

**ANTI-MONEY LAUNDERING REGULATION AND PRACTICES
(A CASE STUDY ON COMMERCIAL BANKS OF NEPAL)**

A Dissertation submitted to the Office of the Dean, Faculty of
Management, in partial fulfilment of the requirements for the Degree of
Masters of Business Studies

by

Rameshwor Regmi

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Campus Roll No: 22/074

T.U. Registration No: 7-2-769-45-2011

People's Campus

Kathmandu

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Certification of Authorship

I hereby declare that I am the researcher of this thesis and that any assistance I have received in its preparation is fully acknowledged and is disclosed in this thesis. I have also cited all the sources from which I have obtained the data, ideas or words that are copied directly or paraphrased in this document. Sources are properly credited according to the standards for the professional publication.

I also certify that this research report was prepared by me for the purpose of partial fulfillment of requirements for the MBS degree of faculty of Management, Tribhuvan University.

Rameshwor Regmi

01-09-2021

Report of Research Committee

Mr. Rameshwor Regmi has defended research proposal entitled “Anti-Money Laundering Regulation and Practices: A Case Study on Commercial Banks of Nepal” successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per and submit the thesis for evaluation.

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Approval Letter

This thesis entitled "Anti-Money Laundering Regulation and Practices: A case Study on Commercial Banks of Nepal" submitted by Mr Rameshwor Regmi to the faculty of management, Tribhuvan University, in partial requirements for the degree MBS (Master of Business studies) has been found satisfactory in scope and quality. Therefore, we accept this theory as part of the degree.

Dissertation Supervisor

Internal Examiner

External Examiner

Chairperson Research Committee

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Abbreviation / Acronyms

ALPA	Asset Laundering Prevention Act
AML	Anti-Money Laundering
APG	Asia Pacific Group
BCBS	Basel Committee on Banking Supervision
CCD	Customer Due Diligence
CFT	Combating Financing of Terrorism
DMLI	Department of Money Laundering Investigation
DNFBP	Designated Nonfinancial Businesses and Professions
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit
ICRG	International Cooperation Review Group of FATF
KYC	Know Your Customer
ML	Money Laundering
MLRO	Money Laundering Reporting Officer
NRB	Nepal Rastra Bank
PEP	Politically Exposed Person
RBA	Risk Based Approach
STR	Suspicious Transaction Report
TF	Terrorism Financing
TTF	Topical Trust Fund
TTR	Threshold Transaction
UN	United Nation
UNODC	United Nations Office on Drugs and Crime

Abstract

The purpose of Anti-money laundering Regulation (AML) is to detect and deter money laundering activities. In order to prevent the misuse of banks for money laundering activities, the AML obligation mandates banks to identify and report suspicious and large value transactions and follow know your customer requirements. Nepal Rasta Bank (NRB) has taken measures to enforce AML implementation in banks. To properly implement the regulations and follow the guidelines and fight against money laundering activities employees of banks plays key role. Hence this thesis has been attempted by the researcher to examine the awareness level, attitudes and opinion towards AML regulations practices of employees.

The main purpose of this study is to find out the level of awareness, attitude towards anti-money laundering regulations and perception towards the practices of AML regulations of bank employees, and if their awareness level, attitudes towards AML regulations and opinion on AML practice by banks differ on the basis of their demographic factors i.e. gender, age, educational qualification, type of bank employee works in, job position and work experience. Banks plays key role in monitoring financial transactions of public. Banks in the process of financial intermediation are challenged with risk of money laundering. So, the employees of banks must be aware of money laundering issues, rules and regulations and have positive attitude towards AML regulations for proper implementation.

The study is mainly based on primary data and the study is conducted to employees of private and public banks. The research is in descriptive nature. Questionnaires were distributed to 131 respondents to employees of different banks inside Kathmandu valley. The major variables are anti-money laundering awareness, attitudes towards money laundering regulations and opinion about anti-money laundering practices by banks. These identified variables were analyzed on the basis of demographic variable of employees which include age, gender, educational qualification, type of bank, job position and work experience. The collected data was analyzed using SPSS software. To examine the anti-money laundering regulations descriptive analysis, calculation of means and non-parametric test were used.

From the study, it was found that awareness level and attitude of banks' employees on AML regulations is more than average. Opinion of banks' employees on practice of AML regulation is also more than average. This implies that employees of banks are well aware and have positive attitudes towards of money laundering activities and their opinion on AML practices by banks on AML regulation are also positive. The study has found that there is no significant difference in AML awareness level and opinion of AML practices of male and female employees of bank. However, attitude towards AML regulation is different between male and female employees and male have more positive attitudes towards AML regulations. There is no difference in the AML awareness level, attitudes towards money laundering regulations activities and opinion about AML practices in terms of type of banks, educational qualification, job position and work experience of employees. The findings of study are similar to the previous studies. Past studies have found that employees are aware and have positive attitude towards anti-money laundering regulations. Employees have a good knowledge and understanding about the direct regulations of the law and are supportive for implementation of AML regulations. Study is also similar that male and female employees have disparate cross-section of attitudes towards law and its implementation.

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Money laundering is the process of illegally converting black or dirty money into “white” or legal money. Dirty money does not have legal sources. Instead, it comes from illegal activities such as drug trafficking, terrorism, organized crime, murder or fraud (Mainali, 2004). Money launderers make such money appear clean by processing it through several legal transactions through multiple financial institutions. In other words, they cover up illegal sources through legal processes. Money laundering is an act of disguising the origins of illicit money and giving it an appearance of having originated from a legitimate. It provides an apparent legitimate cover for the proceeds of criminal activities. The need for a modern anti-laundering strategy has become widely accepted internationally. As countries developed their anti-money laundering strategies and found that law-enforcement agencies have limited access to relevant financial information, it became clear that the strategy required them to "engage the financial system in the effort to combat laundering while, at the same time, seeking to ensure the retention of the conditions necessary for this effective operation. Money laundering has emerged as a burning global issue. Money laundering is generally carried out in three steps: placement, layering and integration. First, the illegal wealth is deposited in shell companies, banks or casinos. The second stage concentrates on separating the proceeds from criminal activity through the use of various layers of monetary transactions, say layering. Then, finally, the laundered money is brought back into the mainstream financial system by paying taxes to legitimise wages, thus giving the money a “legal” source. Across the world, a huge amount of money obtained through terrorist financing, drug and human trafficking is laundered annually (Thapa, 2015).

1.1.1 Anti-money laundering Practices in Global / South Asia.

Money laundering is always a looming threat. However, the majority of banks and financial institutions report that the biggest challenge to AML compliance is meeting the droves of new regulatory conditions that are emerging. For one, organizations simply

lack the capacity to deal with this volume of regulation. While more than 80 percent believe themselves to be compliant with anti-money laundering (AML) standards, most banks and financial institutions in South Asia find the growing complexity of the compliance landscape to be somewhat overwhelming. Deloitte drew more than 120 responses from leading banks and financial institutions across India, Sri Lanka and Bangladesh to gauge their capacity to deal with the growing menace of money laundering. As pointed out in the report, anywhere between 2 percent and 5 percent of the global GDP is laundered every year, amounting to \$800 billion at the very least and \$2 trillion at most (Deloitte, 2020).

1.1.2 Anti-money laundering Regulation and Practices in Nepal

In recent years, government and regulatory authorities around the world have become aware of consequences from money laundering on social and economic prosperity. Nepal was associated with anti-money laundering and combating financial terrorism and financial action task force in 2002 by becoming a member of the Asia/Pacific Group on Money Laundering (APG).

In Nepal the Asset Laundering Prevention Act 2008 and Asset Laundering Prevention Regulation 2009 are the key legal instruments for prohibiting money laundering and terrorist financing. To regulate money laundering parliament also has enacted the Mutual Legal Assistance Act 2014, Extradition Act 2014, Organized Crimes Prevention Act 2014 and the Proceeds of Crime (Confiscating, Seizing and Freezing) Act 2014.

There are different separate departments investigating for money laundering activities. Department of money laundering investigation (DMLI) investigates and does enquiry into offences of money laundering and terrorist financing under the Asset Laundering Prevention Act 2008. There is another department The Financial Information Unit (FIU) established in the Nepal Rastra Bank as a functionally independent and autonomous body to receive information as to suspicious transactions, threshold transactions, and other information related to money laundering or terrorist financing and then reports it to the DMLI for investigation. This central agency also cooperates with foreign financial information units or foreign counterparts that perform similar functions and exchanges information on the basis of reciprocity.

1.2 Problem of Statement

Nepal is developing economy and is adversely affected by corruption, tax evasion, and other economic crimes. High level of corruption, tax evasion, human trafficking, and economic crimes such as cheating, forgery of valuable security, criminal conspiracy and criminal breach of trust are the major sources of black money in Nepal. The proceeds from these crimes in turn increase the economic crimes such as money laundering and terrorism financing. Despite having various laws and regulations, central bank continuously following and monitoring monetary activities of bank accountholders still the problem of money laundering is not solved. General public are unaware about money laundering and knowingly or unknowingly they are involved in this kind of activities. Banks plays key role in monitoring financial transactions of public. They are engaged in mobilizing the fund of public and money laundering takes place during the mobilizing of fund. So, employees of banks must be aware of money laundering issues, rules and regulations. Managers and employees must continuously observe transaction of accountholders and report if any unusual activities are seen. But still practice of anti-money laundering activities is not satisfactory in Nepal.

Following are the research questions for the study:

1. Does the awareness level of the employees about money laundering differ from organization to organization?
2. Does the compliance of AML measures differ from organization to organization?
3. To what extent experience level of employee's affect the awareness, attitude and AML practices in workplace?
4. To what extent training to employees affect the regulation of AML measures?
5. What is the relationship between AML awareness, AML acceptance and AML practices?

1.3 Objectives of the Study

The general objective of study is to identify awareness; attitude and perception of employee towards the practices of AML regulation differ on the basis of their demographic factors.

The specific objective of the study is:

- To examine bank employee awareness and perception towards anti-money laundering regulation and practices
- To find out the awareness of the employees about money laundering differ from organization to organization

1.4. Significance of the Study

In past very few researches have been done on the anti-money laundering regulation in Nepal. Though country is actively engaged in preventing money laundering still regulatory body are not completely able to control money laundering activities. This study provides insights regarding the awareness and acceptance of AML regulation of bank employees. The study also contributes in understanding the bank's compliance with AML regulatory guidelines by analyzing their practices in preventing money laundering. This study helps banks to identify awareness level and perceptual difference among the different level of employees towards AML regulations and provide the necessary training and guidance for proper implementation of money laundering regulations. This study provides a holistic approach to the work in AML by recording the perspectives of the employees of bank. Findings from this research will provide valuable insights for the various stakeholders such as banks itself, FIU- Nepal and the government of Nepal in AML policy making and enforcement. To take remedial measures it is vital to find the true causes of the problem.

1.5 Hypotheses of the Study

Following are the hypothesis set to test for this study.

Hypothesis I

H0: There is no significant difference in the awareness level of employees of various organizations.

H1: There is significant difference in the awareness level of employees of various organizations.

Hypothesis II

H0: There is no significant relationship between AML awareness, AML acceptance and AML practices.

H1: There is significant relationship between AML awareness, AML acceptance and AML practices.

1.6 Limitations of the Study

There are number of limitations in this study. They are:

- The respondents were limited (131 respondents or samples) in terms of size and composition.
- This research is carried out inside Kathmandu valley which may fail to represent the scenario of whole country.
- Data is collected through self-administered questionnaire. The data collected is based on individual understanding of the respondents.
- The respondents were not so friendly and cooperative. The questionnaires filled were may not be genuine responses of the respondents.

1.7 Organization of Study

The report is divided into five chapters excluding preliminary sections and Appendix. The preliminary section includes title page, approval page, acknowledgement, table of contents, list of tables and figures, acronyms and abstract. Chapter I include introduction, statement of the problem, objective of the study, significance of the study, limitation of the study and organization of the study. Chapter II: is about review of related literature. It includes introduction, concept of anti-money laundering and combating the financial terrorism, financial action task force and its recommendations, theoretical review. Chapter III is about research methodology. It includes introduction, research design, study site description and rationale behind selection of study area, study population and sampling, nature and sources of data and methods of data organization, processing and analysis. Chapter IV gives the brief introduction about characteristics of the study population. It deals with the findings in accordance objectives. Chapter V is the last chapter of the study. It contains wrapped up the study with summary of findings, conclusion and suggestions.

CHAPTER II

REVIEW OF LITERATURE

Anti-money laundering (AML) legislation and compliance have become key focus areas for banks and financial institutions, insurance companies, capital market, regulated non-financial institutions and other similar organizations. Literature regarding anti-money laundering regulations bases on the real article published in different sites and it is reviewed for the study purpose. This chapter contains of two parts conceptual review and empirical review.

2.1 Conceptual Review

The purpose of this chapter is to analyze the past studies related to anti money laundering regulations. The aim of this study was to assess the level of awareness, attitude towards AML regulation and opinion about AML regulation of bank employee regarding anti-money laundering (AML) practices. The study also aimed to understand their constraints in following the bank's AML practice. After reviewing the past literature, it becomes clear what has been done on the past and what must be done now. This chapter also deals with related articles, journals and others materials in details.

2.1.1 Concept and Definition of Money Laundering

Money laundering is frequently termed as "Turning of dirty money into clean money". Laundering allows criminals to transform illegal obtained gain into seemingly legitimate funds (Mainali, 2004). The process of money laundering leads to the transformation, conversion and change of proceed from one to the other Araujo (2008). Generally, the sources of money laundered are believed to be trafficking, drugs dealing, bribery and corruption, smuggling of gold, economic scam, organized crime, tax evasion, trafficking of women and children, credit card frauds, counterfeiting of goods and currencies and so on (International Monetary Fund, 2015). The process of disguising the illegal origin of funds in order to make them appear legitimate, where by proceeds of crime derived from different sorts of criminal activities are transported, transformed, converted either with or separately from legitimate funds, for the purpose of concealing its true nature, source disposition or ownership (INTERPOL, 2019). The International Monetary Fund (IMF)

describes money laundering as, “A process by which the illicit source of assets obtained or generated by criminal activity is concealed to obscure the link between the funds and the original criminal activity” (International Monetary Fund, 2015). Offence of terrorist financing is described as providing or collecting property or funds to be used to carry out a terrorist act, or by a terrorist or a terrorist organization, or an attempt to commit such act; providing or conspiring to provide material support or resources in order to carry out a terrorist act or to any terrorist or terrorist organization; participating as an accomplice in, organizing or directing others to commit or to contribute or promote a group which commits any of the aforementioned acts, constitutes the offence of terrorist financing. Further, even if the terrorist act does not actually occur or is not attempted; property or funds are not actually used to commit or in the attempt of a terrorist act; whether such property or fund is linked or not to a specific terrorist act; whether the terrorist act or intended terrorist act does occur or will occur in the same State or territory or somewhere else; whether the terrorist or terrorist organization is or is not located in the same State or territory where the terrorist act is intended to or occurs, then these circumstances in relation to any of the aforementioned acts (NRB, 2019).

2.1.2 Brief History of Money Laundering

Until the 1980s, law enforcement was not particularly active in either finding or recovering the financial proceeds of crime. However, with the exponential growth of the narcotics trade during the 1980s, the ‘crime bosses’ of the trade began to be individually targeted and, the investigations which ensued, were concentrated on following the ‘money trail’ coupled with the laundering process. The measures for combating money laundering had its roots in 1980 when a Committee of Ministers of the Council of Europe recommended the governments of its member states to adopt the measures against the transfer and the safe keeping of funds of criminal origin by its banks. It then became clear, that the most effective way of stopping the money flows was to make the laundering process itself, a criminal offence (BCBS, 1998).

In 1988, money laundering was first recognized as a criminal offence by the United Nations (UN) through its Vienna Convention and initiated major paradigm shift in which the major industrialized economics viewed in money laundering. Also, in 1988, the Basel

Committee on Banking Supervision (BCBS) issued a statement of principles for banks for safeguarding the banks from being used as a channel by money launderers (BCBS, 1998).

In 1989, the G7 countries decreed that money-laundering posed a major threat to the global financial markets and systems, by distorting markets, providing unfair competition, undermining smaller economies, creating political instability and by encouraging and supporting corruption both in governments and within financial institutions. This caused the G7 to create the Financial Action Task Force (FATF), to specify and promote legal, regulatory and operational measures, with an objective to counter money laundering. The FATF issued forty recommendations to prohibit the laundering of illicit money. Subsequently eight FATF-style regional bodies have come up to support the efforts of FATF and ensure the implementation of FATF recommendations (FATF, 2012).

By 1996, most member countries had enacted legislation to reflect the FATF's 1990 recommendations. In that year, the FATF introduced new and altogether more stringent Anti-Money Laundering (AML) regulations. One of these was to widen the 'predicate offence' term to cover all serious crimes, including proceeds from fraud, tax evasion, insider trading, investment scams and corruption.

After terrorist attack on 11 September 2001 (which is also called 9/11 attack), the flow of fund into the hands of terrorists has become a priority of the international community. Investigations of 9/11 attacks made it very clear that the hijackers received money mainly from the facilitators located in Germany and United Arab Emirates. The U.S. and foreign financial institutions were exploited by the hijackers to deposit, transfer and withdraw the money required for carrying the attacks. Therefore, to prevent the use of legitimate channels in terrorism financing, the FATF released eight new special recommendations, aimed at attacking terrorist financing and, that such offences be designated as money-laundering predicate offences. Later they created new legal obligations to identify suspicious transactions that might be related to terrorism, coupled with extensive powers to block and freeze such transactions (FATF, 2012).

In 2003, there was a further paradigm shift when, in that year, the FATF reviewed both its original recommendations and its First Revision. The result was that both the scope and the content changed. The definition of a financial institution was widened to include (not just the original banks, insurance companies and those involved in the securities markets), casinos, gem dealers, real estate agents, bullion dealers, accountants, lawyers and financial advisers. At the same time, all the other provisions were both strengthened and expanded. These provisions cover (FATF, 2012):

- “Know Your Customer” (KYC);
- The reporting of suspicious transactions;
- The verification of identities;
- The avoidance of shell banks;
- The avoidance of anonymous accounts;
- The institutionalization of AML policies;
- The scrutiny of high-risk customer activity;
- The expert training of staff.

In order to secure compliance with these newly-strengthened and newly-widened obligations, regulators had to enhance their response to non-compliance.

The reason for this, was that criminals are now seen to be vacillating between cash-based money-laundering activities and banks and the financial markets. The derivatives and securities markets are seen to be particularly attractive to money launderers, because a broker can launder money through a quite legal transaction, with absolutely no need to ever make a false accounting entry (FATF, 2012).

The aim of the money-lauderer is ‘paper-trail avoidance’ and, that is why cash-intensive ‘front’ businesses are favored. These are businesses such as restaurants, bars, tourist hotels, pawnbrokers, travel agencies, construction companies, automobile dealerships and jewelry merchants. Such businesses can use false-invoicing, ghost employees and inflated expenses, in order to create fictitious cash-flows and transactional patterns (both in value and in velocity), so that they ultimately appear to be normal (FATF, 2019).

2.1.3 Stages of Money Laundering

One of the key forms of illicit financial activity that merchants need to watch out for is money laundering. Money laundering involves ‘the processing of criminal proceeds to disguise their illegal origin’. These proceeds result from international criminal activity such as drug trafficking, organized crime like prostitution as well as white collar crime, for example embezzlement. In an effort to educate merchants about what money laundering involves, FATF have outlined the universally recognized three steps in the money laundering process (FATF, 2019). They are:

Stage 1 Placement

The first stage of the money laundering process is placement. In this stage money is moved from its source and put into circulation. Criminals introduce illegal money in the financial sector by using formal and informal banking sectors and other non-banking sectors. The money is usually broken up into smaller amounts to help avoid detection by financial institutions. These smaller amounts are then put into circulation in various ways. Some criminals deposit the money in several different bank accounts which makes it very difficult for authorities to track it. Alternatively, the money is used to purchase financial instruments such as cheques or money orders that are subsequently deposited into accounts elsewhere. Sometimes cash is smuggled out of the country of origin to countries with weak financial regulations where less questions are asked.

Stage 2 Layering

The second stage in money laundering process is layering which involves moving the money several times to further distance it from the original source. It is the process of breaking audit or paper trail. The money is transferred into widely scattered account on several occasions and in different countries. Any countries that fail to enforce anti money laundering (AML) regulations or don't subscribe to the FATF recommendations are usually popular destinations. Criminals can also use the money to buy and sell financial assets such as stocks and currencies. Other ways to ‘layer’ the money include buying goods that are later sold locally or abroad and using it to pay for everyday goods or services in an attempt to make the money look legitimate.

Stage 3 Integration

The final stage of the money laundering process involves the movement of the laundered money back into the mainstream economy with the appearance of a legitimate source of funds. It makes the criminal free to invest the illegally earned amount in the national economy or everywhere. The money is usually invested into legitimate business ventures especially in real estate transactions and foreign bank. Criminals can also set up front companies in countries with strict corporate secrecy laws. They can then access the funds while protecting their identity and enjoy equal and respectable status compared with legitimate investors.

2.1.4 Methods of Money Laundering

Money laundering takes place in several different forms. It is a way for criminal to hide the cash proceeds of their illegal activities. Criminals use different techniques to launder their money and make it from legitimate source. Some of the techniques are (Ping, 2010)

Common methods for money laundering:

➤ **Structuring:**

In this method, large amounts of criminal activities are divided into small parts and by many people in different days the amount is deposited into the accounts that have been already identified.

➤ **Bulk Cash Smuggling:**

Funds are transferred and physically transported acquired through illegal means. The money launderers smuggle dirty money out of the country. Dirty money is usually smuggled into countries with less government control or countries that do not have any control over any authenticate exchange.

➤ **Cash-Intensive Businesses:**

This method is used in small business that have large amount of cash. Fuel stations, fast food, supermarkets etc. cash is used much as places that can be exploited by criminals and money launderers that raise their intentions.

➤ **Shell Companies:**

Fictitious companies or shell companies are companies that do not have actually any economic activities and products or services and generally are established in free trade zones as tax havens. These companies are only in paper specimens are available and reported as making unrealistic are actually available. In this method money launderers establish companies that exist only in paper and thus behave the large financial resource that has at their disposal through the company.

➤ Casinos:

In this method, money launderers and criminals obtained funds from illegal activities and take action to buy jack casino game. But in reality, do not play or play very little. Later referred to the casino funds and raising the claim to win and demand check in front of the amount of casino jacks because the cash is easy to convert into the bank check and becomes easy for transferring.

➤ Real Estate:

In this method, money laundering is made through transactions in property and real estate for concealment the sources of criminal income. Buy and sale of real estate with a much lower price than the actual market price in fact, the difference between the actual price and the divided price is another method of money laundering. Buying and selling the real estate with false and fictitious names can be also another trick in this method.

➤ Currency Exchange Bureau:

At this technique money launderer with using currency conversion services to each other do their dirty funds that is a type of money laundering. Generally, currency exchanges accept any amount of cash, without any question and the conversion to currencies of other countries' currencies and they were exploited unintended with money launderers.

Money laundering methods in banking system (Ping, 2010):

➤ Bank Accounts:

Money launderers with using the services of opening a bank account are attempting to implement money laundering. Such as opening a bank account with

fake names and identification documents or opening share accounts with family members and friends or accounts are opened by a lawyer or representative of the company can be used for money laundering.

➤ **Bank Owning:**

The whole or a substantial part of bank stock is owned by criminals and they have scope for their criminal acts. In other words, in this method, money launderers with the takeover of purchased banks, without minimum risk and without bank report attempt to money laundering.

➤ **Loan Back:**

Criminal borrows their own criminal money. This is done by creating loan agreement between the criminal or their representative and an apparent third party. Foreign offshore corporations controlled by criminals are used as the third-party lender.

➤ **Banking Wire Transfer:**

In this method, money launderers use the banking wire transfer services for their own criminal acts. The criminals using this method for attempted transfer funds between banks and they are trying to eliminate source of dirty money. It is method of fund transfer from one person or institution (entity) branch to another branch. Wire Transfer can be made from one bank account to another bank account or through a transfer of cash at a cash office. Funds transfer systems are intended to provide more individualized transactions than bulk payment systems. However, this facility can be used for money laundering.

➤ **Correspondent Banking:**

Correspondent banking is provided as banking services by one bank (correspondent bank) to another bank (customer bank). Generally, banks are going to use the correspondent banking services in countries that do not have any branch. In this method, remittances that sent to the correspondent bank are kept the unnamed accounts that can be exploited by money launderers.

➤ **Offshore Banking:**

Offshore banking is defined to banking that usually is in free trade zones and generally outside the mainland boundaries. They do not have abided by the

internal law and they have very simple rules to open Banking Services. On the other hand, banking secrecy is very important for them. These properties can be exploited by criminals and acting as money laundering.

2.1.5 International Cooperation of Nepal for AML/CFT

According to financial information unit (FIU-Nepal, 2018) Nepal is well ahead and self-conscious about AML/CFT regime. Nepal is associated with different major international organizations for preventing and countering money laundering and terrorism financing. Implementation of the UN security council resolutions, ratification and accession of prime AML/CFT related conventions, engagement with APG and FATF in consultation process for developing global policies on AML/CFT shows the consciousness and forwardness of Nepal towards AML/CFT regime.

Asia Pacific Group (APG) (FIU-Nepal, 2018)

APG is the associate member of FATF and has its jurisdiction in Asia and the Pacific with a vision of pro-actively contributing to a reduction in the economic and social impacts of serious crime and a mission to combat money laundering and terrorist financing in the Asia Pacific region through effective participation and implementation of the FATFs standard in APG member jurisdictions.

Nepal obtained membership of APG in 2002 and has expressed its commitment to fully comply with international AML/CFT standards. Nepal is quite active in APG and its forum and has continued to participate in all kinds of training and meetings by APG. Nepal has served as a member of APG steering committee representing south Asian countries for the year 2012/2013 and hosted 21st annual meeting at Kathmandu in July 2018.

APG carries out the following functions:

- Provide a strong, cohesive and autonomous regional body for members and observers.
- Actively participate and cooperate with the global AML/CFT network
- Assess APG member's compliance with the global AML/CFT standards

- Carry out education, research and analysis activities to enhance understanding of the money laundering and terrorist financing environments and effectiveness of AML/CFT efforts.
- Provide assistance to APG members to implement the global AML/CFT standards through implementation planning and the provision of guidance.
- Provide coordination, advisory services and information sharing for technical assistance and training.

Financial Action Task Force (FATF) (FIU-Nepal, 2018)

The FATF is an inter-governmental body established in 1989 by the ministers of its member jurisdictions. It is a policy making body which works to generate the necessary national legislative and regulatory reforms with objective of setting standards and promoting effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system.

Nepal is not a member to FATF directly but has a relation with FATF through APG. Nepal was engaged with FATF through ICRG process since 2009 and has proved its commitment by complying international standards through enactment and amendment of relevant legislations, establishment and designation of institutions like financial information unit (FIU), department of money laundering investigation and other regulatory institutions for various sectors and investigating agencies for other.

The FATF's forty recommendations are considered as the global standards for countering money laundering, financing of terrorism, and financing of proliferation of weapons of mass destruction. The mandate of the FATF is to set standards and to promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and the financing of proliferation, and other related threats to the integrity of the international financial system. A broad outline of these recommendations (FATF, 2012) is as follows:

- Countries should identify, assess and understand money laundering and terrorism financing risks and use risk-based approach (RBA) to prevent and mitigate those

risks based on identified and assessed risk. Also, there should be cooperation and coordination among the stakeholders of AML regime (such as the Government, law enforcement authorities, financial institutions, FIU, etc.) within the country.

- Countries should criminalize money laundering on the basis of the Vienna Convention and the Palermo Convention and the Terrorist Financing Convention, including legislative measures, to enable their competent authorities to freeze or seize and confiscate the following, without prejudicing the rights of bona fide third parties.
- Countries should implement targeted financial sanctions regimes to comply with United Nations Security Council resolutions relating to the prevention and suppression of terrorism and terrorist financing, proliferation of weapons of mass destruction and its financing. And also, should review the adequacy of laws and regulations that relate to entities like non-profit organizations which can be abused for the financing of terrorism.
- Financial institutions should undertake customer due diligence (CDD) measures such as identification and verification of customer's identity, identifying beneficial owner, understanding and, obtaining information on the purpose and intended nature of the business relationship, and adoption of record keeping measures. Further all the branches and subsidiaries of financial institutions located in the foreign countries should adopt home country's regulation on AML. In case the financial institutions depend on the third-party personnel for conducting the CDD, the financial institutions should determine that the third parties are complying with the CDD and record keeping measures. The financial institutions should be regulated and supervised for AML/CFT compliance by their respective competent authorities. They should be provided with guidance and feedback by the competent authorities on implementation of these measures.
- Financial institutions should adopt higher diligence in case of politically exposed persons, wire transfer services, correspondent banking relationships, and in case of providing services to the natural/ legal/ financial institutions located in high risk countries as indicated by FATF, and in the adoption of new technologies for financial services like mobile banking.

- Adoption of CDD and record keeping measures by the Designated Nonfinancial Businesses and Professions (DNFBPs) such as Casinos, real estate agents, dealers in precious metals and stones, lawyers, accountants, and trusts. Further, these DNFBPs should be brought under the regulatory framework. The non-profit organizations should be prevented from the misuse of terrorism financing activities considering their vulnerability.
- Have a mechanism in place such as declaration or disclosure method, for the detection of cross-border transportation of currency and bearer negotiable instruments through cash couriers. There should be rigorous sanctions against the persons making false declarations or disclosures.
- Reporting of suspicious transactions to the financial intelligence unit, and the reported transactions should be kept confidential.
- Ensuring transparency in the functioning of legal entities, including adequate and accurate disclosure on the information pertaining to beneficial owners of these legal entities.
- In case of the non-compliance with AML measures, the financial institutions and DNFBPs (including its directors and senior management), and all the natural and legal entities should be subjected to disciplinary and financial sanctions.
- Establishment of FIU for the function of receipt and analysis of suspicious transactions and other relevant information, and dissemination of the results of that analysis.

There should be mutual cooperation among the countries in relation to investigation and prosecution of money laundering and its associated predicate offences, and terrorism financing offences. Further, the financial institutions secrecy laws should not hinder the mutual legal assistance between the countries.

International Monetary Fund and World Bank (FIU-Nepal, 2018)

Nepal is a member country of the world bank and international monetary fund. Both the organizations have mandate for certain AML/CFT matters basically in accordance to article IV under articles of agreement of the international monetary fund. These global organizations have provided trainings and technical assistance for capacity buildings for

member countries. Both agencies have supported Nepal with providing the tools for transparency and preparing on how to going after dirty money.

IMFs technical assistance is funded by AML/CFT topical trust fund. IMF has substantially supported Nepal in developing national AML/CFT strategy, legal supervisory and FIU capacity building frameworks which was continued till April, 2006. IMFs assistance is aimed at implementing priority of national strategy under TTF:

- Improvements in AML/CFT laws.
- Development of directives, guidelines and skill and capacity building of supervisors.
- Development of operational manual and skill and capacity building.

Basel Committee on Banking Supervision (FIU-Nepal, 2018)

Basel committee on banking supervision was formed in 1974 by the central bank governors of the group of ten countries. It formulates broad supervisory standards and guidelines and recommends statements of best practices on a wide range of bank supervisory issues. According to the Basel committee report on CDD for banks (BCBS, 2001), the Basel committee strongly supports the adoption of FATF recommendations for banks not only for the prevention of money laundering risk, but also for the effective management of other banking risks such as operational, legal, reputational and concentration risks. The implementation of KYC procedures facilitates protection of bank's reputation and integrity by reducing the probability of banks becoming a victim of the financial fraud.

In the case of bank branches and subsidiaries in the foreign jurisdiction, Basel suggested to adopt the KYC standards that are more stringent out of the home country regulation and foreign jurisdiction standards. The KYC framework as prescribed by the Basel comprises of four elements as follows:

- Customer Acceptance Policy:
 - Banks should develop a policy and procedure for accepting a person or a legal entity as its customer. The policy should clearly prescribe the activities such as risk assessment of the prospective customer, account opening requirements based

on the perceived risk, and measures of extensive diligence in the case of high-risk customers. Customer risk was to be determined by considering various factors such as customers' country of origin, background, public/ high profile position, business activities, linked accounts, etc. The decision of accepting the high-risk prospective customers, such as politically exposed persons, should be taken at the senior management level.

➤ Customer Identification:

Basel mandates banks not to open accounts with fictitious names or anonymous accounts. Banks should obtain the documents that establishes the identity of the prospective customer. The best documents recommended to be taken for customer identification are those which are most difficult to be obtained illicitly and to counterfeit. The extent and nature of information sought depends on the type of customer (e.g. person, corporate, trust, etc.) and the risk possessed by the customer, i.e. low/ medium/ high risk. For e.g. in the case of business companies, banks should seek information on structure of the company, source of funds, beneficial owners, and the persons who have control over the funds. The documents or information provided by the person should be verified for its genuineness.

➤ On-going Monitoring of High-risk Accounts:

The most essential control of CDD process is the transaction monitoring activity for identifying the unusual or suspicious activities. The fundamental step in transaction monitoring is identifying the deviations from the normal or expected activity. These deviations constitute the unusual behavior of the client account. Basel suggested that the extent of monitoring depends on the risk sensitivity of the account. In case of high-risk accounts, banks should conduct intensified monitoring of accounts. Basel suggested to incorporate an indicative list of activities (for e.g. large amounts of cash deposits inconsistent with the normal transactions in the account, very high account turnover inconsistent with the size of balance maintained in the account, etc.) that can be considered as of suspicious nature.

➤ Risk Management:

Risk management activities include management oversight, systems and controls, segregation of duties, training, internal audit, and other related internal controls. Bank's board of directors should ensure the effectiveness of KYC procedures in place. The hierarchy of reporting suspicious transactions should be clearly communicated to all the employees of the bank. Banks should conduct an independent audit evaluation of their own policies and procedures. The audit function should also evaluate employee performance through sample testing for compliance functions. There should be an ongoing employee training in AML functions. The training should address with different requirements for different employees such as new staff, frontline staff, compliance staff, etc. Supervisors should ensure that the banks maintain good KYC standards in the interest of the integrity of the national banking system. In case of any non-compliance with the KYC standards, appropriate action should be taken against such banks.

Egmont Group of FIUs (FIU-Nepal, 2018)

The Egmont group is a united body of 159 financial intelligence units. It provides a platform for the secure exchange of expertise and financial intelligence to combat money laundering and terrorist financing. The goal of this group is to provide a forum for FIUs from around the world to improve cooperation in the fight against money laundering and financing of terrorism and to foster the implementation of domestic programs in this field.

FIU-Nepal became a member of Egmont group on June 10, 2015 and is able to send requests for information to other member jurisdictions by the Egmont Secure Web secure email network and also receive requests from other Egmont Group members. Intelligence shared between jurisdictions is crucial for the analysis of STRs and development of intelligence for dissemination. Timely responses and quality intelligence are essential for the jurisdiction to develop the intelligence. FIU-Nepal provides full cooperation for the request jurisdiction by acknowledging and responding to an information request in a timely manner depending on the nature and detail of the information requested. The information included in these requests may be used for intelligence purposes only and may only be forwarded to law enforcement with the express consent of the disseminating

FIU or information is required for evidential purposes, law enforcement must request the information by way of submitting a mutual legal assistance request to the appropriate jurisdiction (FIU-Nepal, 2018).

2.1.6 Domestic Legislations for Combating Money Laundering

Assets (Money) Laundering Prevention Act 2008 (NRB, 2019)

The ALPA 2008 has come into force from 28 January 2008. This was the new legislation to deal with the matters of AML/CFT in Nepal and as there was no clear provision before to deal with such issues, the enactment of this Act has been considered a major achievement of Nepal to fight against money laundering and terrorism financing.

The major aspects incorporated in this act are:

- Criminalizing the ML and TF activities, assigning fines and punishment for such crimes,
- Formation of Coordination Committee for coordination and advisory purpose,
- Establishment of FIU for receiving, analyzing, and disseminating information related to ML and TF,
- Establishment of Money Laundering Investigation Department for investigation and prosecution of crimes related to ML and TF,
- Provision for investigation and inquiry of the criminal offences of ML and TF,
- Provisions for freezing and seizing of the assets related to ML and TF,
- Provisions for Customer Due Diligence (Know Your Customers)

Asset (Money) Laundering Prevention Rules, 2009 (NRB, 2019)

The asset (Money) Laundering Prevention Rules, 2009 came into force to give full effect to the ALPA, 2008. Followings are some of the major areas the Rule covers:

- Extension of the power and duties of Coordination Committee,
- Formation of Technical Committee for the execution of related matters,
- Authorization of FIU to issue directives to government offices,
- Obligation of the regulatory body, reporting institutions and natural persons,
- Obligation of the compliance officer,

- Express procedure related to compliant, inquiry and investigation.

Asset (Money) Laundering Prevention Act (First Amendment), 2011 (NRB, 2019)

The ALPA 2008 was first amended through the Asset Laundering Prevention Act 2011.

This issue incorporated amendments in the following major aspects:

- Criminalization of Money Laundering and Terrorism Financing,
- Nature of ML and TF Activities,
- Criminalization of ML/TF activities performed in Foreign Nations,
- Threshold Transaction Report to be submitted by financial institutions within 15 days of the date of transaction,
- Addition in the members of Coordination Committee,
- Provisions for functions, powers and duties of Coordination Committee and FIU,
- Provisions for fine and punishment against ML/TF activities,
- Functions, duties and rights of regulating body.

Asset (Money) Laundering Prevention Act (Second Amendment), 2015 (NRB, 2019)

The ALPA 2008 was amended second time through Asset Laundering Prevention Act 2015. This issue incorporated amendments in the following major aspects:

- Prohibition on anonymous or fictitious accounts and against shell bank,
- Provision for customer identification, beneficial owner identification and special provision for identification of politically exposed persons (PEPs),
- New technology, non-face to face transactions and ongoing monitoring,
- Provision on cross boarder correspondent banking,
- Enhanced and simplified CDD and CDD of existing customer,
- Responsibilities of reporting entities and identification and verification by third party,
- Compliance with obligations by foreign subsidiaries and branches and obligation to report suspicious transaction,
- Record keeping and special monitoring of certain transactions.

Financial Information Unit (NRB, 2019)

Financial information unit (FIU) is Nepal's financial intelligence unit. It is a central, national agency responsible for receiving, processing, analyzing and disseminating financial information and intelligence on suspected money laundering and terrorism financing activities to the money laundering investigation department, other relevant law enforcement agencies and foreign FIUs. FIU was established on 21st April, 2008 as an administrative FIU under the section 9 and 10 of asset laundering prevention act 2008. It is concentrated on converting financial information into intelligence by adding value in financial information. The normal process of FIU function is presented as (NRB, 2019)

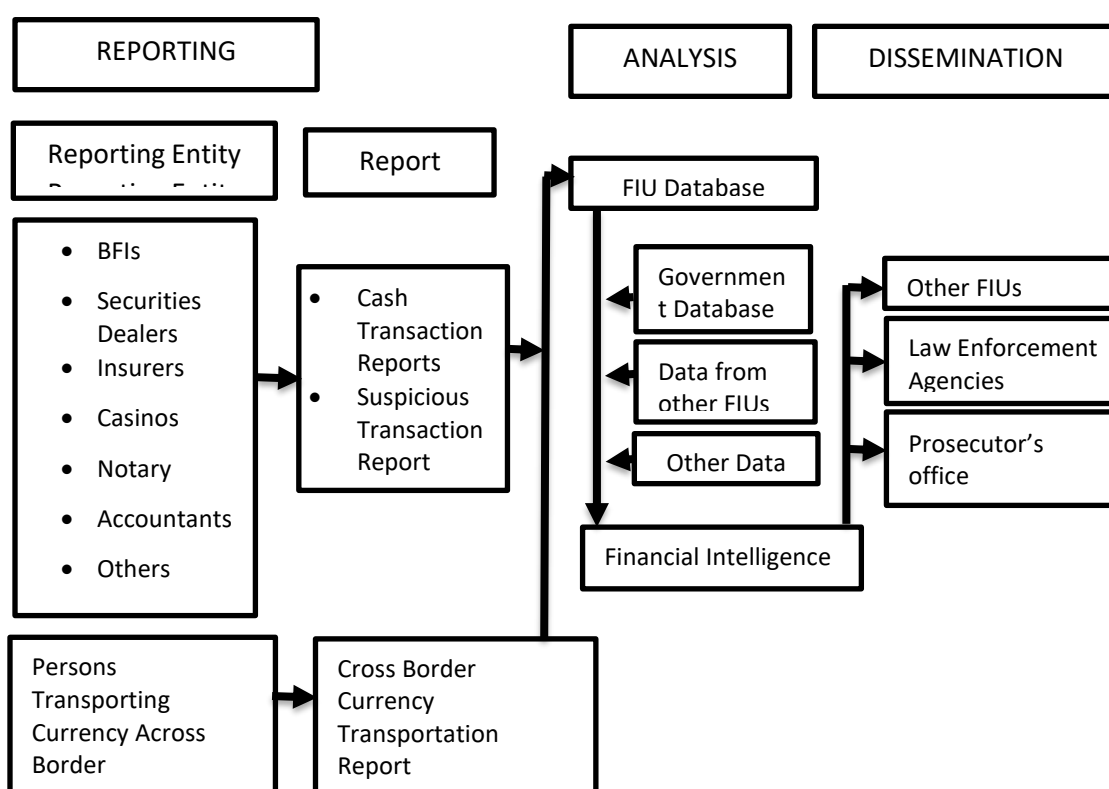


Figure 1 Process of FIU Function

Noted from: FIU Nepal

The FIU- Nepal has been provided with the following power, function and duties under section 10 of assets laundering prevention act, 2008. FIU, in addition to other functions, responsibilities and power mentioned anywhere in the act, shall have following functions, responsibilities and power:

- To receive threshold transaction report (TTR),
- To receive and analyze suspicious transaction reports (STR),
- To receive the report of currency and foreign bill of exchange,
- To disseminate, spontaneously and upon request, analysis and related information to the department or other investigation agency, if it suspects money laundering, terrorist financing, or other offence in its analysis,
- To provide training on money laundering and terrorist financing (ML/TF) to its own staffs, regulator, reporting entity and relevant government agencies having liability to perform under this act.
- To provide feedback and guidance in relation to, including, the detection of suspicious activity, suspicious transaction report or information to the reporting entity or concerned agency.
- To prepare and submit an annual report, on its activities including the money laundering and terrorist financing typologies, techniques, methods and trends of offences to the government of Nepal through Rastra Bank.
- To assist in supervision of reporting entities in coordination with regulator as per necessity so as to know whether reporting entities has developed mechanism to identify suspicious activity and reported or provide feedbacks on supervision report.
- To conclude understanding with foreign counterparts in order to exchange information upon reciprocity.

NRB Strategic Plan and Policies 2017-21:

The strategic plan and policies 2017-2021 has focused on addressing economic and financial issues currently faced by NRB and the Nepalese economy in maintaining macro-economic stability. It has also given the priority on restructuring of the NRB in accordance with federal structure, constructing earthquake devastated buildings, modernizing ICT system, adopting technological advancements, upgrading payment system, strengthening good governance and institutional capabilities and maintaining good relations with national as well as international entities. Major areas related to FIU in NRB strategic plan 2017-21 are as follows:

- Revising AML\CFT Provisions

- Developing comprehensive supervision framework based on AML/CFT standards by reviewing national risk assessment (NRA) framework, formulating AML/CFT national strategy and developing AML/CFT compliance framework
- Strengthening relationship with relevant international organizations, strengthening coordination framework with relevant stakeholders (law enforcement agencies, regulators and other related agencies)
- Implementing goAML software and applying strictly in banking sector.

NRB has tighten their policies for banks in providing STRs and TTRs in stricter manner. Commercial banks have been submitting STRs, TTRs in goAML system since magh 2076. Also, supervisory information system (SIS) reporting has been made compulsory for all commercial banks as per monetary policy 20179/2079.

2.2 Empirical Review

2.2.1 Review Articles, Journal and Thesis

In this section, the earlier studies and various articles related to this study will be presented. They are collected from various journals and magazines published all over the world. This will further add up to broader our understanding of the issues related to our research work.

Bishwakarma and Koirala (2021) studied the implementation of anti-money laundering regulations in Nepalese banking sector from employee perspective. The study was focused on the awareness level of bank employees and the influencing factors that affects the effectiveness in AML practices ne Nepalese banking sector. The study found that the training and development of employee regarding AML, ethical behavior of banks, change in technology, control over business sophistication and auditing and reporting standard are equally beneficial for the effective implementation of AML practices in Nepalese banking sector.

Joshi and Shah (2020) studied the relationship between awareness of AML related factors and acceptance of AML regimes. Along with that, the study accesses the level of awareness and level of acceptance among bank clients about AML factors and AML regimes respectively. The study is based on descriptive and inferential research designs,

the study made use of primary data collected through a structured questionnaire surveyed on 168 banks that are of 18 years and above, using convenience sampling technique. The study also reported that bank customers of Nepal have comparatively higher awareness of ML, TF, AML, KYC than that of AML legislation and AML investigating agency.

Bekhouche (2018) attempted to find out the regulations and policies relating to money laundering in Malaysia. Researcher used exploratory study on Malaysian law to know the legislation related to the money laundering in Malaysia and the armchair library approach was used for the collection of the primary legal materials. Author found that Malaysian government has made huge efforts to regulate money laundering. Malaysia continues to make a broad and sustained effort to combat money laundering and terrorist financing flows within its borders. With the anti-money laundering act 2001 Malaysia has joined the international community in its effort to curb money laundering, Malaysia continues to make a broad and sustained effort to combat money laundering and terrorist financing flows within its borders.

Pavone and Parisi (2018) examined possible configuration of corporate anti-money laundering supervisions with the aim of underlining the connection between anti-money laundering legislation and rules referring to the government and to internal control system in Italian corporations. Research was based on qualitative approach through examination of case study. Researchers have found that there is extreme advantage for companies that respect anti-money laundering policies. Having a reduction in cases of money laundering in the economy protects its corporate image better and avoids damages of legal and reputational types. The analysis of Alfa S.p.a case showed the bank operability characterized by:

- Negligence of anti-money laundering regulations because of a prominent dedication to satisfying the business interest of securing clients
- Slow and late risk mitigation activity and compliance with money laundering legislation
- Repeating inefficiencies of the adopted computer systems
- Involvement of production functions in the process of mitigation of risk

Raweh et al. (2018) analyzed about international laws and procedures on anti-money laundering practiced and followed by banks in Yemen. Researcher used primary data and descriptive analytical methods using structured questionnaire which include 11 banks with 60 branches and offices in Yemeni capital. The analysis reveals that most Yemeni banks adhere to international laws and regulations on anti-money laundering. Researcher also found that most formal institutions such as central banks and the ministry of finance and other government departments cannot function in an unstable political climate. Individual companies use the banking system in limited level for transactions so the government cannot follow the money sources and will increase the money laundering in Yemen economy.

Oluwadayisi and Mimiko (2017) examined the legal regimes against the crimes of terrorism, politically exposed persons and money laundering in Nigeria and provided solutions for the expected role of the law enforcement agencies and the judiciary. Researcher suggest the possible way out from the dearth of enforcement of the legal regimes and the involvement of the judiciary will include enforcing compliance by regulatory institutions, 360-degree prosecution of cases, impeccable drafting of charges, accelerated hearing in court, inter agency cooperation in tracking offences, protection for the evidence of special witness and publication of wanted list of suspected persons.

Maguchu (2017) analyzed the effects of the presidential powers, amendment to the money laundering and proceeds of crime act to include legal practitioners under the list of designated non-financial business and professions. Author used textual analysis of anti-money laundering legislation within the context of legal practice in Zimbabwe. The study found that amendment of law against money laundering in Zimbabwe has put it on the international standard and prevents lawyers from falling to the mercy of organized criminals and money launderers. Author found anecdotal evidence that the AML legislation turns lawyers into watchdogs or law enforcement agents and lack of empirical research can make difficult to understand the impact of the provisions of the law on contested issues.

Viritha and Mariappan (2016) on study about the level of awareness and acceptance of bank customer regarding anti-money laundering practices of banks stated that consumers

have low level of awareness with regard to usage of banks as a channel for money laundering and terrorism financing activities, reporting function of the banks, AML and combating financing of terrorism legislation and about the existence of financial intelligence unit in India and its function. Research was conducted on 416 customers of public and private banks in Pondicherry and Chennai regions in India above the age of 18 years using structured questionnaires. Researchers found that customers were aware about money laundering and customer identification requirements and are neutral towards acceptance of AML measures by bank.

Dexiang Mei (2015) in the research paper anti-money laundering game between banking institutions and employees progressing CNY internationalization attempted to analyze the three equilibrium strategies of banking institutions and employees under Chinese government's different anti-money laundering efforts, both free of AML, BIs involved in AML but BEs away from AML and both engaged in AML. Researcher found that Chinese government's AML effort will impact BIs' AML choice, and BIs' AML choice will affect BEs' AML choice. Only with the effective cooperation among the government, BIs, and BEs can we achieve the AML equilibrium strategy of the two gaming parties.

Viritha (2015) conducted study to assess the level of compliance with regulatory guidelines on anti-money laundering in the scheduled commercial banks in India, and to understand the bottlenecks in AML implementation. A guided structured questionnaire was used to collect the data from the 392 bank employees of public, private and foreign banks in Pondicherry and Tamilnadu state of India. During study author found that Indian banks were largely complying with the AML measures. The compliance with guidelines on KYC updating was found to be higher followed by reporting requirements and customer identification procedure. The practice of customizing or amending the AML policy of the bank according to the bank's business risk and developing regulatory obligations was found unsatisfactory. During study bottlenecks in AML implementation identified were deficit of resources, lack of customer support, training, feedback and information exchange.

Arasa and Ottichilo (2015) studied the effect of customer characteristics, staff competency, information communications technology infrastructure and bank size on the level of KYC requirements. Researcher used descriptive research design and target population of study was the top and middle level officers of 43 commercial banks and 1 mortgage finance firms who are directly involved in the day-to-day operations of the commercial banks using structured questionnaire. The study found that the customer characteristics, banks size, staff competency and ICT infrastructure do indeed influence the level of KYC compliance among the commercial banks in Kenya.

Kemal (2014) explored the effectiveness of AML regulations in Pakistan. Researcher tried to find the relationship and impact of customer record keeping, employee training and suspicious transaction reporting on money laundering. Structured questionnaire was used with a sample of hundred responses from the employees of public and private sector banks located in Rawalpindi and Lahore. Equal number of responses was collected from the both cities to make the analysis more reasonable. Snowball sampling was adopted in selecting the sample. The study found that there is a moderate impact of employee training on money laundering in banking system. A moderate inverse relationship between employee training and money laundering and anti-money laundering regulation of customer record keeping has weak impact on money laundering in developing countries.

Gallant (2014) put an analytical perspective on four decades of money laundering regulation in Canada. Researcher extracted the principal impacts of anti-money laundering regulation through a distillation of money laundering research. Author reported that regulation has brought significant impact on recovery of tainted wealth, modest increase in the visibility of global financial transactions, disruptions of tax haven jurisdictions and some disruptions to international law.

Al-Nuemat (2014) conducted a study aimed at indicating the most significant stages and techniques of money laundering at banking institutions in Jordan and also discussing the function of Jordanian banks in the light of the pertinent legislation. The study has addressed banking secrecy and its relationship to the money laundering. Study has defined the positive and negative effects of banking secrecy. For the benefits, banking

secrecy provides barriers of secrecy on the money in the banks hence it protects individual freedom in the distance for an individual to trust his financial away from knowing others and hence attracts national capital and prohibits them from leaving the country leaving the country in search of security and privacy while attracting foreign capital that seek shelter at the same time. In contrast banking secrecy is a cover to hide the money resulting from unlawful means like narcotics smuggling and crimes referred to as money laundering.

Shahin (2013) presented a case study how Lebanon being a small open economy with a free market oriented banking sector complied with international rules and personal initiatives in the global fight for AML/CFT and shed light on the cooperative role played by banks in the AML/CFT arena. The study found that the Lebanese banking system was in line with the USA patriot act; Lebanon had been always a major compliant with international rules especially since 1990 with the creation of FATF. The Lebanese banking sector was abiding by international sanctions taken to deter any infiltration; and Lebanese banks, whether in Lebanon or abroad, were maintaining good and clear relations with correspondent banks.

Al-Rashdan (2012) examined about how financial information unit (FIU) approaches in enforcing compliance and how these units can ensure the application of most effective enforcement mechanism to secure the best outcome of such regulatory action. The research was conducted based on information consisted of scholarly books, papers and published articles through the web. Researcher found that FIUs should not concentrate on adopting a purely cooperative style or take a tough regulating action. Rather a more qualitative approach should be adopted like individually tailoring the approach on the basis of an examination of the FIUs findings on entity non-compliance and how it can best operate its mechanism so as to ensure those entities comply effectively with their AML/CTF obligations.

Idowu and Obasan (2012) assessed impact of AML policy on bank performance. A census of three banks located in Nigeria was taken and bank staff was surveyed using a structured questionnaire. The study adopted a simple random sampling technique to recruit 200 employees with an average of 67 employees from each bank. The

questionnaire collected level of awareness of the respondents and extent of success of AML policy. The analysis indicated a strong positive relationship between the banks performance and adoption of sound AML policy. The study also reported that the majority of bank's staffs were aware of the AML policy and understood its provisions.

Simwayi and Wang (2011) studied the role of commercial banks in combating money laundering in the People's Jensen and Png (2011) examined implementation and issues related to financial action task force (FATF) recommendations 40+9 by the developing countries from the Asia-Pacific Region. Researcher used the compliance ratings from published reports of assessments/mutual evaluations for these countries between 2004 and 2010 and made comparisons with the ratings for FATF countries for that period. Study found that these developing countries have showed positive developments in addressing anti-money laundering and combating the financing of terrorism (AML/CFT) requirements. Due to the complexities on FATF 40+9 recommendations, challenges in prioritizing AML/CFT development and general limited capacity in these countries the general level of compliance is quite limited but satisfactory in comparison with FATF countries.

Republic of China (PRC) Zambia. A questionnaire and guided oral interviews were employed to collect data from the bank employees entrusted with AML activities. The paper found that commercial banks in Zambia have generally complied with the bank of Zambia AML directives of 2004 and they have taken AML laws and regulations very seriously. The study further highlighted the difference between attitudes of senior management and junior staff. While senior management's attitudes were positive, junior staffs perceived AML activities as an extra burden on the functioning of the banks. The study also addressed the difficulties faced by the compliance officers which ranged from customer identification to identifying and reporting suspicious transactions. With regard to the customer identification, verifying the authenticity of the identity documents was a serious challenge because of the ease with which they can be forged. Also, the realization of an exact suspicious transaction and a timely report of it was a difficult task.

Shehu (2010) examined the impact of global financial crisis of 2009 and the need for prudential management and effective supervisory and regulatory measures in ensuring the

stability and integrity of the financial sector aiming at increasing awareness about financial action task force standards and the efforts at many bad quality STRs, as firms focus more on the number of reports rather than the qualitative.

2.3 Research Gap

Nepal is developing economy and is adversely affected by corruption, tax evasion, and other economic crimes. High level of corruption, tax evasion, human trafficking, and economic crimes such as cheating, forgery of valuable security, criminal conspiracy and criminal breach of trust are the major sources of black money in Nepal (Asia Pacific Group, 2011). The proceeds from these crimes in turn increases the economic crimes such as money laundering and terrorism financing. It is very important to identify sources of money laundering, the flow of dirty money and its impact to society, nation and international community so that the provision relating to anti-money laundering could be made more effective. Despite having various laws and regulations, central bank continuously following and monitoring monetary activities of bank account-holders, still the problem of money laundering is not solved. General public are unaware about money laundering and knowingly or unknowingly they are involved in this kind of activities.

Money laundering is threat to the economic structure of the nation and for stable financial institution and system. Banks plays key role in monitoring financial transactions of public. Banks in the process of financial intermediation are challenged with various kinds of financial and non-financial risks. They are engaged in mobilizing the fund of public and money laundering takes place during the mobilizing of fund. The risk of money laundering exposes banks to reputational, legal, operational and integrity risks. So, employees of banks must be aware of money laundering issues, rules and regulations. Managers and employees must continuously observe transaction of account-holders and report if any unusual activities are seen. Sarigul (2013) stated that the financial system has remained as the most preferred channel for launderers in the laundering of illicit money.

CHAPTER: III

RESEARCH METHODOLOGY

This chapter discusses the methodology adopted in conducting the research. This chapter gives the whole idea about how the research will be conducted. The present research aims at recording and analyzing the status of AML implementation in banks from the perspective of bank employees. This chapter covers the research design and plan, population and sample size determination, data collection procedure, instrumentation of data and data analysis method.

3.1 Theoretical Framework

The Theoretical Framework is the foundation on which the entire research project is based. It is a theoretical structure of assumptions, principles and rules that holds together the ideas comprising a board concept and it identifies the network of relationships among the variables considered important to the study of given problem. The variables AML Awareness, attitudes towards AML regulation and opinion about AML practices are measured using the demographic variables of employee's gender, educational qualification, job position and work experience and type of bank.

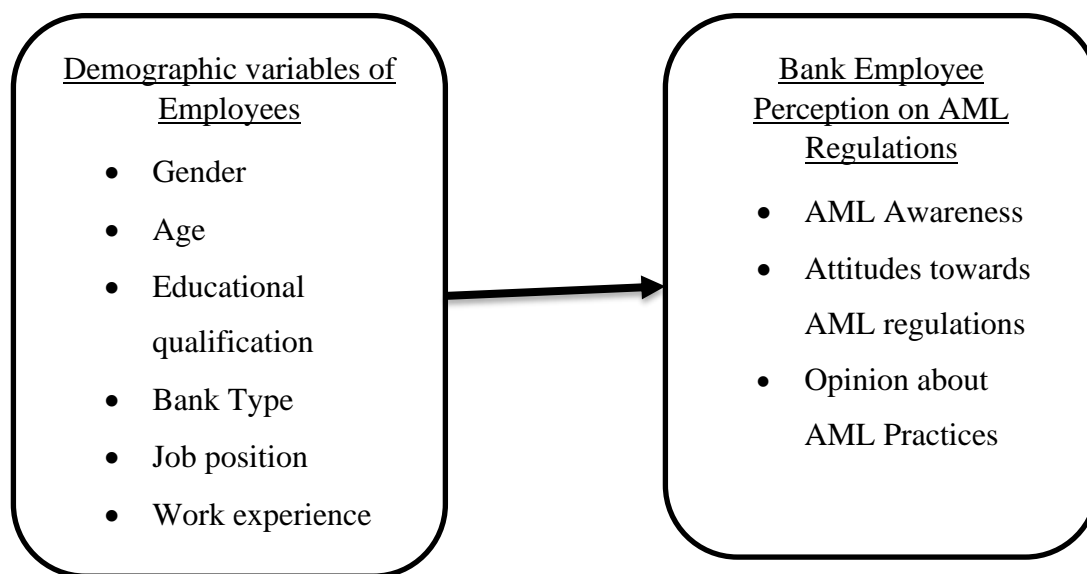


Figure 2 Theoretical Framework

Demographic Variables

Awareness and attitudes towards AML regulation and opinion on AML practices can differ based on the demographic variables of the employees of the bank. Demographic variables that can affect AML regulations include gender, educational qualification, job position, work experience and type of bank where employee works.

➤ **Gender:**

The level of awareness, attitudes and opinion on AML practices may differ between male and female employees. This variable is taken to measure the differences in perception towards AML regulation between male and female employees.

➤ **Age:**

Understanding of AML regulations and attitudes and opinion on AML practices may depend upon age of the employees. This variable is taken to test the level of awareness, attitudes and opinion towards AML regulation by the employees on the basis of age.

➤ **Educational Qualification:**

Understanding of AML regulations and attitudes and opinion on AML practices may depend upon the level of education of the employees. This variable is taken to test the level of awareness, attitudes and opinion towards AML regulation by the employees on the basis of their educational qualification.

➤ **Job Position:**

It is the position hold by the employees in the organization. Level of employees in the banks may affect the awareness, attitudes and opinion may affect the AML regulations. This variable is taken to identify the level of awareness, attitudes and opinions on AML regulations in banking sector of Nepal.

➤ **Work Experience:**

Time spent by the employees working in the bank affects the level of understanding about AML regulations. This variable is taken into consideration to measure the level of awareness, attitudes and opinion about AML practice on

AML regulations of the employees on the basis of work experience of the employees.

➤ **Type of Bank:**

Bank type taken in this research is private bank and public bank. Banks having investment of government are taken as public bank and other than that are private banks. Working environment of bank can affect various aspects of employees. The level of awareness and attitudes towards AML regulations and opinion on AML practice by particular bank depends on the nature of banks.

AML Regulations

Anti-money laundering refers to a set of laws; regulation and procedures intended to prevent criminals from disguising illegally obtained funds as legitimate income. It refers to all policies and pieces of legislation that force financial institutions to proactively monitor their clients in order to prevent money laundering and corruption. Awareness, attitudes and opinion towards AML compliance by the employees affects the AML regulation.

AML Awareness

AML awareness means having knowledge and understanding of money laundering activities and regimes of controlling those money laundering activities. It is about knowing how financial services firms can be used for money laundering and how procedures and controls are taken to prevent those risks. It is about having knowledge about the obligations of firms and their employees under the applicable laws and regulations and the potentially severe consequences of money laundering.

Perception towards AML Regulations

It is a belief or opinion held by the people about money laundering and its regulation. It is the level of understanding and perceiving the offence of money laundering and rules and regulations that control those activities. It may be either positive or negative depending on the nature and mindset of people about money laundering.

Opinion about AML Practices

It is a view or judgment about the measure used by financial institutions and governments to prevent and combat the financial crimes especially money laundering and terrorism financing. AML practice defines how a company monitors accounts, detects and reports financial crimes to relevant authorities. It includes detection of suspicious activities, risk assessment, internal controls, and independent audit to prevent and combat financial crimes in best possible way

3.2 Research Design

This research is of descriptive in nature. The research is descriptive in nature because it describes data and characteristics about the population being studied on the basis of statistics without any manipulation. The findings of this study are totally based on the primary survey.

The study focused on finding the status of AML regulation in Nepalese banks with respect to awareness of AML, perception towards money laundering and AML practices from managerial perspective. Data have been collected by formulating the set of questionnaires which was distributed to the employees of banks. The findings are completely relying upon the data and facts provided by the respondents.

The study is based on various statistical tests and analysis. Descriptive statistics is used to calculate mean and standard deviation. One-sample t-test, independence t-test and one-way ANOVA in hypothesis testing was carried out in the process of research. SPSS and Microsoft Excel are used to analyze and interpret the data.

3.3 Sample Size

The population for this study is comprised of employees working in banking sector. The main objective of the study is to identify AML awareness level, attitude towards AML regulations and opinion on AML practices by employees of various banks. Employees from commercial banks of Kathmandu valley are taken as population for research. 131 respondents were taken as sample. The respondents were randomly selected for administration of the questionnaires using convenience random sampling method.

3.4 Data Collection Method

The study was mainly based on the primary data collection from the employees of banks. Basically, the secondary source of data was internet, books, journals and related articles. The primary source of data was structured questionnaire which is key instrument to collect data for this research. It consisted of two parts.

First part consisted of gender, level of education, type of banks, job position and work experience of respondents in multiple choice questions.

Second part consist of AML awareness, attitudes towards AML regulations and opinion on AML practices in five-point rating scale to meet the necessities and objectives of the study. Microsoft Excel was used to arrange the data and SPSS software was used for the analysis part.

3.5 Data Analysis Technique

As this research is purely based on the academic purpose, a proper procedure was conducted to carry out the research work. Basically, this research is based on primary as well as secondary data. The overall data collection procedures include the identification (literature review and expert opinion), preliminary questionnaire preparation, and approval of the questionnaire, finalization of the questionnaire and collection of the data through questionnaire on the printed format and online distribution of questionnaire.

The questionnaire was divided into two parts they are personal information and factors measuring AML regulations. The secondary data and information have been obtained from several books, journals, reports and institutional publication. An intensive field survey was conducted to obtain the data and information for this research. Researcher has approached banks to meet their employees and provide their information and view regarding anti-money laundering regulations. The data collection procedures include the structured questionnaires, interviews with respondents and different interactions with different respondents.

3.6 Validity and Reliability

Validity and reliability are key aspects of all research Brink, (1993). There might be possibilities of getting wrong answers from the respondents in survey. So, attention of researcher is must require for validity and realibility.

Validity refers to the degree in which our test or other measuring device is truly measured what is intended to measure Pant, (2012). On the other hand, reliability refers to the ability of a research method to yeild consistently the same results over repeated testing (Seltiz, Wrightnman & Cook 1976). The main role of reliability testings is to minimize possible error.

To maximize the vaidity and reliability, analysis of past studies has done and structured and semi structured questionnaire were given to supervisor to assess the validity. As per the suggestion of supervisor, required correction and modification has done. Similarly, every group of respondents were fully guided to make easily understandable of questionnaires which help to obtain reliable data.

Likewise cronbach alpha of each variables is tested to find out collected data is reliable or not. Table 1 shows the cornback alpha of all variables.

Cronbach alpha of variables

Table 1 Cronbach Alpha of Variables

Variables	N	Cornbach Alpha
AML Awareness	20	0.79
Perception towards AML regulations	20	0.833
AML practices	20	0.803

Noted from: Researcher's own calculation

Table 1 shows that cornbach alpha of each variable is higher than 0.60 which means the data are reliable. Researcher collected data from 20 respondents and tested the validity of the questionnaire. The result of the validity test was more than 0.60 which shows that the questionnaire is valid and researcher can further collect the data.

3.7 Analysis Plan

This section reflects how analyses have been done in chapter four and it is necessary to follow the required steps and procedures in order to understand the result and generalize the findings. The collected data were recorded in SPSS for analyzing. Depending upon the nature of questions the coding is followed as per the necessary rule. The analysis plan is:

- For the presentation of the demographic variable percentage and frequency table and chart will be used.
- For descriptive analysis mean and standard deviation is calculated to examine the awareness, perception and practices of anti-money laundering regulations.
- Lastly, hypothesis testing is done by independent sample t-test, one-way ANOVA test and correlation analysis.

CHAPTER IV

RESULT AND DISCUSSION

This chapter aims to achieve the objectives of the study by empirically analyzing the collected data from the respondents. This chapter attempts to present the results obtained from the data analysis and research methodology discussed in chapter three. The results of the data are analyzed based on the research questions and hypothesis. On the basis of primary data obtained from the 131 respondents, the study tried to examine the anti-money laundering regulations and practices in banks. This chapter includes the demographic profile of respondents, descriptive statistics of variables and testing of hypothesis and discussion of the result obtained through analysis. Respondent's profile summarized basic information such as gender, age, family member, education qualification, type of bank, current job position and work experience of bank employees. Under descriptive analysis mean value, standard deviations of corresponding items of the research variables are analyzed. Finally, hypothesis is discussed in order to meet the objectives of the study. The data is analyzed with the help of SPSS. The data are presented with tables and diagram to make it convenient possible to interpret.

4.1 Demographic profile of respondents

This section deals with the demographic analysis and interpretation of collected data from 131 respondents were selected for the survey and all the respondents are employees of banks. Demographic profile such as gender, age, family member, level of education, type of bank, job position in bank and work experience are presented in this section. The demographic profile of respondent is shown in table and figures below.

4.1.1 Gender of respondent

The gender of respondents is classified into male, female and others. The frequency distribution and percentage composition of different genders is shown in Table 2 and figure 3.

Table 2 Gender of respondents

Gender	Frequency	Percent
Male	74	56.5
Female	57	43.5
Total	131	100

Noted from: Researcher's own calculation

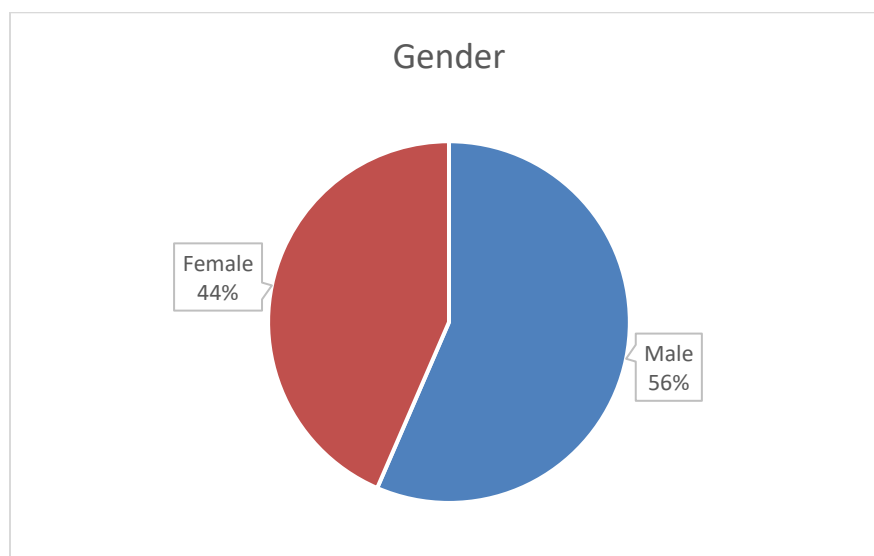


Figure 3 Gender of respondents

As shown in table 2 and figure 3, it is found that there were 74 male and 57 female respondents in the study. It comprises 43.5 percent male and 56.5percent female. Female respondents are comparatively more than male respondents.

4.1.2 Age of Respondents

The age group of respondents is classified into below 25, between 25 and 50 and Above 50. The frequency distribution and percentage composition of different age group is shown in Table 3 and figure 4.

Table 3 Age of respondents

Age	Frequency	Percent
Below 25	6	4.6
26-50	125	95.4
Total	131	100

Noted from: Researcher's own calculation

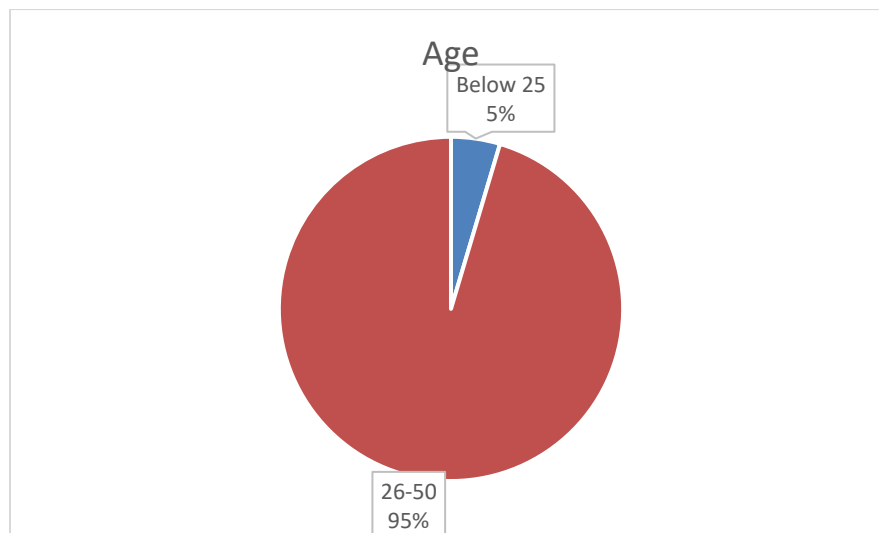


Figure 4 Age of respondents

As shown in table 3 and figure 4 it is found that respondents having age group below 25 years is 6 whereas age group between 25-50 years is 125 respectively. It comprises that age group below 25 years is 4.6 percent and age group between 25-50 is 95.4 percent.

4.1.3 Education status of respondents

The education status of respondents is classified into Bachelor and Master. The frequency distribution and percentage composition of different education status of respondents is shown in Table 4 and figure 5.

Table 4 Education Level

Education Level	Frequency	Percent
Bachelor	41	31.3
Master	90	68.7
Total	131	100

Noted from: Researcher's own calculation

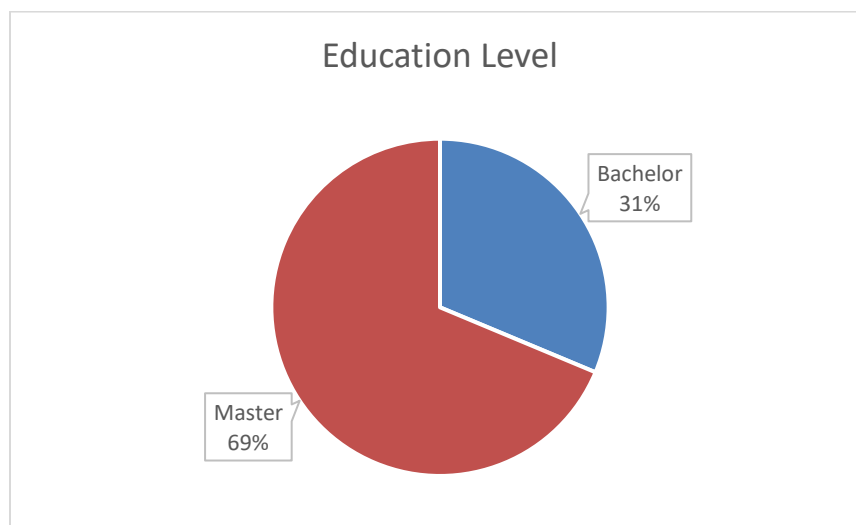


Figure 5 Education Level of respondents

As shown in table 4 and figure 5 it is found that respondents having education qualification of bachelor degree and master degree is 41 and 90 respectively. It comprises 31 percent having bachelor degree and 69 percent having master degree. Respondents with master degree are comparatively more than respondents with bachelor degree.

4.1.4 Types of bank

The type of bank in which respondents are employed is classified into public and private. The frequency distribution and percentage composition of different type of bank of respondents is shown in Table 5.

Table 5 Bank Type

Type of Bank	Frequency	Percent
Public	45	34.4
Private	86	65.6
Total	131	100

Noted from: Researcher's own calculation

As shown in table 5, it is found that respondents from public and private banks are 45 and 86 respectively. It comprises 34.4 percent respondents is from public banks whereas 65.6

percent respondents are from private bank. Respondents from private banks are comparatively more than respondents from public bank.

4.1.5 Job Position in bank

The job position of respondents in bank is classified into assistant level, officer level and manager level. The frequency distribution and percentage composition of job position of respondents in bank is shown in Table 6 and figure 6

Table 6 Job position

Job Title	Frequency	Percent
Assistant Level	72	55
Officer Level	51	38.9
Manager Level	8	6.1
Total	131	100

Noted from: Researcher's own calculation

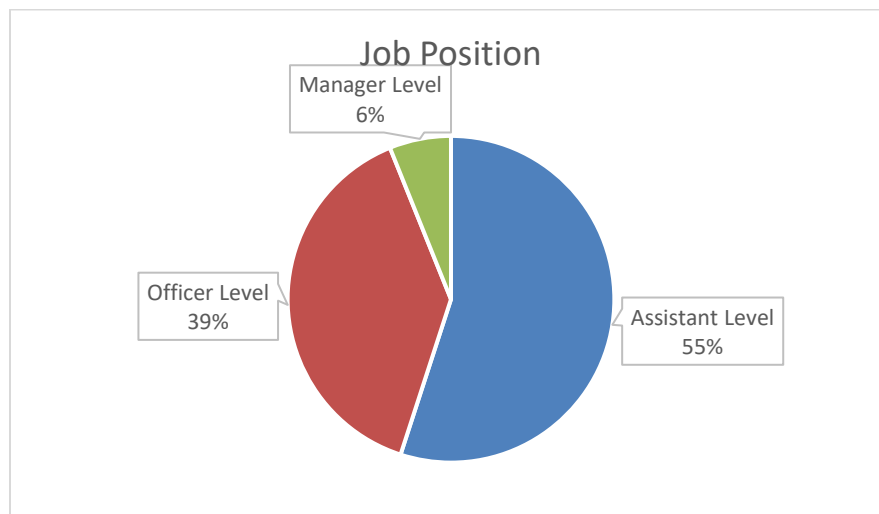


Figure 6 Job position

As shown in table 6 and figure 6 it is found that respondents holding the position of assistant level, officer level and manager level are 72, 51 and 8 respectively. It comprises 55 percent respondents from assistant level, 38.9 percent respondents from officer level and 6.1 percent from manager level. The dominant position holding is assistant

representing 55 percent and the least respondents belong to manager level representing 6.1 percent only.

4.1.6 Work experience of respondents

The work experience of respondents is classified up to 2 years, 2 to 10 years and more than 10 years. The frequency distribution and percentage composition of work experience of respondents in bank is shown in Table 7 and figure 7.

Table 7 Work experience

Work Experience	Frequency	Percent
Below 2 years	34	26
2-10 Years	80	61
Above 10 Years	17	13
Total	131	100

Noted from: Researcher's own calculation

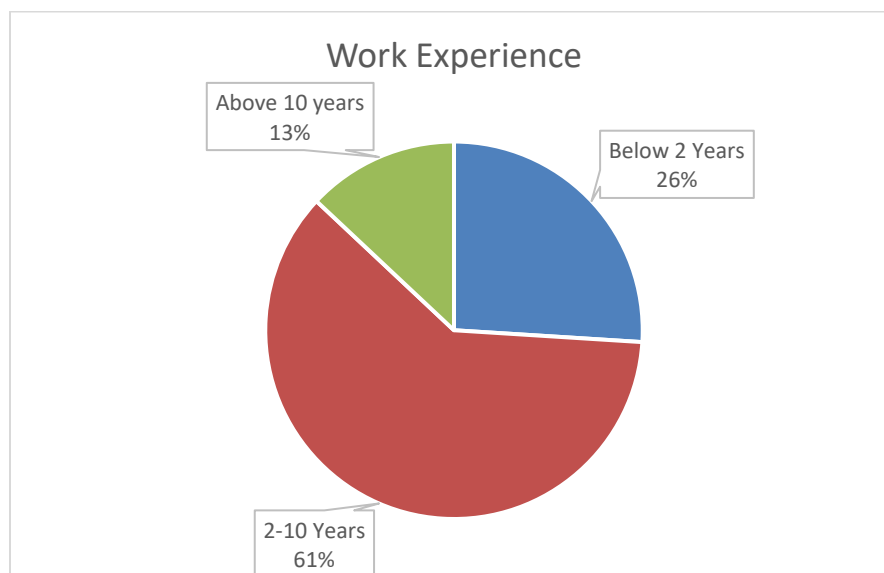


Figure 7 Work experience

As shown in table 7 and figure 7 it is found that respondents with work experience below 2 years, 2 to 10 years and above 10 years are 34, 80 and 17 respectively. It comprises 26 percent respondents having experience below 2 years, 61 percent respondents having experience of 2 to 10 years and 13 percent respondents from experience more than 10

years. The dominant group of work experience belongs to in between 2 to 10 years representing 61percent.

4.1.8 Family Members of Respondents

The family members of respondents are classified into 1-3 members, 3-5 members and above 5 members. The frequency distribution and percentage composition of family members is shown in Table 8 and figure 8.

Table 8 Family Members

Family Members	Frequency	Percent
1-3 Members	15	9.9
3-5 Members	100	75.6
Above 5 Members	16	11.5
Total	131	100

Noted from: Researcher's own calculation

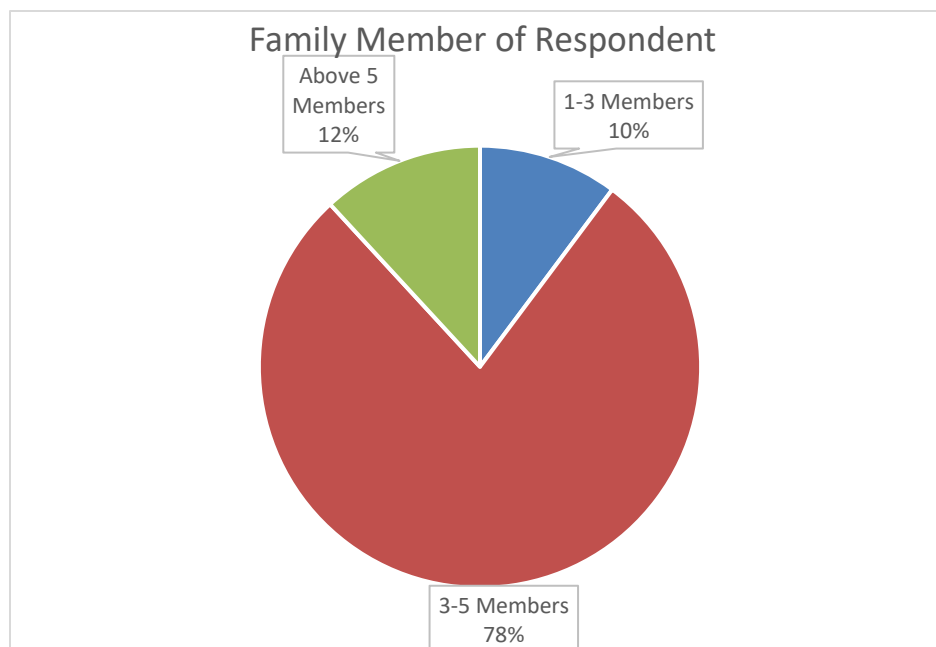


Figure 8 Family Members

As shown in table 8 and figure 8 it is found that having the family members in between 1-3 members, 3-5 members and above 5 members is 15, 100, and 16 respectively. Respondent having the highest family member lies in between 3-5 members which is 78

percent. The ratio is almost same for 1-3 members and above 5 members of the respondent family.

4.2 Descriptive Statistics

This part of research explains the descriptive analysis of the data collected from the respondents through the questionnaires during the research process. Descriptive analysis explains the data with the help of statistical tools and measures. Those statistical measures are mean, frequency and standard deviation. This mean and standard deviation are presented in the tabular form. For this study “Five Point Likert Scale” questions were asked to bank employees which scaled from:

- 1- Strongly Disagree
- 2- Disagree
- 3- Neutral
- 4- Agree
- 5- Strongly Agree

4.2.1 AML Awareness

Six questions were asked regarding the anti-money laundering awareness. Table 9 shows the rating scale of respondents in the six questions.

Table 9 AML Awareness

Awareness Level	N	Mean	Std. Deviation
Money laundering is an act of disguising the origins of illicit money and giving it an appearance of having originated from legitimate source.	131	4.2977	0.92566
Money laundering activity increases crime	131	4.4733	0.74759
Money laundering activity promotes bribery and corruption.	131	4.4504	0.75665
Money laundering affects our economy and nation	131	4.4198	0.55406
I am aware of Asset (Money) Laundering Prevention Act.	131	3.9924	0.95673

I am aware that financial information unit (FIU) is a department working under NRB	131	4.0763	0.83775
Valid N (listwise)	131		

Noted from: Researcher's own calculation

Table 9 shows the mean and standard deviation of AML awareness of the respondents. As shown in the table highest mean relates to “Money laundering activity increases crime” presenting 4.47 with standard deviation of 0.74759 and the lowest mean relates to “I am aware of Assets (Money) Laundering prevention Act” presenting 3.99 with standard deviation of 0.956. it shows that respondents are aware that money laundering activities affects our economy and nation. They agree that they are aware of what the money laundering is and money laundering increases crimes, bribery and corruption. The respondents are also aware of Asset Laundering prevention Act. Respondents are comparatively less aware about FIU working department under NRB than other statements.

Mean higher than 3 indicates that respondents are aware of anti-money laundering regulations. Whereas, mean less than 3 indicates that they are not aware of anti-money laundering regulations. Similarly, mean equal to 3 indicates that the respondents neither aware or unaware of anti-money laundering regulations. As shown in table 4.8 all means are higher than 3 which shows that respondents are aware of anti-money laundering regulations.

4.2.2 Perception towards Money laundering

Eight questions were asked regarding the perception towards money laundering regulations. Table 10 shows the rating scale of respondents in following eight questions.

Table 10 Perception towards Money Laundering

Perception towards money laundering regulation	N	Mean	Std. Deviation
AML is good for bank as it increases public confidence	131	4.145	0.79539
The present AML measures are not sufficient to cater the laundered funds	131	3.6565	0.90953

The convictions for money laundering are negligible	131	3.3282	0.96431
The confiscation (seizing or recovery) of black money are not significant	131	3.374	0.99488
I am not convinced that the result of AML enforcement will be a reduction in the volume of money laundered	131	3.313	0.9453
Compliance with KYC facilitated better knowledge of the customers	131	4.1527	0.97249
There is a loss of prospective customers because of KYC requirements	131	3.2366	1.14913
AML/KYC measures are obstacle to the conduct of banking business	131	2.9618	1.31503
Valid N (listwise)	131		

Noted from: Researcher's own calculation

Table 10 shows the mean and standard deviation of attitudes towards money laundering regulations. As shown in the table highest mean relates to “Compliance with KYC facilitated better knowledge of the customers” presenting 4.1527 with standard deviation of 0.97249 and the lowest mean relates to “AML/KYC measures are obstacle to conduct the banking business” presenting 2.9618 with standard deviation of 1.31503. It shows that respondents are positive about money laundering regulations. Respondents agreed that AML is good for bank as it increases market/customer/public confidence, present AML measures is not sufficient to carter the laundered funds, convictions for Money Laundering are negligible, confiscation (i.e., seizing or recovery) of black money is not significant, they are not convinced that the result of AML enforcement will be a reduction in the volume of money laundered and there is a loss of prospective customers because of KYC requirements. Mean higher than 3 indicates that respondents have positive attitude towards of anti-money laundering regulations. Whereas, mean less than 3 indicates that they have negative attitude towards of anti-money laundering regulations. Similarly, mean equal to 3 indicates that the respondents neither perceived positively nor negatively about anti-money laundering regulations. As shown in table 4.9 all mean except the statement “AML/KYC measures are obstacle to conduct the banking business” are higher than 3 which shows that respondents perceived positively about anti-money

laundering regulations. Respondents did not agree that AML/KYC measures are obstacle to conduct the banking business.

4.2.3 Opinion towards AML Practices

Eight questions were asked regarding the AML practices. Table 11 shows the rating scale of respondents in following eight questions.

Table 11 Opinion towards AML practices

AML practices	N	Mean	Std. Deviation
My banks open account after all the relevant identification documents has been collected and verified	131	4.2061	1.04305
The prospective and existing customers are reviewed and screened if they are banned or blacklisted	131	4.1985	1.01086
There is risk-based profiling of each customer	131	4.1908	0.91243
Bank undertake measures to verify beneficial owners	131	4.0916	0.86336
The risk of the customer account is reviewed regularly	131	3.9466	0.97911
The level of monitoring is different for different types of accounts	131	4.1069	0.90513
There is a periodical updating of the customer identification details	131	4.0534	0.86213
The bank has an internal system for detecting and reporting unusual and suspicious activities	131	4.1832	0.87532
Valid N (listwise)	131		

Noted from: Researcher's own calculation

Table 11 shows the mean and standard deviation of opinion about AML practices by respondents. As shown in the table highest mean relates to “My bank open account after all relevant identification documents/information has been collected and verified” presenting 4.2061 with standard deviation of 1.04305 and the lowest mean relates to “The risk of customer account reviewed regularly” presenting 3.9466 with standard deviation of 0.97911. Majority of respondents agreed that prospective and existing customers are reviewed and screened if they are banned or blacklisted, there is risk-based profiling of

each customer, bank undertake measures to verify beneficial owners, the risk of customer account reviewed regularly, the level of monitoring is different for different types of accounts, there is periodical updating of customer identification details and banks has an internal system for detecting and reporting unusual and suspicious activities. This shows that respondents are complying and practicing with the AML regulations.

Mean higher than 3 indicates that respondents are agreed that they are complying and practicing AML regulations. Whereas, mean less than 3 indicates that they are not agreed that they are complying and practicing AML regulations. Similarly, mean equal to 3 indicates that the respondents are neutral about complying and practicing of AML regulations. As shown in table 11 all the means are higher than 3 which shows that the respondents agreed that their bank are complying and practicing AML regulations.

4.3 Inferential Analysis

This section consists of independent sample T-test, one-way ANOVA test to test the hypothesis.

4.3.1 Hypothesis Testing

This section is focused on testing hypothesis developed for the study. Hypothesis evaluates two mutually exclusive statements to determine which statement to determine, which statement is best supported by sample data. Hypothesis is tested using independent sample t-test, one-way ANOVA test and correlation analysis.

4.3.1.1 Independent sample t-test

This section consists of independent sample t-test of gender and type of bank with AML awareness, perception towards AML regulations and opinion of bank employees about AML practice.

Table 12 Independent sample t-test with gender

Variables	Gender	N	Average Mean	t-value	p-value
AML Awareness	Male	74	4.3604	1.819	0.509
	Female	57	4.1871		
Attitudes towards AML regulations	Male	74	3.6014	1.822	0.068

	Female	57	3.4164		
Opinion on AML practices	Male	74	4.1233	0.021	0.736
	Female	57	4.1206		

Noted from: Researcher's own calculation

Since all p-value is greater than alpha H_0 is accepted. It implies that there is no significant difference in the AML awareness of employees of various banks in terms of gender. Both male and female of various banks are aware of anti-money laundering regulations.

Table 13 Independent sample t-test with Type of bank

Variables	Type of Bank	N	Mean	t-value	p-value
AML Awareness	Public	45	4.2667	-0.277	0.357
	Private	86	4.2946		
Attitudes Towards AML Regulations	Public	45	3.6778	2.273	0.008
	Private	86	3.439		
Opinion on AML Practice	Public	45	4.3333	2.438	0.444
	Private	86	4.0116		

Noted from: Researcher's own calculation

AML Awareness level within type of bank

Since p-value is greater than alpha i.e. ($0.043 < 0.05$) H_0 is rejected. It implies that there is significant difference in the AML awareness of employees of various banks in terms of educational qualification. Educational qualification affects the anti-money laundering awareness level of employees. All employees with different educational background are not equally aware of AML regulations.

Perception towards AML regulation within type of bank

Since p-value is greater than alpha i.e. ($0.025 < 0.05$) H_0 is rejected. It implies that there is significant difference in the perception of employees towards AML regulation of various banks in terms educational qualification. Employees with different educational background perceived money laundering regulations differently.

AML Practice within type of bank

Since p-value is greater than alpha i.e. ($0.799 > 0.05$) H_0 is accepted. It implies that there is no significant difference in the AML practices of various banks in terms of educational qualification. Compliance with money laundering regulations by employees with different educational background are same.

4.3.1.2 One-way ANOVA test

This section consists of one-way ANOVA test of job position and work experience with AML awareness, perception towards AML regulations and opinion of bank employees about AML practice.

Table 14 One-way ANOVA test on Job position

		Sum of		Mean		
		Squares	df	Square	F	p-value
Between						
AML Awareness	Groups	1.946	2	0.973	3.395	0.037
	Within Groups	36.692	128	0.287		
	Total	38.638	130			
Attitudes towards						
AML Regulations	Between					
	Groups	0.104	2	0.52	0.153	0.858
	Within Groups	43.65	128	0.341		
	Total	43.755	130			
AML Practice						
	Between					
	Groups	2.801	2	1.401	2.691	0.072
	Within Groups	66.62	128	0.52		
	Total	69.421	130			

Noted from: Researcher's own calculation

AML Awareness level within job position

Since p-value is greater than alpha i.e. ($0.037 < 0.05$) H_0 is rejected which implies that there is significant difference in the AML awareness of employees of various banks in

terms of job position of employees in the bank. There is difference in awareness of all the level of employees, assistant level, officer level and manager level.

Perception towards AML regulation within job position

Since p-value is greater than alpha i.e. (0.858>0.05) H₀ is accepted. It implies that there is no significant difference in the perception of employees towards AML regulation of various banks in terms of the job position of the employees. There is no difference in the perception level of employees of assistant level, officer level and manager level. All level of the employees perceives money laundering regulation in same manner.

AML Practice within job position

Since p-value is greater than alpha i.e. (0.072>0.05) H₀ is accepted. It implies that there is no significant difference in the AML practices of various banks in terms of job position of the employees. Opinion of all the employees of assistant level, officer level and manager level have same on AML practice in the bank. There is no difference in the compliance of AML by different level of employees.

Table 15 One-way ANOVA test Work experience

		Sum of		Mean		
		Squares	df	Square	F	Sig.
AML Awareness	Between Groups	0.092	2	0.046	0.152	0.859**
	Within Groups	38.547	128	0.301		
	Total	38.638	130			
Perception towards						
AML Regulations	Between Groups	1.441	2	0.72	2.179	0.117**
	Within Groups	42.314	128	0.331		
	Total	43.755	130			
AML Practice	Between Groups	0.784	2	0.392	0.731	0.483**
	Within Groups	68.637	128	0.536		
	Total	69.421	130			

Noted from: Researcher's own calculation

AML Awareness within work experience

Since p-value is greater than alpha i.e. ($0.859 > 0.05$) H_0 is accepted. It implies that regardless of work experience there is no significant difference in the AML awareness of employees of various banks. All the employees having different working experience have same level of awareness of AML regulation and activities. Work experience of employees did not affect the awareness level of employees.

Perception towards AML regulation within work experience

Since p-value is greater than alpha i.e. ($0.117 > 0.05$) H_0 is accepted. It implies that there is no significant difference in the perception of employees towards AML regulation of various banks in terms of work experience of employees. Work experience of employees did not affect the attitude towards money laundering regulation of employees.

AML Practice within work experience

Since p-value is greater than alpha i.e. ($0.483 > 0.05$) H_0 is accepted. It implies that there is no significant difference in the AML practices of various banks in terms of work experience. Compliance with money laundering practiced by employees is same indifferent to the work experience of employees.

Table 16 Correlation test between AML awareness, Perception on AML and AML practices

		AML awareness	Perception towards AML regulations	AML Practices
AML awareness	Pearson Correlation	1	0.126	.389**
	Sig. (2-tailed)		0.152	0
	N	131	131	131
Perception towards AML regulations	Pearson Correlation	0.126	1	.298**
	Sig. (2-tailed)	0.152		0.001
	N	131	131	131
AML Practices	Pearson Correlation	.389**	.298**	1
	Sig. (2-tailed)	0	0.001	
	N	131	131	131

Noted from: Researcher's own calculation

Relationship between AML awareness and perception towards AML regulations

Since p-value is greater than alpha i.e. ($0.152 > 0.05$) H_0 is accepted. It shows that there is no significant relationship between AML awareness and Perception towards AML regulations. It implies that employee's awareness level on AML does not affect their perception towards AML regulation.

Relationship between AML awareness and AML practices

Since p-value is greater than alpha i.e. ($0.000 > 0.05$) H_0 is rejected. It shows that there is significant relationship between AML awareness and AML practices. It implies that employee's awareness level on AML does affect AML practices in their bank.

Relationship between Perception towards AML regulations and AML practices

Since p-value is greater than alpha i.e. ($0.001 > 0.05$) H_0 is rejected. It shows that there is significant relationship between perception towards AML regulations and AML practices. It implies that perception towards AML does affect the AML practices in their bank.

4.4 Discussion

The main purpose of this study is to examine, assess, analyze and find out the anti-money laundering regulations awareness, perception towards AML and opinion about AML practices by the employees of private and public sector banks in Nepal. The study helps to examine the anti-money laundering awareness level of bank employees, assess the attitudes towards money laundering regulations and analyze the opinion of bank employees towards the practice of anti-money laundering regulations in banks in Nepal. The sample was taken from 131 respondents. This research is based upon the primary data which are collected through a set of questionnaires. Questionnaire was divided into two parts i.e. demographic profile of bank employees and AML regulations variables awareness attitudes and opinion on AML practice in 5-point Likert Scale. Data was analyzed using SPSS software.

The objective of the current study was to find out if awareness, attitudes and perception towards the practices of AML regulations differ on the basis of demographic factors of

bank employees. The study has found that bank employees have positive attitudes towards money laundering regulations. Employees were positive regarding know your customer with average mean value of 4.15 on the statement of compliance with KYC facilitated better knowledge of customer. Average mean on awareness of employees was 4.24 which is more than 3. It shows that bank employees are aware of money laundering regulations. Average mean on statements regarding attitudes of bank employees were 3.48 which shows that their attitude level on AML regulations is more than average. Average mean on employees' responses towards opinion on AML practice was 3.99 which implies that employees have positive opinion about compliance with AML by banks. Banks and their employees take anti-money laundering responsibilities very seriously.

Independent sample t-test and one-way ANOVA test and correlation analysis were used for hypothesis testing. Through the hypothesis testing it is found that the awareness level of bank employees on anti-money laundering regulations is more than average. It is found that both male and female employees with different educational qualification, job position on bank and work experience are aware of anti-money laundering regulations. Employees of both private and public banks are aware. It shows that the entire employee in banks is aware of anti-money laundering regulations and its effectiveness. The study also found that all the employees with different demographic profiles i.e. educational qualification, different age group, job position and work experience have positive attitudes towards anti-money laundering. Despite that male employees have more positive attitudes towards anti-money laundering regulations than female employees. Both public and private bank employees have positive attitudes towards anti-money laundering regulations. Further, opinion of bank employees about anti-money laundering practices or compliance with money laundering was also found more than average. They responded positively on anti-money laundering practices by banks. Both public and private banks are practicing AML measures well.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter gives the overview of summary and conclusion of the study. Summary conclusion and recommendations of the study is based upon the data analysis and hypothesis testing which was done in the previous chapter. The first section of this chapter includes summary of findings, second section includes conclusion and third section includes recommendations.

5.1 Summary of the findings

This research was conducted to find out if awareness, attitudes and perception towards the practices of AML regulations differ on the basis of demographic factors of bank employees i.e. gender, educational qualification, type of bank employee works in, age group, job position and work experience of Nepalese banks. Survey was conducted among 131 respondents who are the employee of banks.

The findings of this research are based on the primary survey. The data has been obtained through the set of questionnaires which was distributed to the respondents using convenient random sampling method. The findings are completely based on the data and facts provided by the surveyed respondents.

Out of total 131 respondents 74 are male and 57 are female respondents comprising 56.5percent and 43.5percent respectively.

The statistics regarding educational qualification of the respondents shows that the respondents who have completed bachelor's degree and master's degree are 68.7 percent and 31.3percent respectively. Majority of respondents have completed their master degree.

Likewise, 65.6 percent respondents are from private bank and 34.4 percent respondents from public bank. Statistics regarding the job title of the respondents from assistant level, officer level and manager level are 55 percent, 38.9 percent and 6.1percent respectively. Majority of the respondents are from assistant level.

Based on the responses of respondents work experience has been divided into three groups. The first group shows the respondent's work experience of below 2 years which comprised of 26 percent of total sample, followed by work experience of 2 to 10 years that comprised of 61 percent and work experience of more than 10 years which comprised of 13 percent.

Out of total 131 respondents age group below 25 years is 4.6 percent, age group between 26 to 50 years is 95.4 percent. Similarly, above research shows that family member between 1 to 3 years is 9.9 percent; 3 to 5 members is 75.6 percent as well as above 5 members is 11.5percent.

In this research various variables were identified to measure the anti-money laundering regulations. Those identified variables were AML awareness, attitudes towards AML regulations and opinion on AML practices by banks. To measure each of those variables of the demographic variables of bank employees was used.

Hypothesis was tested using one-sample t-test, independent sample t-test and one-way ANOVA test. Variables AML awareness, attitudes towards AML regulations and opinion on AML practice was tested using demographic variables of employees.

5.2 Conclusion

Banks are vulnerable to money laundering risk. Since the enactment of Asset (Money) Laundering Prevention Act 2008, Nepal Rastra Bank has taken several measures in a phased manner to prevent money laundering through banks. NRB issues directives regarding threshold transactions, suspicious transaction and has separate unit called Financial Information Unit (FIU) to regulate money laundering activities. NRB mandates banks to know their customers well by exercising KYC requirements, maintain adequate records identify and report suspicious and other large value transactions, follow well-regulated internal audit mechanisms and have comprehensive programs for the training of staff. Without the support and coordination of bank and banks employees it will be difficult for NRB to control money laundering activities. Employees must be aware of the anti-money laundering guidelines and consequences of money laundering. To implement

the AML regulations effectively employees must have positive attitude towards regulation.

The study shows that all the employees are aware of money laundering activities. They agreed that they are aware of Asset (Money) Laundering Prevention Act and consequences of money laundering activities. They agreed on statement that money laundering activities increases crime, increases corruption and affects our nation and economy. They are also aware of Financial Information Unit (FIU) working under Nepal Rastra Bank as an independent unit. This shows that it will be much easier for the regulatory body to implement the rules, regulations and guidelines to prevent money laundering activities.

The analysis shows that employees' attitude towards anti-money laundering regulations is more than average. They showed positive attitudes towards anti-money laundering regulations, its guidelines and controlling mechanism. They agreed that compliance with KYC facilitated better knowledge of customer. They are positive about AML regulations and disagreed on statement that AML/KYC measures are obstacle to the conduct of banking business. Through hypothesis testing it is found that all the employees regardless of their demographic profiles have positive attitude towards AML regulations. It is found that male employees are more positive than female employees about AML regulations.

Further, opinion of employees regarding compliance on money laundering activities and AML practices was found positive. They agreed that the banks where they are involved in are practicing AML practices well. They agreed banks review account of customers, update and monitor the customer accounts and have internal system for detecting and reporting suspicious transactions i.e. banks have compliance departments for regulating money laundering activities. This shows that Nepalese banks are doing well in terms of following the guidelines and putting efforts on controlling money laundering activities.

On an overall assessment, it can be concluded that employees are updated about money laundering activities and its consequences. Banks are following and practicing anti-money laundering regulations in a proper manner and the employees are also supporting those activities. This study shows employees are aware of AML regulations, have positive attitude towards AML regulations and have positive opinion about practicing

AML regulations by banks. Hence it can be concluded that anti-money laundering regulations in Nepal from managerial perspective is positive and going well.

5.3 Recommendations

The study has been carried out with prime objective of finding out awareness level, attitude and perception towards the practices of AML regulations of bank employees. On the basis of the study, it leads to the following recommendations:

5.3.1 Recommendations for banks

- Bank should motivate employees by providing various rewards to increase compliance with AML.
- Banks should encourage their employees to actively take part in AML activities.
- Employees involved in the violation of AML measures should be subjected to strict disciplinary action to avoid such activities in future.
- The AML practice of the branches should be constantly and strictly monitor and guided by bank management.

5.3.2 Recommendations for employees

- Employee should take part in training Programme on the awareness of AML.
- Employees should be aware regarding AML and the guidelines proposed by NRB.

5.3.3 Suggestions for future research

- Future research should be conducted to identify impact of training and gap between money laundering effort and its implementation.
- Future research should be relating AML policies comparing with international policies and identify gap in implementation.

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Annex

Questionnaire

Dear Respondent,

The purpose of the study is to examine Anti-Money Laundering Regulation and Practices: A Case Study on Commercial Banks of Nepal. This study is undertaken in partial fulfillment of the requirements of my MBS degree prepared by Rameshwor Regmi from Peoples College. I would be thankful if you fill this questionnaire.

SECTION A

Personal information

Please tick on the appropriate answer.

1. Gender

Male Female Others

2. Education Level

SLC Intermediate Bachelor Master

3. Type of bank

Public Private

4. Current job title

Assistant level Officer level Manager level

5. Work experience (in years):

SECTION B

The following statements reveal your responses under Anti-Money Laundering Regulation and Practices: A Case Study on Commercial Banks Of Nepal. Indicate your level of agreeability of the statements on 5-point Likert scale given below.

Please tick appropriate box.

1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly

Agree

S. N	STATEMENTS	1	2	3	4	5
A	Anti-money laundering awareness					
1	Money laundering is an act of disguising the origins of illicit money and giving it an appearance of having originated from a legitimate source.					
2	Money laundering activity increases crime.					
3	Money laundering activity promotes bribery and corruption.					
4	Money laundering affects our economy and nation.					
5	I am Aware of Asset (Money) Laundering Prevention Act.					
6	I am aware that Financial Intelligence Unit (FIU) is a department working under NRB.					
B.	Perception towards money laundering regulations					
1	AML is good for the bank as it increases market/customer/public confidence.					
2	The present AML measures are not sufficient to cater the laundered funds.					
3	The convictions for money laundering are negligible.					
4	The confiscation (i.e. seizing or recovery) of black money are not significant.					

5	I am not convinced that the result of AML enforcement will be a reduction in the volume of money laundered.					
6	Compliance with KYC facilitated better knowledge of the customers.					
7	There is a loss of prospective customers because of KYC requirements.					
8	AML/KYC measures are obstacle to the conduct of banking business.					
C.	AML Practices					
1	Bank opens account after all the relevant identification documents/ information has been collected and verified.					
2	The prospective and existing customers are reviewed and screened if they are banned or blacklisted.					
3	There is risk-based profiling of each customer.					
4	Bank undertakes measures to verify beneficial owners.					
5	The risk of the customer account is reviewed regularly.					
6	The level of monitoring is different for different types of accounts.					
7	There is a periodical updating of the customer identification details.					
8	The bank has an internal system for detecting and					

	reporting unusual and suspicious activities.					
--	--	--	--	--	--	--

Thank you for your response.

A Proposal on
Anti-Money Laundering Regulation and Practices:
A Case Study on Commercial Bank of Nepal

Submitted by

Rameshwor Regmi

Symbol No:7335/18

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Master of Business Studies (MBS)

People's Campus

Tribhuvan University

Submitted to

People's Campus

Pakanajol, Kathmandu

Submitted on

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(In partial fulfillment of the degree of Master of Business Sector (MBS))

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Title of the Thesis

Anti-money Laundering Regulation and Practices
(A Case Study on Commercial Bank of Nepal)

I. Introduction of the Study

Money laundering is the process of illegally converting black or dirty money into “white” or legal money. Dirty money does not have legal sources. Instead, it comes from illegal activities such as drug trafficking, terrorism, organized crime, murder or fraud. Money launderers make such money appear clean by processing it through several legal transactions through multiple financial institutions. In other words, they cover up illegal sources through legal processes. Money laundering is an act of disguising the origins of illicit money and giving it an appearance of having originated from a legitimate source. It provides an apparent legitimate cover for the proceeds of criminal activities. The need for a modern anti-laundering strategy has become widely accepted internationally. As countries developed their anti-money laundering strategies and found that law-enforcement agencies have limited access to relevant financial information, it became clear that the strategy required them to "engage the financial system in the effort to combat laundering while, at the same time, seeking to ensure the retention of the conditions necessary for its effective operation. Money laundering has emerged as a burning global issue. Money laundering is generally carried out in three steps: placement, layering and integration. First, the illegal wealth is deposited in shell companies, banks or casinos. The second stage concentrates on separating the proceeds from criminal activity through the use of various layers of monetary transactions, say layering. Then, finally, the laundered money is brought back into the mainstream financial system by paying taxes to legitimise wages, thus giving the money a “legal” source. Across the world, a huge amount of money obtained through terrorist financing, drug and human trafficking is laundered annually.

In recent years, government and regulatory authorities around the world have become aware of consequences from money laundering on social and economic prosperity. Nepal was associated with anti-money laundering and combating financial terrorism and financial action task force in 2002 by becoming a member of the Asia/Pacific Group on

Money Laundering (APG). In Nepal the Asset Laundering Prevention Act 2008 and Asset Laundering Prevention Regulation 2009 are the key legal instruments for prohibiting money laundering and terrorist financing. To regulate money laundering parliament also has enacted the Mutual Legal Assistance Act 2014, Extradition Act 2014, Organized Crimes Prevention Act 2014 and the Proceeds of Crime (Confiscating, Seizing and Freezing) Act 2014.

There are different separate departments investigating for money laundering activities. Department of money laundering investigation (DMLI) investigates and does enquiry into offences of money laundering and terrorist financing under the Asset Laundering Prevention Act 2008. There is another department The Financial Information Unit (FIU) established in the Nepal Rastra Bank as a functionally independent and autonomous body to receive information as to suspicious transactions, threshold transactions, and other information related to money laundering or terrorist financing and then reports it to the DMLI for investigation. This central agency also cooperates with foreign financial information units or foreign counterparts that perform similar functions and exchanges information on the basis of reciprocity.

II. Statement of the Problem

Nepal is developing economy and is adversely affected by corruption, tax evasion, and other economic crimes. High level of corruption, tax evasion, human trafficking, and economic crimes such as cheating, forgery of valuable security, criminal conspiracy and criminal breach of trust are the major sources of black money in Nepal. The proceeds from these crimes in turn increase the economic crimes such as money laundering and terrorism financing. Despite having various laws and regulations, central bank continuously following and monitoring monetary activities of bank account holders still the problem of money laundering is not solved. General public are unaware about money laundering and knowingly or unknowingly they are involved in this kind of activities. Banks play key role in monitoring financial transactions of public. They are engaged in mobilizing the fund of public and money laundering takes place during the mobilizing of fund. So, employees of banks must be aware of money laundering issues, rules and regulations. Managers and employees must continuously observe transaction of

accountholders and report if any unusual activities are seen. But still practice of anti-money laundering activities is not satisfactory in Nepal.

Following are the research questions for the study:

6. Does the awareness level of the employees about money laundering differ from organization to organization?
7. Does the compliance of AML measures differ from organization to organization?
8. To what extent experience level of employee's affect the awareness, attitude and AML practices in workplace?
9. To what extent training to employees affect the regulation of AML measures?
10. What is the relationship between AML awareness, AML acceptance and AML practices?

III. Objectives of the Study

The main objective of the study is

- To examine bank employee awareness and perception towards anti-money laundering regulation and practices.
- To find out the awareness of the employee about money laundering differ from organization to organization.

IV. Significance of the Study

In past very few researches have been done on the anti-money laundering regulation in Nepal. Though country is actively engaged in preventing money laundering still regulatory body are not completely able to control money laundering activities. It seems difficult to trace money laundering activities and no appropriate efforts have made from government and other relevant authorities to improve this sector. To take remedial measures it is vital to find the true causes of the problem.

V. Hypotheses

Following are the hypothesis set to test for this study.

Hypothesis I

H0: There is no significant difference in the awareness level of employees of various organizations.

H1: There is significant difference in the awareness level of employees of various organizations.

Hypothesis II

H0: There is no significant relationship between AML awareness, AML acceptance and AML practices.

H1: There is significant relationship between AML awareness, AML acceptance and AML practices.

VI. Organization of Study

The report will be divided into five chapters excluding preliminary sections and Appendix. The preliminary section will include title page, approval page, acknowledgement, table of contents, list of tables and figures, acronyms and abstract.

Chapter I: It will include introduction, statement of the problem, objective of the study, significance of the study, limitation of the study and organization of the study.

Chapter II: This chapter is about review of related literature. It includes introduction, concept of anti-money laundering and combating the financial terrorism, financial action task force and its recommendations, theoretical review.

Chapter III: This chapter is about research methodology. It includes introduction, research design, study site description and rationale behind selection of study area, study population and sampling, nature and sources of data and methods of data organization, processing and analysis.

Chapter IV: This chapter gives the brief introduction about characteristics of the study population. It deals with the findings in accordance objectives.

Chapter V: This is the last chapter of the study. It will contain wrapped up the study with summary of findings, conclusion and suggestion.

VII. Literature Review

Bekhouche (2018) attempted to find out the regulations and policies relating to money laundering in Malaysia. Researcher used exploratory study on Malaysian law to know the legislation related to the money laundering in Malaysia and the armchair library approach was used for the collection of the primary legal materials. Author found that Malaysian governments have made huge efforts to regulate money laundering. Malaysia continues

to make a broad and sustained effort to combat money laundering and terrorist financing flows within its borders. With the anti-money laundering act 2001 Malaysia has joined the international community in its effort to curb money laundering, Malaysia continues to make a broad and sustained effort to combat money laundering and terrorist financing flows within its borders.

Pavone and Parisi (2018) examined possible configuration of corporate anti-money laundering supervisions with the aim of underlining the connection between anti-money laundering legislation and rules referring to the government and to internal control system in Italian corporations. Research was based on qualitative approach through examination of case study. Researchers have found that there is extreme advantage for companies that respect anti-money laundering policies. Having a reduction in cases of money laundering in the economy protects its corporate image better and avoids damages of legal and reputational types. The analysis of Alfa S. p. a case showed the bank operability characterized by:

- Negligence of anti-money laundering regulations because of a prominent dedication to satisfying the business interest of securing clients
- Slow and late risk mitigation activity and compliance with money laundering legislation
- Repeating inefficiencies of the adopted computer systems
- Involvement of production functions in the process of mitigation of risk

Raweh et al. (2018) analyzed about international laws and procedures on anti-money laundering practiced and followed by banks in Yemen. Researcher used primary data and descriptive analytical methods using structured questionnaire which include 11 banks with 60 branches and offices in Yemeni capital. The analysis reveals that most Yemeni banks adhere to international laws and regulations on anti-money laundering. Researcher also found that most formal institutions such as central banks and the ministry of finance and other government departments cannot function in an unstable political climate. Individual companies use the banking system in limited level for transactions so the government cannot follow the money sources and will increase the money laundering in Yemen economy.

Oluwadayisi and Mimiko (2017) examined the legal regimes against the crimes of terrorism, politically exposed persons and money laundering in Nigeria and provided solutions for the expected role of the law enforcement agencies and the judiciary. Researcher suggest the possible way out from the dearth of enforcement of the legal regimes and the involvement of the judiciary will include enforcing compliance by regulatory institutions, 360 degree prosecution of cases, impeccable drafting of charges, accelerated hearing in court, inter agency cooperation in tracking offences, protection for the evidence of special witness and publication of wanted list of suspected persons.

Maguchu (2017) analyzed the effects of the presidential powers, amendment to the money laundering and proceeds of crime act to include legal practitioners under the list of designated non-financial business and professions. Author used textual analysis of anti-money laundering legislation within the context of legal practice in Zimbabwe. The study found that amendment of law against money laundering in Zimbabwe has put it on the international standard and prevents lawyers from falling to the mercy of organized criminals and money launderers. Author found anecdotal evidence that the AML legislation turns lawyers into watchdogs or law enforcement agents and lack of empirical research can make difficult to understand the impact of the provisions of the law on contested issues.

Viritha and Mariappan (2016) on study about the level of awareness and acceptance of bank customer regarding anti-money laundering practices of banks stated that consumers have low level of awareness with regard to usage of banks as a channel for money laundering and terrorism financing activities, reporting function of the banks, AML and combating financing of terrorism legislation and about the existence of financial intelligence unit in India and its function. Research was conducted on 416 customers of public and private banks in Pondicherry and Chennai regions in India above the age of 18 years using structured questionnaires. Researchers found that customers were aware about money laundering and customer identification requirements and are neutral towards acceptance of AML measures by bank.

Dexiang Mei (2015) in the research paper anti-money laundering game between banking institutions and employees progressing CNY internationalization attempted to analyze the

three equilibrium strategies of banking institutions and employees under Chinese government's different anti-money laundering efforts, both free of AML, BIs involved in AML but BEs away from AML and both engaged in AML. Researcher found that Chinese government's AML effort will impact BIs' AML choice, and BIs' AML choice will affect BEs' AML choice. Only with the effective cooperation among the government, BIs, and BEs can we achieve the AML equilibrium strategy of the two gaming parties.

VIII. Theoretical Framework

The Theoretical Framework is the foundation on which the entire research project is based. It is a theoretical structure of assumptions, principles and rules that holds together the ideas comprising a board concept and it identifies the network of relationships among the variables considered important to the study of given problem. The variables AML Awareness, attitudes towards AML regulation and opinion about AML practices are measured using the demographic variables of employee's gender, educational qualification, job position and work experience and type of bank.

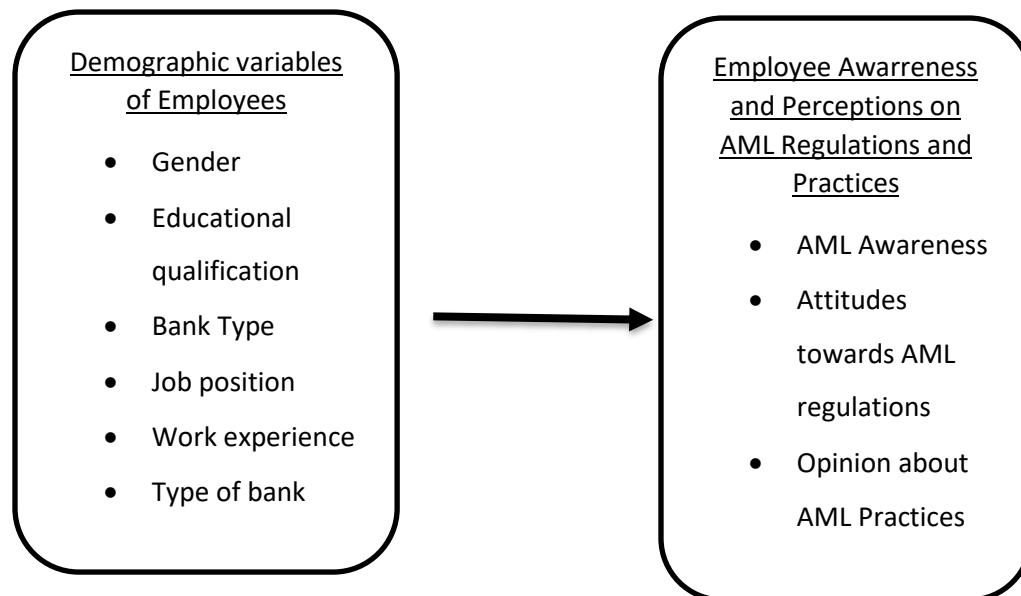


Figure: Theoretical Framework

Demographic Variables

Awareness and attitudes towards AML regulation and opinion on AML practices can differ based on the demographic variables of the employees of the bank. Demographic

variables that can affect AML regulations include gender, educational qualification, job position, work experience and type of bank where employee works.

➤ **Gender:**

The level of awareness, attitudes and opinion on AML practices may differ between male and female employees. This variable is taken to measure the differences in perception towards AML practices and regulation between male and female employees.

➤ **Educational Qualification:**

Understanding of AML regulations, attitudes and opinion on AML practices may depend upon the level of education of the employees. This variable is taken to test the level of awareness, attitudes and opinion towards AML regulation by the employees on the basis of their educational qualification.

➤ **Job Position:**

It is the position hold by the employees in the organization. Cadre of employees in the banks may affect the awareness, attitudes and opinion may affect the AML regulations. This variable is taken to identify the level of awareness, attitudes and opinions on AML regulations and practices in banking sector of Nepal.

➤ **Work Experience:**

Time spent by the employees working in the bank affects the level of understanding about AML regulations. This variable is taken into consideration to measure the level of awareness, attitudes and opinion about AML practice on AML regulations of the employees on the basis of work experience of the employees.

➤ **Type of Bank:**

Bank type taken in this research is private bank and public bank. Banks having Investment of government is taken are public bank and other than that are private banks. Working environment of bank can affect various aspects of employees. The level of awareness and attitudes towards AML regulations and opinion on AML practice by particular bank depends on the nature of banks.

AML Regulations

Anti-money laundering refers to a set of laws; regulation and procedures intended to prevent criminals from disguising illegally obtained funds as legitimate income. It refers to all policies and pieces of legislation that force financial institution to proactively monitor their clients in order to prevent money laundering and corruption. Awareness, attitudes and opinion towards AML compliance by the employees affects the AML regulation.

AML Awareness

AML awareness means having knowledge and understanding of money laundering activities and regimes of controlling those money laundering activities. It is about knowing how financial services firms can be used for money laundering and how procedures and controls are taken to prevent those risks. It is about having knowledge about the obligations of firms and their employees under the applicable laws and regulations and the potentially severe consequences of money laundering.

Attitudes towards AML Regulations

It is a belief or opinion held by the people about money laundering and its regulation. It is the level of understanding and perceiving the offence of money laundering, rules and regulations that control those activities. It may be either positive or negative depending on the nature and mindset of people about money laundering.

Opinion about AML Practices

It is a view or judgment about the measure used by financial institutions and governments to prevent and combat the financial crimes especially money laundering and terrorism financing. AML practice defines how a company monitors accounts, detects and reports financial crimes to relevant authorities. It includes detection of suspicious activities, risk assessment, internal controls, and independent audit to prevent and combat financial crimes in best possible way.

IX. Research methodology

1.1 Research Design and Plan

This research is of descriptive in nature. The research is descriptive in nature because it describes data and characteristics about the population being studied on the basis of statistics without any manipulation. The findings of this study are totally based on the primary survey.

The study focused on finding the status of AML regulation in Nepalese banks with respect to awareness of AML, perception towards money laundering and AML practices from employee. Data have been collected by formulating the set of questionnaires which was distributed to the employees of banks. The findings are completely relying upon the data and facts provided by the respondents.

The study is based on various statistical tests and analysis. Descriptive statistics is used to calculate mean and standard deviation. One-sample t-test, independence t-test, correlation and one-way ANOVA in hypothesis testing were carried out in the process of research. SPSS and Microsoft Excel are used to analyze and interpret the data.

1.2 Population and Sample Size

The population for this study is comprised of employees working in banking sector. The main objective of the study is to identify AML awareness level, attitude towards AML regulations and opinion on AML practices by employees of various banks.

1.3 Instrumentation

The study was mainly based on the primary data collection from the employees of banks. Basically, the secondary source of data was internet, books, journals and related articles. The primary source of data was structured questionnaire which is key instrument to collect data for this research. It consisted of two parts.

1.4 Data Collection Procedure

As this research is purely based on the academic purpose, a proper procedure was conducted to carry out the research work. Basically, this research is based on primary as well as secondary data. The overall data collection procedures include the identification (literature review and expert opinion), preliminary questionnaire preparation, and

approval of the questionnaire, finalization of the questionnaire and collection of the data through questionnaire on the printed format and online distribution of questionnaire.

1.5 Validity and Reliability

Validity and reliability are key aspects of all research Brink, (1993). There might be possibilities of getting wrong answers from the respondents in survey. So, attention of researcher is must require for validity and realibility.

Validity refers to the degree inn which our test or other measuring device is truly measured what is intended to measure Pant, (2012). On the other hand, reliability refers to the ability of a research method to yeild consistently the same results over repeated testing (Seltiz, Wrightnman & Cook 1976). The main role of reliability testings is to minimize possible error.

1.6 Analysis Plan

This section reflects how analyses have been done in chapter four and it is necessary to follow the required steps and procedures in order to understand the result and generalize the findings. The collected data were recorded in SPSS for analyzing. Depending upon the nature of questions the coding is followed as per the necessary rule.

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