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The Effectiveness of Anti Money Laundering Regulations of Malaysian Commercial Banks

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Abstract

Money laundering has now been designated as a global crime, requiring the development of global strategies and policies to combat it. As a result, global courts should be established to hear all money-laundering cases and make informed decisions on punishments and penalties. The objective of this research is to assess the effectiveness of anti-money laundering (AML) regulations in Malaysian commercial banks. Customer record-keeping, suspicious transaction reporting, and employee training are three predictors that have been expected to affect money-laundering activities. Simple random sampling was used to pick the respondents from bank employees in the Klang Valley area. A total of 94 (94%) questionnaires were returned, and the data were analysed using descriptive and multiple regression analysis. The results indicating that customer record keeping, suspicious transaction reporting, and employee training have a significant relationship on money laundering prevention. Money laundering activities could be curbed by concentrating on customer record keeping, suspicious transaction reporting, and employee training. The findings show how the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 (AMLATFPUAA) has become a vital gap in combating money laundering. Similar research may be performed in other environments with different money laundering laws and regulations.

Introduction

Anti-money laundering (AML) can be describe as an operation that prevents or intends to prevent money laundering. This is an oversimplification of a complicated situation in a way to combat money laundering. Definition of economic profits varies by jurisdiction (in some countries and not others, certain activities are illegal). Similarly, AML's aims in various jurisdictions do not always go the same. The objectives may include deterring and preventing organized crime, minimizing drug trafficking, deterring terrorism, or preserving the financial services industry's credibility (Yeandle et al., 2005). Okogbule (2007) said full enforcement of anti-money regulations would make the bank more credible and draw more customers, and the bank would make significant profits in return. Unsound financial networks are highly vulnerable to money laundering. When the banking sector is not open, regulations are not well defined and oversight by the government is weak, the opportunities for money laundering flourish (Amali, 2016).

Anti-money laundering (AML) broadly includes techniques, methods, laws or legislation intended to curb the practice of using illegal or criminal activities to raise funds. Since 2001, Malaysia's government has taken various steps to tackle money laundering, one of which was the enactment of the Anti-Money Laundering Act (AMLA), which entered into force on January 15, 2002 (AMLATFPUAA report, 2001). It was revised in March 2007 to provide provisions for countering terrorist funding after the tragedy of 9/11 in the United States, and the original title was changed to become the Anti-Money Laundering and Anti-Terrorism Financing Act (AMLATFA) (Buang, 2001). However, in 2013, the Malaysian Parliament introduced another amendment resulting in further expansion. It changed to the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 (AMLATFPUAA) (AMLATFPUAA report, 2001). This new legislation is intended to deal with “criminal proceeds” in addition to the property that is involved in or resulting from money laundering and terrorist funding offences (Buang, 2001). In 1998 Malaysia introduced foreign exchange restrictions limiting the movement of Malaysia's local currency, the ringgit and because of it, onshore banks have to report transactions over RM5,000 (about $1,326) across boundaries (Bank Negara Report,2006). Since April 2003, with each move over RM50,000 (around $13, 260) an entity form is completed and recording for transactions between RM5,001 and RM50,000 is performed in a bulk registry. Therefore, banks are obliged to register the number and intent of certain transactions (Bank Negara Report, 2006).

This is how the banking institutions can control and monitor their customer information in record keeping and monitoring any suspicious transaction involved. In its daily service, a bank shall pay special attention to the suspicious performance of the following customers: new customers who are reluctant to disclose information on the substance and premise of their transaction, as well as their managers; those who provide incomplete, conflicting or inconsistent information when entering into a contract with the bank; those who refuse to disclose information and many who order quite a lot of cash transfers involving offshore banks, offshore companies or risky businesses; those whose actual activities are distinct from their nominal business, such as a company whose reported business is confined to domestic or regional transactions, actually engaged in foreign transactions involving much cross-border remittance (James, 2000). Under AMLATFA Sections III and IV, disclosure is necessary to allow for the exchange of information between competent authorities and controlled entities and also, disclosure is crucial to enabling banks and other controlled entities to meet the AMLATFA reporting requirements (Rahman, 2014).

According to Siggia (2021), the lack of a robust compliance culture within the financial institution, particularly among management, is one of the most serious shortcomings of AML programmes. A compliance culture describes the standards and values that a financial institution upholds and incorporates into its employees’ daily work. A solid compliance culture must start at the top and work its way down to the lowest levels of the organisation until it reaches every employee. This culture refers to “tone at the top “which means that a company’s values and ethical standards must be championed and spread by the top. It can be challenging to find professional resources with an in-depth understanding of anti-money laundering and train the employees. High on boarding durations and costs, as well as turnover, are further challenges. Organizations must also devote significant time and effort to keeping employees up to date on evolving regulatory standards (Vani, 2017).

Alison Jimenez, president of Dynamic Securities Analytics, said that many enforcement actions linked to anti-money laundering (AML) and know your customer (KYC) have resulted from insufficient training. Firms should ensure they commit appropriate resources to training workers. Referring to the report, regulators decided that training was part of the problem and maybe the solution in 20% of 120 AML enforcement actions taken by various US regulators between 2006 and 2015 (Nakib, 2015). The importance of staff training cannot be overstating. The extent and frequency of activity should customise to the risk variables to which personnel has exposed as a result of their tasks and the bank's level and nature of risk. All banks should have continuing employee training programmes to ensure that bank employees do adequately taught to carry out the bank's policies and procedures. The bank will need to tailor the time and substance of training for diverse staff sectors based on their needs and the bank's risk profile (World Bank Report, 2019).

Therefore, it is time for further research that will be carried out to investigate the relationship and impact of three regulations which are customer record keeping, suspicious transaction reporting and employee training on the effectiveness of anti-money laundering, hence it contributed to the extent of previous study and literature to address the issue above. Hence the main objective of this research is to examine the effectiveness of anti-money laundering regulations in Malaysian commercial banks. The specific research objectives for this study are to determine relationship between customer record keeping and the effectiveness of anti-money laundering regulations; to determine relationship between suspicious transaction reporting and the effectiveness of anti-money laundering regulations and to investigate relationship between employee training and the effectiveness of anti-money laundering regulations.

Literature Review and Hypotheses Development

Anti-Money Laundering (AML) Regulations in Commercial Banks

Anti-money laundering (AML) applies to rules, legislation and procedures aimed at stopping criminals from disguising legitimate revenue as illegally acquired funds. Although anti-money laundering legislation encompasses a small range of transactions and criminal activity, its consequences are far-reaching. AML regulations, for instance, require banks and other financial institutions that issue loans or accept customer deposits to comply with laws to ensure that they do not facilitate money laundering.

Responsibilities in money laundering and terrorism financing compliance measures that commercial banks in Malaysia are serious (Said et al., 2013). However, there is a significant difference between the perceived important level and the actual anti-money laundering prevention measures level adopted by the actual implementation level by the banks. Perceived impacts and views on the Anti-Money Laundering/Counter Financing of Terrorism (AML/CFT) requirements is to examine the level of awareness among Malaysian employees (Omar, Sanusi & Probowo, 2015). The study showed that there should be more information sharing between the reporting institutions. The most effective way to prevent and detect money laundering is through the enforcement by the law enforcement authorities that most of the respondents are aware of the anti-money laundering requirements and had agreed on it.

Customer Record Keeping

Customer record keeping has an impact on money laundering and internal auditing based on the study from (Smet & Mention, 2011). By conducting interviews, they carried out a case study on Luxembourg banks and established a matrix structure to minimise the limitations in the customer record keeping process. The matrix framework involves four processes that calculate customer risk of money laundering, customer acceptance decision, customer followup, and government cooperation. If these four steps are followed during customer record keeping and updating, system inefficiencies will decrease, and the anti-money laundering process will increase effectiveness and efficiency. This is supported by a study by Usman Kemal (2016) where he found that there is a relationship between customer record-keeping with antimony laundering regulations. It gives the result that customer record-keeping regulations have exhibited a weak impact on money laundering in the banking system of Pakistan. A recent study by Yaacob & Harun (2019) shows that customer record keeping has a significant relationship with money laundering. The outcome indicates that if customer record-keeping systems are improved, the effectiveness of the regulation of money laundering will minimise money laundering activities in Malaysia. This study has been supported by the previous research from Bolton & Hand (2002); Singh (2010) where the outcomes give an impact on money laundering in developing countries. Therefore, the above provide literature relating to multiple studies sufficient the establishment of the below hypothesis, which states:

H1: There is a significant relationship between customer record keeping and the effectiveness of anti-money laundering regulations in Malaysian commercial banks.

Suspicious Transaction Reporting

According to Fanta & Mohsin (2010), the assessment of the efficacy of anti-money laundering programmes and legislations to detect fraudulent transactions makes it easier for most financial institutions, such as money service firms to achieve tremendous productivity and sound activity. Meanwhile, Bolton & Hand (2002) reported that most organisations inability to identify or disclose suspicious transactions has contributed to increased levels of tax evasions in the United States. In addition, it is supported by Aspalella (2013) where the study has reported that the detection of suspicious transactions has had a significant effect on banks operations in Malaysia.

A study by Kemal (2014) found that there is a relationship between suspicious transaction reporting with anti-money laundering regulations. It gives the result that suspicious transaction reporting regulations have exhibited an impact on money laundering. This study has been supported by the previous research from Tang & Ai (2010) and Shehu (2010), where the result showed a significant relationship between suspicious transaction reporting and money laundering regulations. Yaacob & Harun (2019) showed that suspicious transaction reporting has a significant relationship with money laundering. The result shows that when suspicious transaction records are improved, the effectiveness of money laundering laws in Malaysia with regard to money services business (MSB) will increase, thereby decreasing money laundering activities or related crimes. Therefore, the above literature provides enough evidence for the establishment of the following hypothesis concerning multiple studies, which states:

H2: There is a significant relationship between suspicious transaction reporting and the effectiveness of anti-money laundering regulations in Malaysian commercial banks.

Employee Training

In essence, the association with money laundering has been linked to employee preparation. Several studies have been conducted to investigate the effect or link between money laundering and preparation for employees. One downside to these regulations that makes

their impact small, such as FATF regulations, is not legally bound. These regulations are not valid until they are injected into the country's national law. This disadvantage leads to poor compliance among nations around the world. Usman Kemal (2014) conducted a similar study and concluded that there is a relationship between money laundering and employee training. The researcher was engaged in the banking sector that is, workers have to be well educated and equipped with contemporary skills to enhance the efficacy of money laundering crimes in order to effectively tackle money laundering crimes. The result is consistent with the previous studies conducted by Bolton & Hand (2002); Tang & Ai (2010) where it showed the relationship between employee training and anti-money laundering regulations.
A recent study has been supported by Yaacob & Harun (2019), and it shows that there is a significant relationship between employee training and anti-money laundering regulations. In addition, the result showed the correlation between the construct employee training and money laundering. In addition, studies conducted by Jensen & Cheong (2011) have shown that countries that have implemented anti-money laundering and FATF regulations have shown that 90% of developing member countries such as Malaysia have a 72% partial employee training compliance rating. These scores were projected to be moderate or poor, so these countries were encouraged by the regulations to enhance employee training in the fight against financial crimes such as money laundering. In addition, Sharman (2008) had shown that anti-money laundering regulations are viewed as one of the leading components that can be used to curb or tackle fraud or any other money laundering crime, especially with regard to employee training. The following hypotheses were proposed based on the discussion above, which states:

H3: There is a significant relationship between employee training and the effectiveness of anti-money laundering regulations in Malaysian commercial banks.

Research Methods

Population, Sample Selection and Data

The population in this study were was employees of commercial banks in Malaysia. According to Bank Negara Report (2020), there were 26 commercial banks in Malaysia. The total number of employees working in Malaysian commercial banks are 96,415 employees at the end of April 2008 (Leng, 2012). The sample determination technique uses a random sampling method, where all populations have equal chance to be selected as samples. This study used survey analysis to collect data from self-administrated questionnaires. The questionnaires were distributed to 100 bank employees who were working in commercial banks in the Klang Valley area. Each individual selected and included in the study was based on their willingness to participate in the study. Number of questionnaires returned with a complete 94 copies, so the response rate of respondents was 94%.

Data Collection, Measurement and Analysis Techniques

The technique of collecting data using a questionnaire, which is distributed randomly via a social media network such as WhatsApp, Facebook and Instagram to the selected participants using Google forms. The set of questionnaires consisted of five parts or sections that indicate the measurement for each variable. Section A contained general information on the respondents' demographic profile. Section B measured the effectiveness of anti-money laundering regulations. Meanwhile, Section C measured the customer record keeping, Section D measured the suspicious transaction reporting. Lastly, Section E measured employee training towards the effectiveness of anti-money laundering regulations. The tests were measured and analysed using version 27 of IBM SPSS. Several statistical studies were conducted for the testing of hypotheses. Data analysis techniques using the SPSS correlation and multiple regression analysis. In this study, the analysis of the correlation is used to evaluate the hypotheses. To facilitate the relationship between the constructs identified in the study against the dependent variable which is anti-money laundering regulations, the multiple regression techniques have been utilised. It will identify the independent variables, which are customer record keeping, suspicious transaction record, and employee training and hence answering the research questions of the study.

Research Methods

Population, Sample Selection and Data

The validity test of the instrument using SPSS was carried out before all of the questionnaires were distributed. The test results show the Pearson correlation coefficient of more than0.60 with significance of each questionnaire less than 0.05. Hence all the questionnaire items are valid. The Cronbach coefficient of all the three independent variables and dependent variable are more than 0.70. The composite reliability value of all variables is more than 0.80. Therefore, all the variables tested in this study are reliable. R^2 of the regression model is 0.824. Hence, the result indicates that the overall model is significant ($F(3,90) = 63.524$, p-value =0.000). Therefore, the null hypothesis is rejected. Thus, we can assume that the regression model explains a significant amount of the variance in the Effectiveness of AML Regulations.

Test the Hypothesis

Hypothesis testing is done by conducting the Multiple Linear Regression. There were three independent variables, which are customer record keeping, suspicious transaction reporting and employee training. From a regression analysis, the study can make a prediction of dependent variable value based on independent variable value. Based on multiple regression of equation model in Table 1.0 below, the result shows that The Effectiveness of AML Regulations is 0.128, holding all other factors constant.

Table 1.0
Coefficients

Model	**Unstandardized Coefficients**			**Standardized Coefficients**
	B	Std. Error		Beta
(Constant)	.128	0.70		
Customer Record Keeping	.484	.083		.501
Suspicious Transaction Reporting	.189	.087		.194
Employee Training	.211	.084		.226

a. Dependent Variable: The Effectiveness of AMLA Regulations

Such result indicates that for every one-unit increase in the number of customer record keeping, it can be predicted to see a 0.484-unit increase in The Effectiveness of AML Regulations. Similarly, for every one-unit increase in the number of suspicious transaction reporting, it can be predicted to see a 0.189-unit increase in The Effectiveness of AML

Regulations. For every one-unit increase in the number of employee training, it can be predicted to see a 0.211 unit increases in The Effectiveness of AML Regulations.
Table 2.0 shows the ANOVA result. The F-test was used to see whether there was a linear relationship between all of the independent variables and the dependent variable when they were all considered together. The null hypothesis shows that there is no linear relationship between the independent and dependent variables, whereas the alternate hypothesis shows that at least one independent variable affects the dependent variable. Based on the Table 2, the result indicates that the overall model is significant ($F(3,90) = 63.524$, p-value = 0.000). Therefore, the null hypothesis is rejected. Thus, we can assume that the model explains a significant amount of the variance in the Effectiveness of AML Regulations.

Table 2.0
ANOVA

Model		**Sum of Squares**	**Df**	**Mean Square**	**F**	**Sig.**
1	Regression	6.329	3	2.110	63.524	.000
	Residual	*2.989	90	0.033		
	Total	9.318	93			

a. Dependent Variable: The Effectiveness of AMLA Regulations.
b. Predictors: (Constant), Employee Training, Customer Record Keeping, Suspicious Transaction Reporting.

Discussion of the Findings
The study analyses the relationship between customer record keeping, suspicious transaction reporting and employee training towards the Effectiveness of Anti-Money Laundering Regulations in Commercial banks in Malaysia. The results of the Multiple Regression study also proved that the hypotheses for customer record-keeping, suspicious transaction reporting, and employee training for the effectiveness of AML regulations in Malaysian commercial banks were accepted, as an increase in the effectiveness of AML regulations would likely increase customer record-keeping, suspicious transaction reporting, and employee training. The F-test was used to determine if there is a linear relationship between all of the considered independent variables and the dependent variable in order to show the model's overall significance. The null hypotheses indicated a linear relationship, while the alternative hypotheses indicated that at least one independent variable might affect the dependent variable. The outcome of the regression coefficient for customer record keeping revealed that the variable was significant at 0.000 (p-value < 0.05).
The hypotheses (H1) test result showed that there is a significant relationship between customer record keeping and the effectiveness of anti-money laundering regulations in Malaysian commercial banks. Therefore, the first hypotheses (H1) was accepted for this study. Based on the findings, customer record keeping appeared to have an impact in the effectiveness of AML regulations in Malaysian commercial banks. In the context of Malaysian banking institution, customer record keeping is the important process to ensure the bank's customer are easily retrievable and it would lower money laundering activities in banking institutions (Yaacob & Harun, 2019). This result indicates that customer record keeping does influence in the effectiveness of AML regulations to reduce and combat money laundering activities in Malaysian commercial banks.

The second hypotheses (H2) claimed that suspicious transaction reporting had a significant relationship in the effectiveness of AML regulations in Malaysian commercial banks. The result from regression analysis showed that there was a significant relationship between the independent variable and dependent variable where the p-value = 0.032 (p-value < 0.05). This study found that a significant relationship existed between suspicious transaction reporting and the effectiveness of AML regulations. This could explain by the fact that suspicious transaction reporting would give a signal and also traces the important obligation of financial systems and other vulnerable professions in order to combat money laundering that happened in banking institutions (Ping, 2005). Based on the result, the second hypotheses (H2) was accepted. The third hypothesis (H3) claimed a significant relationship between employee training and the effectiveness of AML regulations in Malaysian commercial banks. The result of regression analysis showed that there was a significant relationship between employee training and the effectiveness of AML regulations. The p-value for employee training is 0.014 (p-value < 0.05). The result indicates that employee training can affect the effectiveness of AML regulations in Malaysian banking institutions and employee training is seen as one of the most important components for preventing or combating fraud or other money laundering crimes (Kemal, 2014). Hence, the third hypotheses (H3) was accepted. Overall, the findings showed that customer record-keeping, suspicious transaction reporting, and employee training have a significant impact on the effectiveness of anti-money laundering regulations in Malaysian commercial banks. As a result, the regression coefficient test was used to explain the analysis of three hypotheses.

Conclusion

The overall findings specified that customer record keeping, suspicious transaction reporting and employee training met the expectation of the research objectives and hypotheses. This might happen due to AMLATFPUAA had required the banks to implement a range of anti-money laundering countermeasures by these three independent variables. From the results, it provides vital evidence that all three independent variables, which are customer record keeping, suspicious transaction reporting and employee training, had a significant relationship to the effectiveness of anti-money laundering regulation in Malaysian commercial banks.

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