

Abstract

Money laundering is a seriously understudied phenomenon and despite the continuous advancement of detecting technology, continues to be a serious issue today. This thesis provides a detailed definition of money laundering, lists some of the most common examples of how this illegal activity can be carried out in practice, and provides a brief historical overview of the U.S. efforts to combat it. The next segments follow up on previous research in order to evaluate the effectiveness of the U.S. suspicious activity reporting (SAR) system. The paper investigates whether an elevated prevalence of certain offenses, such as financial crime or drug trafficking, could explain the growing number of SARs or if the upward trend could be in part explained by institutions over-reporting in fear of the penalties set by the local regime. The estimates obtained by applying the random effects model on a panel of 51 U.S. states, including the District of Columbia, did not indicate a presence of excessive over-reporting. Instead, the regression results showed a negative correlation between the SAR filing rate and the prevalence of financial crime in the state. A conclusion is drawn that the increasing number of SARs cannot be viewed as a result of more financial crime, implying that systematic under-reporting may be present and thus, putting the effectiveness of the framework in question.

Keywords AML, Money Laundering, SAR, Suspicious Activity Report

Title Money Laundering and Suspicious Activity Reporting in the United States