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FINANCE DOMAIN

**TRENDS IN PREVENTING AND COMBATING MONEY
LAUNDERING IN THE NATIONAL AND INTERNATIONAL
CONTEXT - THE ROLE OF EDUCATION AND DIGITIZATION-**

SUMMARY OF THE DOCTORAL THESIS

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ABSTRACT

PhD thesis entitled "Trends in Preventing and Combating Money Laundering in the National and International Context - The Role of Education and Digitization" addresses, from both theoretical and practical perspectives, the fight against money laundering in its most significant aspects at the national and international levels.

The work was conducted based on the results of academic studies reflected in the literature in the field and those from reports of anti-money laundering organizations, motivated by the desire to identify new factors that contribute to the reduction of money laundering. Through the theoretical aspects studied and the results highlighted through the use of descriptive statistics, we identified and emphasized existing gaps in the field, the less researched factors.

In the empirical studies conducted, through regressions constructed in data panels for 160 countries, we analyzed the impact of education and digitization on the risk of money laundering. We showed that an increase in education in terms of the percentage of the educated population overall and an increase in digitization lead to a decrease in the risk of money laundering.

Through the entire scientific endeavor embodied in this thesis, we make an important contribution to the specialized literature on the topic of money laundering, while also supporting national and European authorities that can use the study's results to promote appropriate public policies in terms of regulation and financing, aiming to enhance the prevention and combating of money laundering.

Key word: anti money laundering, education, digitization, transactions, risk

INTRODUCTION

Economic and financial crime is a modern reality that transcends the borders of a nation and manifests itself at the international level, affecting economic systems worldwide. Globalization, as a beneficial phenomenon in terms of commerce and economics, has led to the opening of international markets, technological advancements, unprecedented progress in computerization, global economic growth, and massive capital flows. Consequently, the free movement of financial capital has been encouraged in the search for less restrictive markets with higher profitability and productivity.

As human activities have expanded beyond the physical borders of states, national legality and rules have proven insufficient for the functioning of the rule of law. In addition to the numerous benefits of globalization, illegal activities of international criminal groups have also developed, taking advantage of the liberalization of international markets. They have a greater chance of transferring capital/profits obtained from illegal businesses based on existing structural dysfunctions and institutional deficiencies. Facilitating illegal activities also involves the absence or incomplete application of legal provisions, lenient sanctions, inconsistent legislation, lack of coordination among internal and international control and enforcement structures, or the inefficiency of these institutions.

Money laundering, as a component of economic and financial crime as a whole, is causally related to other components of economic and financial crime. In the current context of unprecedented technological advancements and the predominant use of electronic and virtual platforms for transactions worldwide, money laundering poses a significant risk to national economies and financial systems. It undermines the integrity, proper functioning, reputation, and stability of society. This risk is amplified and multiplied in the context of crises that humanity has faced in recent years: the COVID-19 pandemic, the threat of war, and the recent energy crisis affecting all states. In this framework, criminal groups and/or individuals with an interest in evading laws take advantage of the attention given by states and their representatives to identifying appropriate solutions for pressing and immediate problems faced by the population, rather than issues that do not immediately endanger the population.

Although without immediate and visible effects on the population, as known, money laundering currently affects every state from both an economic and social perspective. There is intense and constant concern at the national, European, and international levels to limit this activity as much as possible. In this context, the importance and relevance of the proposed research topic reside in the need to study the evolution of money laundering issues, the constant updating of information in the field, the typologies and techniques used, and the determination

of factors that influence and contribute to the prevention and combat of money laundering, as well as the improvement of legislation in this field.

From another perspective, the proposed topic is motivated by the need to optimize methods of analysis and research in the field, the need to train specialists with skills and competencies in preventing, identifying, and reducing this phenomenon.

To adequately regulate, identify, and implement measures to combat money laundering, adapted to the new parameters of global economic activity, in the current conditions of technological and informational development, it is crucial to understand and identify as many factors as possible that can influence this phenomenon. In these circumstances, we believe that our thesis, through the results and conclusions presented regarding the role of education and digitization on the risk of money laundering, makes an important contribution to the fight against this scourge, in line with the European Commission, which, in the Action Plan adopted in May 2020, emphasizes the need for training and the use of new technologies, including artificial intelligence, in monitoring transactions, improving international cooperation, and assessing money laundering risks.

The necessity of combating money laundering has both social and economic motivations. The social motivation concerns the effects of organized crime, which tends to internationalize and negatively impact normal relations between members of national communities, generating economic instability and distortions in business environments. The economic motivation arises from the threat that money laundering poses to the functioning of the market economy and the integrity of financial markets, as it undermines confidence in the financial system and hinders legitimate economic activities.

The trend of money laundering, its scale, and the emergence of new techniques and typologies, along with the international context in which criminal activities take place, as well as the ongoing updates of internationally coordinated legislative regulations and the need for their implementation in national laws to achieve the expected economic effects, have been the main motivation behind this study and have shaped the research objectives.

Thus, **the general objective** of this paper is to contribute to the prevention and combat of money laundering by assessing the role of education and digitization in this activity. It aims to shed light on the current typologies of criminal phenomena and examine the regulated measures at the European level and the effects of their implementation in national legislation.

Within the conducted empirical research, several hypotheses were formulated to achieve the general objective and were fully or partially tested and validated, including:

Hypothesis 1: *The preventive and combat measures against money laundering following the implementation of the Fourth and Fifth European Anti-Money Laundering (AML) Directives have led to an improvement in the indicators included in the annual reports of financial intelligence units.*

Hypothesis 2: *The anti-money laundering measures regulated through the transposition of European AML directives in Romania have contributed to the positive evolution of indicators included in the annual reports of the National Office for Prevention and Control of Money Laundering (ONPCSB).*

Hypothesis 3.1: *The number of money laundering cases solved is directly correlated with the number of economic, financial, and judicial crimes.*

Hypothesis 3.2: *In Romania, the proportion of money laundering crimes in economic and financial criminality is correlated with the proportion of tax evasion crimes and is not correlated with the proportion of corruption crimes.*

Hypothesis 4.1: *An increase in the percentage of educated population leads to a reduction in the risk of money laundering.*

Hypothesis 4.2: *The impact of education on money laundering is perceived differently in countries with high-income levels compared to countries with medium and low incomes.*

Hypothesis 5.1: *An increase in the level of digitization leads to a reduction in the risk of money laundering.*

Hypothesis 5.2: *The impact of digitization on money laundering differs in countries with high-income levels compared to countries with medium and low incomes.*

In our opinion, the results of the conducted analyses and evaluations provide valuable theoretical support in the academic environment. Moreover, the obtained results can serve as the basis for the necessary justifications in the development, completion, and/or modification of existing legal norms with the aim of strengthening and intensifying the prevention and combat of money laundering.

This paper is structured into **five chapters**, addressing the following topics:

I. The perception and approach to money laundering and its combat from an academic and regulatory perspective, in terms of theoretical and methodological considerations.

II. Preventive and combat measures against money laundering in the European Union, considering the regulatory framework and the results of the Financial Intelligence Units of member states.

III. The specific aspects of addressing money laundering and the measures to combat this crime in Romania.

IV. Statistical research on the impact of education on the risk of money laundering in an international context.

V. Statistical research on the impact of digitization on the risk of money laundering in an international context.

CHAPTER I. THEORETICAL AND METHODOLOGICAL APPROACHES TO MONEY LAUNDERING

In the first chapter of the paper, we have reviewed the relevant literature, analyzing money laundering and AML measures as reflected in scientific articles, official reports from national and international bodies, and legal regulations issued in this field.

The activity of money laundering is defined or explained by both researchers in the field and regulatory bodies. Essentially, it involves the process by which criminals legitimize illicit income and reinvest laundered funds into current legal activities.

To accomplish this, criminal organizations or individuals involved in money laundering employ a wide variety of techniques and instruments. Some of these techniques were identified from the early stages of formalizing the criminal phenomenon, while others are adaptations to the current era of technological advancements, digitization, and virtual reality.

Although there have been various attempts to measure the volume of illicit funds or at least estimate them based on scientific foundations, to date, no universally validated method of measurement has been identified by the scientific community that can be applied on a large scale. For this reason, in our research, we opted to use the Basel AML Index, a composite indicator calculated since 2012 for most countries worldwide. It measures the risk of money laundering using a multitude of factors (17 as of 2021).

By analyzing studies and research conducted in a global context on the topic of money laundering, we have identified frequently used terms in studies, the strength of their connections, and the temporal evolution of keywords. We have examined determinants of money laundering as identified in the specialized literature, such as the level of economic development, corruption, the underground economy, the soundness of the banking system, and the strength of audit reports. Additionally, we have identified less analyzed subjects in relation to money laundering, such as education, intelligence, the internet, and suspicious transactions, which have contributed to the development of our research.

CHAPTER II. PREVENTION AND COMBATING MEASURES OF MONEY LAUNDERING IN THE EUROPEAN UNION

In the second chapter, we have demonstrated the role of implementing European directives in the fight against money laundering. In this regard, we have analyzed the evolution of the legal framework at the European level, as well as the authorized bodies responsible for ensuring the protection of the financial system against money laundering. We have also examined the data, typologies, and money laundering schemes from twenty reports of Financial Intelligence Units (FIUs) in European Union member states, compiled between 2018 and 2020.

The obtained results highlight an increase in both the number and quality of Suspicious Transaction Reports (STRs) received by national anti-money laundering authorities during the period 2018-2020 as a result of the measures imposed by the European Union.

From the analysis of ten presented case studies, we have identified several common indicators of suspicion among European countries, such as transfers to jurisdictions that have not implemented or do not rigorously apply anti-money laundering standards, engagement in activities deemed risky, lack of correlations between the volume of transactions and the business sector or market prices, as well as new schemes or typologies, such as electronic currency exchanges or the creation of new account types. We concluded that these case studies can be considered as models of good practices, and their dissemination is useful for government entities in the process of regulating the best AML measures.

Summarizing the obtained results, we concluded that stricter regulations are necessary regarding the mandatory harmonization of European Union legislation in the national legislation of member states. It is important to maximize the use of technological advancements in creating national and European-level databases, monitoring them, sanctioning inaccuracies and inconsistencies, and maximizing cooperation and information exchange among FIUs.

CHAPTER III. PREVENTION AND COMBATING OF MONEY LAUNDERING IN ROMANIA

In the third chapter, we have presented the institutional framework within which the activities for prevention and combating money laundering take place in Romania, as well as the current legal framework and subsequent provisions resulting from the implementation of the latest European directives in the field. This demonstrates Romania's openness to aligning with international AML standards.

Using descriptive statistical methods, we have analyzed the evolution of several indicators reflecting the activities for prevention and combating money laundering during the

period 2012-2020. These indicators include, but are not limited to, the number of Suspicious Transaction Reports, the number and value of transactions suspended from execution, the number of cases disseminated to law enforcement authorities, and the imposed sanctions. The available data partially validate the formulated hypothesis.

Furthermore, by comparing the number of cases resolved by law enforcement agencies in two categories of offenses, namely economic and financial crimes and judicial crimes, we have shown that in Romania, money laundering as an individual offense is more strongly correlated with judicial crimes rather than economic and financial crimes.

From the perspective of AML specificity in Romania, we have presented the most recent guidelines developed by the Office in 2020 and 2021, which encompass suspicion indicators and money laundering typologies. As a conclusion to the presented aspects, we have emphasized the importance of continuous training for individuals involved in the prevention and combating of money laundering, such as personnel in financial institutions, professionals in liberal professions with reporting entity responsibilities, or ordinary citizens interested in law enforcement.

From the same perspective, we have also discussed and analyzed a specific risk identified in a report from a control institution (the Court of Accounts) that was not found in any of the reports, analyses, case studies, or any other materials from the Romanian Financial Intelligence Unit. Additionally, we have proposed a series of measures that, in our opinion, contribute to reducing the reported risk and, consequently, to creating a healthier economic environment.

CHAPTER IV. EMPIRICAL STUDY. THE IMPACT OF EDUCATION ON MONEY LAUNDERING RISK

Through the statistical research conducted in Chapter IV of the paper, we believe that we have conclusively and pertinently confirmed the role of education in the prevention and combating of money laundering. Education, regardless of the level of studies, influences the risk of money laundering, being indirectly related to it, and consequently can be considered as a factor in government policies for the prevention and combating of money laundering. Our hypotheses that *"Increasing the percentage of educated population reduces the risk of money laundering"* and *"The impact of education on money laundering is experienced differently in high-income countries compared to medium and low-income countries"* have been confirmed in all constructed regression models, with specific nuances regarding the level of education and the level of economic development of the countries.

The empirical study was initially conducted on a sample of 160 countries worldwide and subsequently on two sub-samples created by dividing these states into high-income countries and medium and low-income countries, according to the World Bank classification. The variables used were the AML Index as the dependent variable, secondary education, tertiary education, and the education index as independent variables, as well as control variables such as the corruption perception index, the level of economic development, the underground economy, the employment rate, cyber security, and tax pressure. To test the relationship between these variables, panel regressions were constructed using the EViews software, encompassing data for the period 2012-2020 for each sample/sub-sample.

From the comparative analysis of the results obtained for secondary and tertiary education, higher coefficients of secondary education are noticeable in all groups of countries analyzed. We have answered the question *"Which level of education is more strongly correlated with money laundering?"* concluding that particular attention should be focused on secondary education by nations in order to reduce the criminal phenomenon of money laundering.

In response to the second question *"How does the impact of education on money laundering differ between high-income countries and those with medium or low incomes?"* we have found that regardless of a country's level of development, education leads to a decrease in the risk of money laundering, but the intensity of the impact varies. Thus, we have shown that in developing countries, the role of education in reducing money laundering is more evident, necessitating a more substantial investment in education in these states. In high-income countries, the coefficients of education in relation to money laundering are lower compared to developing countries.

Overall, the indirect and statistically significant relationship between the AML index and the level of education can be explained by the fact that as the level of education increases, so does the understanding and compliance with legal regulations, the ability of financial system employees to detect suspicious transactions, the capacity to perceive risks, and implicitly, risk aversion. All of these factors contribute to reducing the risk of money laundering.

CHAPTER V. EMPIRICAL STUDY. THE IMPACT OF DIGITIZATION ON MONEY LAUNDERING RISK

The results obtained and presented in Chapter Five of the thesis have confirmed our research hypotheses that a higher level of digital technology leads to a decrease in the scale of

money laundering, and the impact of digitization on money laundering differs between high-income countries and low-income countries.

The empirical study was conducted on the same samples used in the research on the relationship between AML and education, namely the sample comprising 160 countries worldwide, the sample comprising 53 high-income countries, and the sample comprising 107 medium and low-income countries, according to the World Bank classification. The dependent variable used was the AML Index, while the independent variables were the degree of internet usage and technology adoption. The relationship between these variables and control variables was tested using the EViews software through equations run on the constructed data panels for each sample.

In response to the research questions, through comparative analysis of the results, we found that digitization reduces the risk of money laundering, with the mention that the influence of the internet on money laundering is stronger than the influence of technology, for all analyzed samples.

Responding to the research questions, through a comparative analysis of the results, we found that digitization reduces the risk of money laundering, with the mention that the influence of the internet on money laundering is stronger than the influence of technology, for all analyzed samples.

We have also shown that the impact of digitization in reducing the risk of money laundering is lower in developed countries. In our opinion, this result can be attributed to at least two arguments: in developed countries, regulatory frameworks and compliance measures against money laundering are already in place, leading to a lower margin of effectiveness for digital tools in combating economic and financial crimes. Additionally, in developed countries, money laundering schemes are more complex, sophisticated, and therefore harder to detect using modern technology tools.

The obtained results are consistent with those of several researchers who have shown that investments in cutting-edge technology, such as data mining, artificial intelligence, and risk profiling tools, are used to track illegal funds and prevent and counter money laundering. Despite the fact that criminals themselves have managed to exploit new functionalities and technologies for their illicit activities, these new technologies can also be used to increase the effectiveness of the fight against money laundering.

GENERAL CONCLUSIONS, ORIGINAL CONTRIBUTIONS

Through the variety and complexity of the ideas addressed, and especially through the results obtained using international public data, studies, and reports, we express our conviction that our thesis will prove to be a useful tool in research, education, and public policies with an impact on the economic and financial system.

From an academic perspective, this work contributes by deepening research on the prevention and combating of money laundering in less studied areas, by providing a comprehensive and coherent synthesis of the subject matter, by using scientific methods to analyze and estimate the risk of money laundering, and by offering critical considerations on the desired and actual impact of implementing legal regulations in this field. For the education system in Romania, it can serve as a useful instrument for in-depth education and knowledge about the phenomenon from a theoretical perspective (concept, measurement, factors, techniques, legal provisions for prevention and combating) and a practical perspective (case studies conducted in European Union member states and in Romania, numerical and value trends of certain indicators).

In our research, based on the study of a substantial number of articles, reports, and studies on money laundering, we started by identifying gaps or less researched aspects in the field. We believe that we have made our contribution by expanding knowledge on this subject.

We analyzed the effectiveness of measures to prevent and combat money laundering following the implementation of the European directives AML 849/2015 and 843/2018. We concluded regarding the areas where effectiveness has increased (reporting suspicious transactions, identification of classic or modern money laundering typologies), as well as those where improvements can be made (identifying the ultimate beneficial owner of funds and international cooperation).

We concluded that the new legal framework implemented in Romania (Law no. 129/2019) with subsequent amendments and additions has led to formal alignment with European regulations. However, we also highlighted the national specificity regarding the results obtained at the level of the Office, supervisory and control bodies, as well as law enforcement agencies. From a risk-based approach perspective, we presented preventive and anti-money laundering measures in the Romanian banking system, along with a case study on loans granted to companies by individuals who hold the position of shareholder/partner. We proposed measures aimed at reducing the risks associated with this activity.

The empirical research on the impact of education and digitalization on the risk of money laundering has led to several conclusions. Firstly, we demonstrated that an increase in education, both in terms of the percentage of the educated population and the level of digitalization, leads to a reduction in the risk of money laundering. Secondly, we showed that secondary education is more strongly correlated with the risk of money laundering compared to tertiary education. Additionally, the use of the internet has a stronger impact on reducing money laundering compared to the adoption of technology. Thirdly, the research was conducted for countries with high incomes and countries with medium or low incomes, and we found that the indirect relationship between education and digitalization on one hand, and money laundering on the other hand, is stronger in developing countries.

The scope of our study is broad, targeting both the educational and academic environments, as well as national and European bodies with responsibilities in various areas (legislative or law enforcement) in the fight against money laundering.

The results of our study can be utilized in various fields. Educational institutions can benefit from them in developing basic financial education programs. The National Bank of Romania and financial-banking institutions can use the study as supporting material in training specialists. Furthermore, the results can be valuable for the continuous training of personnel involved in combating economic and financial crime, as well as in risk analyses in the field. National decision-makers can base policies on regulating cooperation between institutions with responsibilities in the field, adequately funding education, organizing public awareness campaigns regarding the impact of criminal activities, and allocating technical and human resources for the institution responsible for preventing and combating money laundering. European regulatory bodies can utilize the results to implement unified EU legislation and promote cooperation between Financial Intelligence Units (FIUs).

In conclusion, our study provides relevant information for promoting appropriate public policies regarding financial education, specialized training, combating criminality, and developing European policies aimed at reducing the risk of money laundering, prevention, and combat, thus ensuring the conditions for the development of a stable and healthy economic and financial environment.

The uniqueness and originality of our thesis reside in the structured analysis and comparison of money laundering at three levels: European, national, and global, each of which presents not only original but also impactful aspects in the field.

One key element in this regard is the use of tools and methods in our research, such as the use of bibliometric analysis software that presents results in a comprehensible and visually

appealing format, the creation of a dedicated database containing information from the annual reports of European Financial Intelligence Units, and the integration of data from numerous Romanian public authorities with important roles in the fight against money laundering.

From the perspective of prevention and combating money laundering at the European level, in the context of implementing European directives, the aforementioned database, which covers the period 2018-2020 (after the issuance of the most recent European Directive on the protection of the financial system), was used to generate descriptive statistics regarding suspicious transaction reports, suspended transactions, and international cooperation. In the annex, links to each of the studied reports are provided. The results were critically analyzed based on the listed indicators, which, to our knowledge, have not been used in previous research in this structure, and also in terms of typologies and money laundering schemes revealed through recent case studies (2019-2020).

From the perspective of preventing and combating money laundering in Romania, the originality of our research lies in the approach to the subject, not as an individual topic, but integrated into the European context, which, to our knowledge, has not been done in this manner before. Additionally, the variety and multitude of data and information sources (such as the ONPCSB website and reports, guides and manuals issued by the Office, the Romanian Police database, the Ministry of Justice website, the BNR website and reports, a report from the Court of Accounts of Romania, as well as data provided by ANAF) and the way these data are combined and analyzed constitute our own contribution, as well as the case study regarding the sums borrowed by companies from individuals who have the status of associates/shareholders, as a possible risk area with significant implications in the economic and financial field. To our knowledge, this is the first descriptive study on this subject that highlights potential risks, legislative gaps, and proposals for reducing the identified risk.

Our research makes an important contribution to the existing literature on combating money laundering through the use of the Basel Institute's AML score, which measures the risk of money laundering and allowed us to compare the effectiveness of anti-money laundering efforts in different countries around the world. Furthermore, the inclusion of education and digitalization as independent variables in our analysis provides a unique perspective on the relationship between AML and socioeconomic factors. Internationally, to our knowledge, this is the first empirical research in which the risk of money laundering is expressed based on education and digitalization as independent variables, using a panel data framework. The results confirm that an increase in education (as a percentage of the total educated population) and digitalization leads to a reduction in the risk of money laundering. Moreover, the research

is conducted both globally and differentiated for countries with high-income and countries with medium or low incomes, in order to explore the differences in the correlation between education, digitalization, and money laundering in countries with different economic conditions.

Through the entire scientific endeavor presented in this work, we make an important academic contribution to the specialized literature on the subject of money laundering, while also supporting national and European authorities by emphasizing aspects (risks, best practice models, factors) that contribute to intensifying the fight against money laundering.