

# The Effectiveness of Anti-Money Laundering / Counter Financing of Terrorism Requirements in Fund Management Companies

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Received: 5 May 2021

Accepted: 26 August 2021

Published: 30 September 2021

## ABSTRACT

*Anti-Money Laundering / Counter Financing of Terrorism (AML/CFT) broadly encompasses regulatory requirements, acts and guidelines designed to curtail the practice of generating funds through unlawful or criminal activities. Several infringement notices were issued to market intermediaries due to provision breaches of the guidelines. Although policies and procedures have been tightened up to the level of satisfaction, assessing the effectiveness of AML/CFT legislation is still necessary. The main aim of the study is to examine the independent variables, namely competency level of compliance team members, regulatory compliance and quality of AML/CFT framework that influence the effectiveness of AML/CFT requirements of the compliance officers that are working in FMCs in Malaysia. The Expectancy Theory has been applied to form the framework and to develop the hypotheses. Three hypotheses were developed and tested using the data from 70 samples of FMC's in Malaysia. The result of the study showed that there were significant relationships between the factors analysed in this study. This study will help the financial institutions especially the Fund Management Companies (FMCs) in understanding the factors that influence the effectiveness of AML/CFT requirements and taking*

*necessary action to enhance their internal AML/CFT process and its compliance with the regulations. This would help the FMCs to have effective control of AML/CFT during the on-boarding and ongoing monitoring process.*

**Keywords:** *Compliance, money laundering, regulatory compliance, quality framework*

## **INTRODUCTION**

Money laundering and financing of terrorism have corrupted the financial markets and eroded confidence of the public in the global financial system. According to a report by the United Nations Office on Drugs and Crime (UNODC) (2009), drug traffickers may have laundered around US\$1.6 trillion, or 2.7 per cent of global Gross Domestic Product (GDP) for the year 2009. Malaysia has confirmed that US\$150 billion (RM 482.92 billion) of illicit money has gone out of the country in the past ten years between 2002-2012 (Sanusi, Adam, Azman, & Mohamed, 2016). In 2016, it was noted that Malaysia stood at number 5 in the world with an estimated amount of illegitimate funds of US\$291 billion leaving the country (Sanusi et al., 2016). Besides, RM25 million of the non-legitimate money is estimated to leave Malaysia every week through money laundering (Dhillon, Ahmad, Rahman, & Yih Miin, 2013). Therefore, the increase in money laundering activities was due to lapses and ineffective actions taken by financial institutions that have finally affected the public's confidence.

The Securities Commission Malaysia (SCM) is the capital market regulator with investigative enforcement power, which is under the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001. With the mandate given by the Guidelines on Prevention of Money Laundering and Terrorism Financing for Capital Market Intermediaries (AML/CFT Guidelines), it supervises and monitors seventy-six (76) Fund Management Companies and six (6) Unit Trust Management Companies (UTMCs) (SCM, 2018). Consequently, the success of the SCM depends on how effectively market intermediaries are implementing the Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) requirements. It is also recommended that all reporting intermediaries put in place an enhanced AML/CFT framework

(Salehi & Imeny, 2019) especially on the Customer Due Diligence, suspicious activity, cash transaction reporting, training and awareness of staff and appointment of specialised and competent money laundering officers in the compliance team. The compliance team must follow the AML/CFT requirements in the framework identified and maintain vigilance by regulatory compliance towards new enhancement and risk exposure of the money laundering cases in the financial institution. It is because well experienced AML officers are more successful in performing their duties (Salehi & Imeny, 2019).

According to The Reporter published by the Securities Commission Malaysia (SCM) (2017), several breaches have been highlighted with regard to anti-money laundering and counter financing of terrorism requirements, mostly due to the failure of the regulatory compliance to be carried out by the intermediaries which resulted in the inefficiency of AML/CFT process. In addition, several lapses have been identified throughout capital market intermediaries which required the regulator to take stern action against them to enable effective AML/CFT requirements. The highest amount of penalty went to the FMCs due to non-compliance with AML/CFT regulatory requirements, weaknesses in regulatory compliance and a lack in the quality of policies and procedures for the prevention of AML and counter financing of terrorism. This is the reason for FMCs to identify the independent variables such as the competency level of compliance team members, regulatory compliance and quality of the AML/CFT framework which influence the effectiveness of AML/CFT requirements as the preventive measures towards money laundering. The reporting institutions must develop and analyse the effectiveness of AML/CFT requirements within the companies' environment. The SCM has emphasized the need for all capital market intermediaries to give full cooperation to law enforcement agencies on any AML/CFT matters. Besides, the management companies and fund managers are encouraged to keep abreast of global development and adopt international best practices to meet client expectations on sustainability (SCM, 2017). These regulatory penalties lead to the effective domestic AML/CFT regime which requires that certain structural elements be put in place, such as a regulatory framework and policies, appropriate measures to prevent corruption, rule of law, and government effectiveness, the culture of compliance by regulatory compliance and an effective judicial system. The lack of such elements or significant weaknesses or shortcomings in the general framework may

significantly impair the effectiveness of the AML/CFT framework (Verdugo, 2011).

Comprehensive action is needed in improving the AML/CFT framework including policies and regulations on money launderers who constantly seek new ideas to circumvent regulation and seizure of assets (Omar, Johari, & Sathye, 2015). Aside from protecting such institutions from the negative side-effects of money laundering itself, the adoption of anti-money-laundering policies by banks and capital market intermediaries' supervisors and regulators and non-bank financial institutions often strengthens the required good-governance practices. However, according to Anwar, Zaman, Ashrafm, Hassan, and Abbas (2021), the annual reports of the National Accountability Watchdog showed a minimal improvement in terms of investigation and indication of white-collar crimes despite amendments in the AMLA in subsequent years. In sum, the assessment of the effectiveness of anti-money laundering and counter financing of terrorism requirements is thus challenging because regulation, enforcement, and reporting institutions need to constantly update, review, and enhance their implementation to curb money laundering.

Based on the above arguments, this study aims to ascertain the effectiveness of Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) requirements in Fund Management Companies in Malaysia. FMCs are expected to have effective AML/CFT control functions and a comprehensive and quality framework of AML/CFT. To achieve this, the FMCs are required to enhance the competency level of compliance team members at all levels in the companies in order to conduct a robust process of the effective AML/CFT requirements. It is expected that the capital market industry, particularly the FMCs would consider appropriate steps to improve the compliance culture by identifying the factors that contribute significantly to the effectiveness of AML/CFT requirements.

## **LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT**

In evaluating the factors that contribute to the effectiveness of AML/CFT requirements, this study uses the expectancy theory developed by Vroom (1964). The underlying assumptions of this theory are applied directly to

the selected organisation samples and variables of this study. Expectancy theory is used to generate predictions that people believe there are connections between efforts and how hard the employees work which then translate to the effectiveness of their performance. In other words, employees believe that great effort at work will motivate them to perform better and it will lead to better performance and outcomes (Lunenburg, 2011 and Jones & George, 2017). For example, evaluating the effective performance of civil servants in public administration can potentially lead to their competencies and abilities in putting efforts towards their jobs (Suciu, Mortan, & Lazăr, 2013).

The expectancy theory highlighted three elements to be fulfilled by the employees to achieve work motivation that is related to one another: (a) the efforts that they have put in at work will lead to the desired outcomes (Expectancy); (b) a reward based on their level of performance obtained as a result of their efforts (Instrumentality); and (c) the estimated value of the rewards positively or negatively based on the outcome generated (Valence) β In defining competency, Draganidis and Mentzas (2006) mentioned that competency is a combination of tacit and explicit knowledge, behaviour and skills that gives someone the potential for effectiveness in task performance. It was supported by Vathanophas (2007) that job competency is a set of behavioural patterns that allows an individual to perform a task effectively within a specific function or job.

Interviews conducted by Isa, Sanusi, Haniff & Barnes (2015) revealed that the competencies of frontline officers are crucial compared to the ability to adequately assess the involved risk to the submission of suspicious transaction reports (STRs). The frontline officers will face the consequences if they fail to mitigate the first stage of the customer's inception to perform an adequate Customer Due Diligence (CDD) process with all the risk indicators or red flags identified. Secondly, all interviewees from the three commercial banks agreed that the frontline officers and compliance officers should be required to attend structured training on money laundering risk assessment. The compliance team should demonstrate core competencies consisting of teamwork, communication skills, and problem-solving skills, information management, adaptability, and building relationship among the team (Stephen & Uhles, 2012). In order to practice sustainable banking practices effectively and efficiently, top managers need to understand their customers' expectations and perceptions

concerning sustainable banking practices (Tan, Chew & Hamid, 2017). Besides, Stephen and Uhles (2012) mentioned that teamwork improves the relationship and builds a good rapport among team members. The instruction given among teams requires clear communication skills and a proper understanding of information and instruction. Employees require problem-solving skills that arise from daily business activities, business management and industry needs, hence, these skills lead to developing practical strategies to solve the problems. According to Eysenck (1998), job performance consists of the ability of employees to work with their goals, fulfil expectations as well as attaining job targets by accomplishing a standard that is set by their organizations. Better work performance results in greater organizational success. Thus, this study develops the following hypothesis:

H1: There is a relationship between the competency level of compliance team members and the effectiveness of AML/CFT requirements.

Usman Kemal (2014) explained that evaluation of the effectiveness of anti-money laundering can be measured by identifying the regulations applied to achieve the objectives whether or not the reporting institutions have adhered to the Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) requirements. This is also mentioned by Jensen and Cheong (2011) that compliance towards the adoption and implementation of Financial Action Task Force (FATF) recommendations has made progress in the fight against money laundering crime as the adoption of FATF standards is part of the regulatory compliance by the reporting institution. Inefficiencies in the AML/CFT requirements will be reduced, and the effectiveness of the anti-money laundering process will improve if the reporting institution has regulatorily complied with the requirements stated, given the positive and significant outcome in combating money laundering (Smet & Mention, 2011). Hubli and Geiger (2005) highlighted that safeguarding the banks' reputation requires effective control of AML/CFT requirements such as KYC requirements which are considered to be the most important regulatory area within the banking industry to be adhered to by the reporting institution. Similarly, Harvey and Lau (2009) opined that the banks' reputation will be tarnished if they fail to comply with the regulatory requirements.

Naheem (2015) mentioned that the response of the effectiveness of anti-money laundering from regulators is to enhance the regulatory compliance among the financial institutions. Isa et al. (2015), and Jaffery and Mughal (2020) stated that constant monitoring by the regulatory authority is deemed as impactful to the banking institutions' compliance with the regulatory requirements. Thus, regulatory compliance has a significant impact on the bank's AML/CFT requirements. Kalimuratkyzy (2017) explained that effective legislation and regulatory requirements set by the regulators against money laundering and terrorism financing are necessary in preventing the risk of money laundering. Based on these arguments, the following hypothesis is developed:

H2: There is a relationship between regulatory compliance and the effectiveness of AML/CFT requirements.

According to IMF (2016), the reporting institution with clear policies, procedures, and controls in conducting AML/CFT requirements can lead to a good measure of AML/CFT's effectiveness. Ferwerda (2009) pointed out that the contributing factors to the effectiveness of AML/CFT requirements can positively be influenced by the quality and stricter policy, which covers the role of laws, the institutional framework, the duties of the financial institution, the law enforcement, and international cooperation which can help to deter potential criminals from illegal behaviour, and hence, reduce the crime rate. Ciborra (2006) mentioned that the quality of the AML/CFT framework for banks is linked to the security, control and governance aspects of banking. The application of this framework will help in forming a strong anti-money laundering environment. According to Johnson and Carrington (2006), money laundering through banks is possible due to the failure of bank controls; thus, banks should ensure that the enhanced framework with all the requirements can provide updates while keeping compliance with the AML/CFT requirements. A similar outcome on the role of the quality framework in anti-money laundering procedures is delivered by the collaborating objectives and responsibility, policies and procedures, quality assurance, risk management, and compliance processes (Luthy & Karen, 2006).

Said, Erlane, Ghani, Omar and Yusuf (2013) recommended that quality policies and framework be developed in increasing awareness of compliance measures. Choo, Susanti, Adura, Noruddin and Othman (2014)

mentioned that the reporting institutions are required to implement the key elements and quality of the AML/CFT framework to guard against money laundering and to ensure compliance with the relevant requirements of the AML/CFT. IMF (2016) revealed that the reporting institution with clear policies, procedures, and controls in conducting AML/CFT requirements can positively lead to a good measure of AML/CFT's effectiveness. This was supported by Ferwerda (2009) who asserted that the contributing factors to the effectiveness of AML/CFT requirements can be positively influenced by better quality and stricter policy, which covers the applicable requirements by international standards and local AML regulations. Ciborra (2006) suggested that the quality of AML/CFT framework will help in forming a strong anti-money laundering environment. Carrington (2006) concurred with this view by stating that banks should ensure the enhanced framework can provide updates while keeping compliance with the AML/CFT requirements. The quality of the AML/CFT framework has a significant effect as mentioned by Said et al. (2013) and the quality of policies and framework needs to be developed in increasing the awareness of compliance towards the effectiveness of anti-money laundering measures. Choo et al. (2014) mentioned that the reporting institutions are required to implement the key elements related to the quality of AML/CFT framework to guard against money laundering. Thus, the following hypothesis is developed:

H3: There is a relationship between the quality of the AML/CFT framework and the effectiveness of AML/CFT requirements.

## **RESEARCH METHOD**

### **Data Collection**

This study uses a questionnaire survey for data collection. A total of 82 questionnaires were sent to the designated emails of the 82 fund management companies in Malaysia as published on the SCM website. Out of 82 questionnaires, 7 questionnaires were collected via a scanned Portable Document Format (PDF) copy and 63 were collected based on Google Form's data extraction. In total, all 70 could be used for the analysis. (Item 7 - The survey was distributed for one month, September 28, 2018 to October 28, 2018). The questionnaire is divided into five sections. The first

section, adopted from Pok, Omar, and Sathye (2014) assesses the respondent's demographic data. The subsequent sections of the questionnaire were derived from four past research: Pok et al. (2014), Omar et al. (2015), Delima and Nitharsan (2016) and Baharud-din, Shokiyah and Ibrahim (2014). The effectiveness of the AML/CFT requirements and regulatory compliance was based on research by Pok et al. (2014), the quality of the framework from Omar et al. (2015), the competency level of Delima and Nitharsan (2016). The survey contains 47 questions in total, which required the respondents to rate their responses based on a five-point Likert scale from 0 to 5: "1" indicates strongly disagree while "5" indicates strongly agree.

### Effectiveness of AML/CFT Requirements Model

A model was developed to examine the relationship between independent and dependent variables. The model is as follows:

$$ER = \alpha + \beta_1 (CL) + \beta_2 (RC) + \beta_3 (QF) + \beta_4 (EX) + \beta_5 (ED) + \varepsilon$$

Where,

ER = Effectiveness of AML/CFT Requirements

CL = Competency Level of Compliance Team Members

RC = Regulatory Compliance

QF = Quality of AML/CFT Framework

EX = Experience

ED = Education

## RESULTS AND DISCUSSIONS

### Demographic Analysis

This section provides descriptive analyses of the demographic characteristics of the respondents. Table 1 indicates that 31 or 44.3% of the respondents are males whilst 39 or 55.7% of the respondents are females.

**Table 1: Respondents' Gender**

|               | Frequency | Per cent |
|---------------|-----------|----------|
| <b>Male</b>   | 31        | 44.3     |
| <b>Female</b> | 39        | 55.7     |
| <b>Total</b>  | 70        | 100.0    |

Table 2 shows that 52.9% of the respondents hold a Bachelor Degree followed by 30% who have a Master Degree. 11 respondents are Diploma holders representing 15.7% of the total respondents whilst 1 respondent is a Doctorate holder who represents only 1.4% of the total respondents.

**Table 2: Respondents' Education Level**

|                        | <b>Frequency</b> | <b>Per cent</b> |
|------------------------|------------------|-----------------|
| <b>Diploma</b>         | 11               | 15.7            |
| <b>Bachelor Degree</b> | 37               | 52.9            |
| <b>Master Degree</b>   | 21               | 30.0            |
| <b>Doctorate</b>       | 1                | 1.4             |
| <b>Total</b>           | 70               | 100.0           |

Table 3 presents data on job designation. 48.6% of the respondents are executives while 35.7% are managers. Another 15.7% of the respondents represents Heads of Department in their respective companies.

**Table 3: Respondents' Job Designation**

|                           | <b>Frequency</b> | <b>Per cent</b> |
|---------------------------|------------------|-----------------|
| <b>Executive</b>          | 34               | 48.6            |
| <b>Manager</b>            | 25               | 35.7            |
| <b>Head of Department</b> | 11               | 15.7            |
| <b>Total</b>              | 70               | 100.0           |

As shown in Table 4, 85.7% of the respondents are working with Fund Management Companies whilst 14.3% of the total respondents are from Unit Trust Management Companies. Both are licensed companies which conduct the regulated activity of fund management.

**Table 4: Working Sector**

|              | <b>Frequency</b> | <b>Per cent</b> |
|--------------|------------------|-----------------|
| <b>FMCs</b>  | 60               | 85.7            |
| <b>UTMCs</b> | 10               | 14.3            |
| <b>Total</b> | 70               | 100.0           |

Table 5 shows that 68.6% of the respondents have 5 years or less working experience whilst 20.0% have between 6 to 10 years of working experience. Another 5.7% of the respondents have between 11 to 15 years of experience. Each of the last two categories (16 to 20 years' working experience and more than 20 years' experience) represents 2.9 % of the total number of respondents.

**Table 5: Respondents' Working Experience**

|                           | Frequency | Per cent |
|---------------------------|-----------|----------|
| <b>5 years and less</b>   | 48        | 68.6     |
| <b>6 to 10 years</b>      | 14        | 20.0     |
| <b>11 to 15 years</b>     | 4         | 5.7      |
| <b>16 to 20 years</b>     | 2         | 2.9      |
| <b>More than 20 years</b> | 2         | 2.9      |
| <b>Total</b>              | 70        | 100.0    |

The types of professional membership held by the respondents in this study are shown in Table 6. Four respondents are members of The Asian Institute of Chartered Bankers (AICB) and The International Compliance Association (ICA) – Compliance, respectively. More than half of the respondents (88.6%) belong to professional bodies from other related fields such as the Association of Certified Fraud Examiners (ACFE), Association of Chartered Certified Accountants (ACCA), Certified Public Accountant (CPA) and The Certified Anti-Money Laundering and Counter Financing of Terrorism Compliance Officer (CAMCO). None of the respondents is a member of the Association of Certified Anti-Money Laundering Specialists (ACAMS).

**Table 6: Respondents' Membership of Professional Body**

|                       | Frequency | Per cent |
|-----------------------|-----------|----------|
| <b>AICB</b>           | 4         | 5.7      |
| <b>ICA-Compliance</b> | 4         | 5.7      |
| <b>Others</b>         | 62        | 88.6     |
| <b>Total</b>          | 70        | 100.0    |

## Descriptive Statistics

Table 7 shows the descriptive statistics of the dependent variable namely, the effectiveness of AML/CFT requirements based on the result of the questionnaire. Question 6, "reduce in fraud cases" recorded the highest mean, in which the mean response of the question is 4.34 i.e., greater than 3.00. This finding implies that on average, the respondents agreed with the statement that the effectiveness of AML/CFT requirements reduces fraud cases. Meanwhile, Question 2, "helps to cross-sell" registered the lowest mean, where the mean response of the question is 3.30 i.e., slightly greater than 3.00. This finding implies that on average, the respondents slightly agreed with the statement on the effectiveness of AML/CFT requirements in helping with cross-selling.

**Table 7: Descriptive Statistics (DV: The Effectiveness of AML/CFT Requirements)**

|   | <b>Min</b> | <b>Max</b> | <b>Mean</b> | <b>Std. Dev</b> |
|---|------------|------------|-------------|-----------------|
| (1) To better understand customers' needs and their financial dealings                        | 1          | 5          | 3.84        | 0.845           |
| (2) Helps cross-selling   | 1          | 5          | 3.30        | 0.983           |
| (3) Improves customer loyalty   | 1          | 5          | 3.76        | 1.028           |
| (4) Better reputation in the industry   | 2          | 5          | 4.20        | 0.628           |
| (5) Reduces credit risks  | 2          | 5          | 3.97        | 0.722           |
| (6) Reduces fraud cases   | 1          | 5          | 4.34        | 0.679           |
| (7) Better competitive position in the industry   | 2          | 5          | 3.90        | 0.783           |
| (8) Malaysia is in a better position to attract investors after the implementation of AML/CFT | 2          | 5          | 4.20        | 0.604           |
| (9) Improves the competitive position of the FMCs and UTMCs                                   | 1          | 5          | 3.99        | 0.893           |
| (10) Increases access to international markets by local/foreign FMCs and UTMCs                | 1          | 5          | 4.20        | 0.754           |

Table 8 shows the descriptive statistics of the first independent variable which is the competency level of compliance team members. Question 9, “training conducted can expand compliance officers’ knowledge, skills and professional competencies” recorded a high mean response of 4.30 i.e., greater than 3.00. This finding implies that on average, the respondents agreed with the statement that training conducted for compliance team members can expand their knowledge, skills and professional competencies. Question 1, "AML/CFT team has a meaningful, shared purpose and clearly understand their roles" registered the lowest mean where the mean response of the question is 3.17 i.e., slightly greater than 3.00. This finding implies that on average, the respondents slightly agreed with the statement that the AML/CFT team has a shared purpose and understand their roles clearly.

**Table 8: Descriptive Statistics (IV: Competency Level of Compliance Team Members)**

|   | Min | Max | Mean | Std. Dev |
|---|-----|-----|------|----------|
| (1) AML/CFT team has a meaningful, shared purpose and clearly understand their roles  | 1   | 5   | 3.17 | 1.340    |
| (2) AML/CFT team communicates effectively among the team and other business units   | 1   | 5   | 3.97 | 0.701    |
| (3) AML/CFT team is able to address issues between themselves without involving the team leader   | 1   | 5   | 3.59 | 0.843    |
| (4) AML/CFT team manages confidential and non-confidential information appropriately  | 1   | 5   | 4.19 | 0.644    |
| (5) AML/CFT team works with flexibility so that they can adapt to any changing needs  | 1   | 5   | 4.01 | 0.602    |
| (6) AML/CFT team has established trusting and supportive relationships with other business units  | 2   | 5   | 4.10 | 0.593    |
| (7) The increase in AML/CFT complexity requirements resulted in compliance officers acquiring multiple skills which can be applied to reviewing work. (i.e. analysis skill)   | 1   | 5   | 4.17 | 0.761    |
| (8) AML/CFT training and quality assurance programs are regularly conducted to improve compliance officers' knowledge and skills  | 1   | 5   | 4.03 | 0.742    |
| (9) Training conducted can expand compliance officers' knowledge, skills and professional competencies  | 3   | 5   | 4.30 | 0.521    |
| (10) Compliance officers need to understand the overall regulatory requirements, AML/CFT program and activities which allow them to successfully perform an effective AML/CFT compliance work on the strategic issues | 1   | 5   | 4.27 | 0.700    |

Table 9 shows the descriptive statistics of the second independent variable namely, regulatory compliance. The highest mean is found in Question 1, “identify and verify the identity of customers” and Question 9, “setting up and updating policies and procedures” where the mean responses of these questions are 4.23, respectively i.e., greater than 3.00. This finding implies that on average, the respondents agreed with the statements on the regulatory compliance towards identification and verification of customers and updating policies and procedures. The lowest mean is registered in Question 10, "equipment repairs and maintenance" in which the mean response of the question is 3.66 i.e., slightly greater than 3.00. This finding implies that on average, the respondents slightly agreed with the statements

on the regulatory compliance towards repairing equipment and its maintenance.

**Table 9: Descriptive Statistics (IV: Regulatory Compliance)**

|   | Min | Max | Mean | Std. Dev |
|---|-----|-----|------|----------|
| (1) Identifying and verifying the identity of customers |     |     |      |          |
| (2) Monitoring customer transactions                    | 3   | 5   | 4.23 | 0.487    |
| (3) Considering suspicious transactions                 | 2   | 5   | 4.16 | 0.629    |
| (4) Preparing and submitting reports                    | 1   | 5   | 4.13 | 0.833    |
| (5) Recording, storing, and retrieving of data          | 2   | 5   | 4.13 | 0.721    |
| (6) Staff training                                      | 1   | 5   | 4.14 | 0.643    |
| (7) Setting up and maintaining AML/CFT reporting unit   | 1   | 5   | 4.20 | 0.651    |
| (8) Setting up and maintaining AML/CFT reporting unit   | 1   | 5   | 4.03 | 0.851    |
| (9) Setting up and updating AML/CFT system              | 1   | 5   | 4.14 | 0.839    |
| (10) Setting up and updating policies and procedures    | 1   | 5   | 4.23 | 0.783    |
| (11) Repairing and maintaining equipment                | 1   | 5   | 3.66 | 0.961    |

Table 10 shows the descriptive statistics of the third independent variable which is the quality of the AML/CFT framework. The highest mean is found in Question 2, "reporting institutions are required to verify, by reliable means, the identity of customers/beneficial owners" in which the mean response of the question is 4.47 i.e., greater than 3.00. This finding implies that on average, the respondents agreed with the statement on the quality of the AML/CFT framework which includes the verification and identification of customers and beneficial owners. The lowest mean is recorded in Question 8, "Reporting Institutions are obliged to check, match customers' names and maintain a database of names and particulars of listed persons against the updated United Nations Consolidated List which can be obtained at <http://www.un.org/>. and the name list as specified by the Minister of Home Affairs" in which the mean response of the question is 4.20 i.e., greater than 3.00. This finding implies that on average, the respondents agreed with the statement on the requirement to check, match customers' names and maintain a database of names and particulars of listed persons against the updated United Nations Consolidated List and the name list as specified by the Minister of Home Affairs.

**Table 10: Descriptive Statistics (IV: Quality of AML/CFT Framework)**

|   | Min. | Max. | Mean | Std. Dev. |
|---|------|------|------|-----------|
| (1) Reporting Institutions are required to keep records of customers for at least 7 years and should be stored securely in a form that is retrievable on time upon request  | 1    | 5    | 4.43 | 0.734     |
| (2) Reporting Institutions are required to verify, by reliable means, the identity of customers/beneficial owners   | 2    | 5    | 4.47 | 0.607     |
| (3) Reporting Institutions may use a risk-based approach in setting out the procedures for effective customer/beneficiary identification and verification   | 1    | 5    | 4.30 | 0.749     |
| (4) Reporting Institutions are required to appoint a compliance officer who will be in charge of applying internal AML/CFT procedures   | 1    | 5    | 4.30 | 0.906     |
| (5) Reporting Institutions compliance programme should include an on-going employee training programme to ensure employees are fully aware of their obligations   | 1    | 5    | 4.43 | 0.734     |
| (6) It is a mandatory obligation to report suspicious transactions if Reporting Institutions suspect that the transaction involves proceeds from an unlawful activity   | 1    | 5    | 4.46 | 0.716     |
| (7) Reporting on suspicious transactions to the Financial Intelligence and Enforcement Department (FIED) in Bank Negara Malaysia is performed through the submission of information in the prescribed Suspicious Transactions Report (STR) from or through the Financial Intelligence System  | 1    | 5    | 4.33 | 0.863     |
| (8) Reporting Institutions are obliged to check, match customers' names and maintain a database of names and particulars of listed persons against the updated United Nations Consolidated List which can be obtained at <a href="http://www.un.org/">http://www.un.org/</a> . and the name list as specified by the Minister of Home Affairs | 1    | 5    | 4.20 | 0.910     |
| (9) The compliance officer immediately after submitting a Suspicious Transaction Report (STR) to the Financial Intelligence Enforcement Department (FIED) is required to monitor the activities of the reported account or person   | 1    | 5    | 4.33 | 0.863     |
| (10) Tipping off the customer about a Suspicious Transaction Report (STR) is an offence under the AMLA act  | 1    | 5    | 4.34 | 0.759     |

## Pearson’s Correlation Analysis

Table 11 shows the correlation between the independent and the dependent variables of this study. The result of 0.615 indicates a moderate positive correlation between the competency level of compliance team members and the effectiveness of AML/CFT requirements. The value of  $r^2$  is  $(0.615)^2 = 0.378$ . The coefficient of determination value of 37.8% reveals that the variability in competency level is shared by the effectiveness of AML/CFT requirements. A  $p$ -value of 0.000 less than 0.001 shows a significant relationship between the competency level of compliance team members and the effectiveness of AML/CFT requirements. The correlation result of 0.396 shows a low positive correlation between the regulatory compliance and the effectiveness of AML/CFT requirements. The value of  $r^2$  is  $(0.396)^2 = 0.157$ . The coefficient of determination value of 15.7% indicates that the variability in regulatory compliance is shared by the effectiveness of AML/CFT requirements. A  $p$ -value of 0.001 less than 0.005 shows a significant relationship between the regulatory compliance of compliance officers and the effectiveness of AML/CFT requirements. The correlation result of 0.306 shows a low positive correlation between the quality of the AML/CFT framework and the effectiveness of AML/CFT requirements. The value of  $r^2$  is  $(0.306)^2 = 0.094$ . The coefficient of determination value of 9.4% shows that the variability in the quality of the AML/CFT framework is shared by the effectiveness of AML/CFT requirements. A  $p$ -value of 0.010 greater than 0.005 shows a very slightly missed significant relationship between the quality of the AML/CFT framework and the effectiveness of AML/CFT requirements.

**Table 11: Pearson’s Correlation Test Result**

| Variables | ER      | CL      | RC      | QF     | EX     | ED |
|-----------|---------|---------|---------|--------|--------|----|
| ER        | 1       |         |         |        |        |    |
| CL        | 0.615** | 1       |         |        |        |    |
| RC        | 0.396** | 0.633** | 1       |        |        |    |
| QF        | 0.306** | 0.631** | 0.609** | 1      |        |    |
| EX        | 0.144   | 0.128   | 0.263*  | 0.115  | 1      |    |
| ED        | 0.321** | 0.241*  | 0.115   | -0.062 | -0.048 | 1  |

\*\* Correlation is significant at the 0.01 level (2-tailed).

Note: ER (The Effectiveness of AML/CFT Requirements), CL (Competency Level of Compliance Team Members), RC (Regulatory Compliance), QF (Quality of AML/CFT Framework), EX (Experience), ED (Education)

## Multiple Regression Analysis

Table 12 shows the coefficients (both, standardized and unstandardized) of the multiple regression analysis. The beta value represents the strength of the relationship between the effectiveness of AML/CFT and the competency level compliance team members, the regulatory compliance and the quality of the AML/CFT framework. It shows the effect of the independent variables on the dependent variable. The results also show the tolerance and variance inflation factor (VIF) of the Collinearity Statistics for the individual independent variables. A VIF shows no multicollinearity issues when it is less than 10 (Pallant, 2013). The independent variable with a significance level of (sig. or *p*-value) less than 5% can make a significant contribution to the predicted value of the dependent variable (Brooks, 2014).

**Table 12: Multiple Regression Analysis**

| Variables  | Std. Coeff. |       |          | Collinearity Statistics |       |
|------------|-------------|-------|----------|-------------------------|-------|
|            | Beta        | t     | Sign.    | Tolerance               | VIF   |
| (Constant) |             | 1.624 | 0.109    |                         |       |
| CL         | 0.615       | 6.423 | 0.000*** | 0.529                   | 1.892 |
| RC         | 0.396       | 3.552 | 0.001*** | 0.503                   | 1.987 |
| QF         | 0.306       | 2.652 | 0.010*** | 0.526                   | 1.902 |
| EX         | 0.159       | 1.395 | 0.168    | 0.998                   | 1.002 |
| ED         | 0.328       | 2.875 | 0.005*** | 0.998                   | 1.002 |

\**p* < 0.10; \*\**p* < 0.05; \*\*\**p* < 0.01

Note: CL (Competency Level of Compliance Team Members), RC (Regulatory Compliance), QF (Quality of AML/CFT Framework), EX (Experience), ED (Education)

According to the results, the competency level of compliance team members has a *p*-value of 0.000, with a significant level at *p* < 0.01. It indicates a positive relationship between the competency level of compliance team members and the effectiveness of AML/CFT requirements. Hence, there is a significant relationship between the competency level of compliance team members and the effectiveness of AML/CFT requirements. This finding supports research hypothesis H<sub>1</sub> hence, hypothesis (H<sub>1</sub>) is accepted. The result of this study is consistent with the Sulistyowati's and Supriyanti's (2015) finding that competencies in terms of adequate knowledge, experience, education, and training can positively result in AML/CFT's objectivity and accuracy. This is because when the competency rate of compliance team members increases, the

effectiveness rate of the AML/CFT requirements also increases with the combination of knowledge, skills and positive behaviour.

Next, regulatory compliance has a  $p$ -value of 0.001, with a significant level at  $p < 0.01$ . Hence, there is a direct significant relationship between regulatory compliance and the effectiveness of AML/CFT requirements. This finding supports and accepts research hypothesis H<sub>2</sub>. The result of this study is consistent with Jensen and Cheong (2011) where the compliance towards the adoption and implementation of FATF recommendations has revealed progress in the fight against ML/TF. In addition, Smet and Mention (2011) noted that regulatory compliance with the requirements stated can show a positive and significant outcome in combating money laundering. This is also consistent with Hubli and Geiger (2005), Harvey and Lau (2009), Naheem (2015) and Kalimuratkzyzy (2017) who found that the regulatory compliance to the AML/CFT requirements will increase its level of effectiveness and prevent the financial institution from being penalised.

Subsequently, the quality of the AML/CFT framework has a  $p$ -value of 0.010, with a significant level at  $p < 0.01$ . Therefore, there is a significant relationship between the quality of the AML/CFT framework and the effectiveness of AML/CFT requirements. This finding supports research hypothesis H<sub>3</sub>. For the control variables of this study, experience has a standardised coefficient of 0.159 and there is no significant relationship between experience and the effectiveness of AML/CFT requirements. On the other hand, education has a standardised coefficient of 0.328 and there is a significant relationship between education and the effectiveness of AML/CFT requirements. It can be concluded that reporting institutions with clear policies, procedures, and controls in conducting AML/CFT requirements can positively lead to a good measure of AML/CFT's effectiveness.

Therefore, the competency of compliance team members, the regulatory compliance and the quality of AML/CFT framework together with control variables of education have a strong relationship and statistically affect the effectiveness of AML/CFT requirements in FMC. Future research could improve the results by minimising the limitations of the study. Therefore, this study suggests the following research areas when replicating this study including examining additional demographic

characteristics namely, products, distribution channel and location of the branch offices. These three factors may influence the assessment of the effectiveness of AML/CFT requirements. Those branch offices in high-crime or high-risk locations could probably have stricter AML/CFT requirements. This study could also be replicated with the inclusion of the whole compliance team such as regulatory compliance team, market conduct and investigation team, operational compliance and not specifically focussing on the AML/CFT compliance or financial crime compliance team. Other studies could explore the emerging issues of the development of AML/CFT requirements such as the process of rule-based approach which is replaced with Risk-based Approach (RBA) application by the reporting institution. The RBA is given more weightage in the risk assessment of the organisation.

## **CONCLUSION**

Money laundering has been perceived as a complicated and highly intelligent crime and deemed as a deliberate act of manipulation carried out to fulfil a personal advantage (Rahman, 2013). Thus, the financial institution in the banking industry and capital market industry has to play an important role to identify the factors that contribute to the effectiveness of AML/CFT requirements in order to strengthen the due diligence and mitigating process to curb this crime. This is because an effective AML/CFT control functions and enhanced service management and sustainability would help to minimise the vulnerabilities to the risks incurred by the reporting institution. Many scholars explicated the importance of effective AML/CFT requirements to the reporting institution such as IMF (2016), Usman Kemal (2014) and Pok et al., (2014). Enhancing the process of AML/CFT requirements requires further investment in terms of training, professional certificate, attending external conference and workshop. Additionally, stakeholders around the world are raising concerns on sustainability issues and expect financial markets to address and reflect these concerns (United Nation, 2021). In this regard, the fund management companies are recommended to provide an opportunity for the potential compliance officers to further enhance their knowledge by taking any related professional certificates of AML/CFT, attending internal and external training organised by the regulators as well as participating in international conference to keep themselves updated with the current development of

AML/CFT. This would contribute to the competency of the new and existing compliance officers in the compliance team and help them understand the process of AML/CFT requirements effectively. The Fund Management Companies (FMCs) are recommended to be in regulatory compliance with all the requirements and changes of AML/CFT requirements. Regulatory compliance would assist them in identifying and verifying the identity of the customers and monitoring customer transactions as part of the compliance programme. This would help the FMCs to have effective control of AML/CFT during the on-boarding process and ongoing monitoring process.

## **ACKNOWLEDGEMENT**

We would like to thank Universiti Teknologi MARA for supporting this study.

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