financial monitoring (further – the State financial monitoring), taking into account the national characteristics of the financial monitoring process [13].

Since the beginning of the operation of the information and analytical system of the state financial monitoring, more than 20 million reports on financial transactions subject to financial monitoring have been received and processed [13].

The basis of the study is typological reports of international organizations and the national regulator, which are used by subjects of financial monitoring to prevent financial transactions that may be illegal and contribute to the legalization of proceeds from crime.

The existence of risk Criteria for legalization (laundering) of proceeds from crime or financing of terrorism [9] was not exhaustive, therefore, in this area, generalization of practices, typologies, court decisions is an urgent area of research to improve financial monitoring, in particular, internal, which is less structured and is marked by the likelihood of a higher level of risk.

In 2016, the Ministry of Finance approved a new approach to the assessment of the risk of legalization (laundering) of proceeds from crime, financing of terrorism and financing the proliferation of weapons of mass destruction, where it determined the authority of the SPFM to create its risk Maps [9].

The empirical basis of the study is information sources containing standards, typological reports and recommendations of such professional organizations as the group FATF, the Eurasian group for combating money laundering and terrorist financing, the state financial monitoring of Ukraine, etc..

The risk of money laundering and terrorist financing can be assessed by different means, but together they should enable the financial institution to exercise appropriate control over clients and their operations. In financial monitoring, three risk criteria are the main ones [9]: country (geographic); customer; product (service).

The proportion of each in the aggregate assessment of the potential risk of money laundering may vary from one financial institution to another.

Therefore, for example, each Bank as an SPFM should develop its risk assessment system, which should take into account the peculiarities of its activities and the identified typologies.

Establishing the level of the potential risk of money laundering by clients (or a group of clients) is crucial for the formation of an overall risk structure and improving security. Along with the risks of the external environment, the risks of the internal environment are identified on the principle of “know your employee”.

The introduction of criteria for assessing the information transparency of a financial institution and the frequency of changes in the management of its staff will allow a more objective assessment of the risks arising in the process of preventing money laundering,

especially in conditions where primary and internal financial monitoring is not sufficiently formalized [2].

According to article 4 of the Law [10], financial monitoring consists of two levels: mandatory and internal (Table 3.5).

Table 3.5

Accounting of typological studies at different levels of the financial monitoring system

| Level | Definition of terminology | Characteristic | Communication with typological studies |
|---------|--------------------------------------|---|--|
| Level 1 | Mandatory financial monitoring (MFM) | A set of measures of state financial Monitoring for the analysis of information on financial transactions provided by the SPFM, as well as measures to verify such information following the legislation of the country | Indirect, as additional to the established criteria MFM |
| Level 2 | Internal financial monitoring (IFM) | SPFM activities to identify financial transactions subject to MFM and other financial activities that may be related to ML/FT | Direct, typological research is one of the main criteria for conducting IFM procedures |

Source: authors' research

As can be seen from Table 3.5, the peculiarity of the features of MFM, as well as the specifics of accounting for financial transactions determines the identification of such transactions in the primary interaction with the client and his documents, which requires special training and constant training of personnel.

For the organization of MFM restrictions from the State financial monitoring is not provided, the financial institution independently determines the threshold amounts of financial transactions and additional criteria for classifying them as doubtful, which is a disadvantage in providing clear standards of control, therefore, the introduction of activities for the analysis of typologies should increase the attention of staff to the essence of financial transactions of clients.

The law [10] determines that a financial transaction is subject to IFM, if SPFM suspect based, in particular, typological studies in the field of combating the legalization (laundering) of incomes obtained in a criminal way or financing of terrorism or funding of proliferation of weapons of mass destruction, prepared and published by the State financial monitoring.

A priority role in the creation of international standards of combating the legalization of criminal proceeds and financing of terrorism belongs to the Group on developing financial measures to combat money laundering – FATF, which requires building an effective system of protection of national economy from the proceeds of crime. SPFM can use links to information sources containing typologies and Recommendations of FATF [1], as well as international organizations.

For Ukraine, typological studies are of interest, in particular, EAG [8], because according to FATF Recommendations, typologies (the most common schemes) of legalization of criminal proceeds and financing of terrorism, inherent in the Eurasian region, are being studied. The results of typological studies allow us to identify the most high-risk zones and sectors, to build an effective risk management methodology. Priority topics of typology research for the region are highlighted by the participants of the plenary sessions of the EAG.

Relevant for banks is the use of internal financial monitoring typologies given in the materials of the 17th Plenary session of the EAG on the legalization of criminal proceeds and financing of terrorist activities using cash and monetary instruments (Delhi, 2012) [7].

According to the data obtained in the course of the study, most of the Respondent States have recently seen an increase in the amount of cash. An increase in the need for money in the economy due to the growth of the national product, higher prices or for other reasons leads to the need for a corresponding increase in the money supply from the banks. However, it is worth noting that the increase in the amount of cash increases the risks of their use for criminal purposes.

The financial services market is a complex, dynamic system that is constantly evolving and subject to control by financial monitoring. Ukraine has established a system to counteract the legalization of funds received as a result of the illegal actions of citizens. According to the State financial monitoring [13] during the second quarter of 2019, the State financial monitoring received and processed 2659310 reports on financial transactions subject to financial monitoring compared to 966 271 reports of the second quarter of 2015, and compared to the same period in 2018,

the number of reports on financial transactions increased by 17,03%.

The most active in the reporting system in the context of subjects of primary financial monitoring, banks, which according to the data of the State financial monitoring send about 98-99% of all reports of suspicious financial transactions, which indicates their priority role in this process.

Every year, the world enters into legal circulation from 150 to 500 billion us dollars, obtained by criminal means. According to estimates of the International Monetary Fund, the annual income of criminal organizations is more than 500 billion US dollars, which is equal to about 2% of the world gross product [14].

The introduction of a risk-based approach in the financial monitoring system is a priority for its improvement and complies with international FATF standards [9].

According to the order of IFI № 584 dated 08.07.2016 “on approval of risk Criteria for legalization (laundering) of proceeds from crime, financing of terrorism and financing of proliferation of weapons of mass destruction” [9] risk assessment is an analysis of the identification data of the client, other available information and information about the client and his activities, the result of which is to determine the level of risk of legalization (laundering) of proceeds from crime, financing of terrorism and financing of proliferation of weapons of mass destruction.

During the analysis of the client’s financial transactions, the Bank on an ongoing basis takes a set of risk-oriented measures, the implementation of which allows to identify of suspicious financial transactions of the client.

One such activity is the Program of identification, verification and study of customers “Know your customer”, which includes the allocation of responsibilities and definition of structural units of the Bank and/or Bank employees are responsible for conducting identification, verification of a client (client's representative), an assessment of the financial condition of the client and updating information about the client and/or persons acting on behalf of the customer, and the orders in [1]: identification, verification of a client (client’s representative), etc..

The Bank uses a point-based risk assessment method, which consists in establishing a risk level indicator by determining the sum of points established for each risk criterion the risk level indicator Can take values from zero inclusive and more.

Compliance control units can view the score assigned to each

criterion based on the results of customer risk monitoring, analysis and risk assessment of services.

During the installation/modification of the client risk level, if the client falls under at least one of the risk criteria, the risk level of such client cannot be defined as “low”.

The scale of the definition of risk levels of use of services of Bank for legalization (laundering) of the income received by a criminal way/financing of terrorism is considered (Table 3.6).

Table 3.6

Determination of risk levels of using the Bank's services for the legalization of proceeds from crime/financing of terrorism

| Level of risk of legalization of proceeds from crime | |
|--|--|
| Acceptable risk level | High-risk level |
| The number of high-risk customers who use the same type of financial service is less than 75% of the total number of high-risk customers | The number of high-risk customers who use the same type of financial service is more than 75% of the total number of high-risk customers |

Source: built by the authors based on source [4]

If the results of the risk analysis of the use of the services of the Bank for legalization (laundering) of proceeds from crime/Finance terrorism defined high risk, employees of financial monitoring Department of the Bank shall determine measures (order and timing) to reduce the risk to an acceptable level.

Conclusions

The data of the analysis of the effectiveness of measures in the field of financial monitoring indicate an increase in crime, fraud, money laundering, so the proper assessment of the risks of money laundering requires further improvement. The risk management strategy for the use of financial services for the legalization of criminal proceeds or the financing of terrorism should be chosen taking into account the specifics of each particular financial institution: its size, the presence of a branch network, priority areas of activity.

The typologies of the use of cash and monetary instruments in illegal activities are considered, as well as the signs of such suspicious transactions, which are most characteristic of the Ukrainian financial sector, are highlighted.

It is desirable to make wider use of international experience in combating this phenomenon, to create a coordinated system mechanism to counter international manifestations of money laundering.

Given the need to improve the effectiveness of financial monitoring to prevent the laundering of illicit income, international organizations recommend a risk-based approach. The current legislation establishes the need to assess the risk of SPFM clients according to such criteria as: by type of client, by risk of financial services and by geographical risk and risk by type of priority.

The necessity and importance of establishing the level of risk of legalization of criminal proceeds of SPFM are determined since they can both directly conduct financial transactions on the legalization of illegal income, and contribute to their conduct due to deliberate actions or insufficient competence of employees responsible for internal financial monitoring.

The article considers the point method of determining the level of risk of legalization of criminal income of the Bank, which has advantages: it gives a fairly reliable assessment, combines quantitative and qualitative indicators, is simple, understandable and convenient for use. It can be used both by the Bank to determine the effectiveness of the risk management system for the legalization of illegal income or for the needs of determining the risk of legalization of illegal income of a particular financial service, and by the National Bank to determine the frequency of inspections of the Bank on financial monitoring.

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