

**IMPLEMENTATION OF ANTI-MONEY LAUNDERING
PRACTICES IN NEPALESE BANKS: AN EMPLOYEE AND
CUSTOMER PERSPECTIVE**

BY

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RECOMMEDATION

CERTIFICATION

DECLARATION OF AUTHENTICITY

I, Priti Bhusal, declare that this GRP is my own original work and that it has fully and specifically acknowledged wherever adopted from other sources. I also understand that if at any time it is shown that I have significantly misrepresented material presented to SOMTU, any credits awarded to me on the basis of that material may be revoked.

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ABBREVIATIONS

AML	Anti-Money Laundering
ALPA	Asset (Money) Laundering Prevention Amendment
CFT	Combating the Financing of Terrorism
FATF	Financial Action Task Force
FIU	Financial Information Unit
FSRBs	FATF-Style Regional Bodies
ML	Money Laundering
NRB	Nepal Rastra Bank
RE	Reporting Entity
STR	Suspicious Transaction Reporting
TF	Terrorism Financing
TTR	Threshold Transaction Reporting

EXECUTIVE SUMMARY

Money laundering has the tendency to distort global macroeconomic predictions, distort currency markets, and weaken financial system by establishing illegal economies. As a result, it is vital to study the factors affecting the effective implementation of AML practices. Understanding and being aware of such factors may assist concerned parties in preventing Money laundering effectively.

Even though Anti-Money Laundering practices is not a new concept in the global context, the scope appears to be an upsurge in recent years. As a result, studies like this are necessary to raise awareness and emphasize its importance.

This study aimed to achieve two major objectives to examine factors affecting the effective implementation of AML practices in Nepalese banking industry and to assess the customer awareness level. To examine the factors affecting implementation of AML practices the study concentrated on 156 bank employees' response. Regression model was used to test hypotheses. The finding revealed that there is significant positive impact of Control over business sophistication, business ethics, customer awareness, and AML system on effective implementation of AML practices in Nepalese Banks. Meanwhile, the study revealed that Control over business sophistication has significantly higher impact. Further, the analysis showed that there is no impact of employee training and development in effective implementation of AML practices in Nepalese Banks. on effective implementation of AML practices

To assess the customer awareness level on AML practices from customer perspective, the study concentrated on 202 bank customers' and 156 Bank employees' responses. Descriptive statistics using Mean and Standard deviation was used to assess the customer awareness level. The finding indicates that from customer perspective they are highly aware of ML/AML and their impacts. Whereas, from Bank employee's perspective Customers are unaware of ML/AML and their impacts.

Furthermore, BFIs should focus on increasing Customer awareness to increase customer acceptance to AML practices. Also, empirical studies with similar objectives shall be undertaken as C, and D class banks and Cooperatives are also prone to Money laundering.

CHAPTER I

INTRODUCTION

1.1 Background of the study

The most typical channels for laundering illicit money globally are organizations providing financial services such as banking firms, financing companies insurance and capital markets (Ejanthkar and Mohanty 2011). The act of transforming funds obtained through illicit activity or illicit sources into legal payment tool is known as money laundering. Terrorism financing, or TF, occurs when these assets or funds are utilized to fund terrorist operations. As a result, a thorough comprehension of ML is required in order to fully comprehend TF (Mukhtar, 2018). The organization monitoring money laundering and terrorism financing worldwide is called the Financial Action Task Force (FATF). The FATF Recommendations, often known as the FATF Standards, are a set of global guidelines for combating organized crime, corruption, and terrorism. They assist law enforcement in tracing the money used to finance terrorism, human trafficking, and other crimes as well as the sale of illegal drugs.

Asia Pacific Group (2011) found that a poor interrogation system, a poorly-trained bureaucracy, a lack of comprehensive and long-term strategy and rules and a large informal transaction with India are some major causes Nepal was seen as an easy area to launder money. According to the FATF's evaluation report on Nepal's ML/FT situation in February 2010, Nepal was listed as having a strategic AML deficit by the FATF. Later, Nepal was removed off the list of nations having AML deficiencies in FATF's most recent notification on June 27, 2014 (Know your Country, 2021). The significant improvements Nepal has made to its anti-money laundering and counter-terrorist financing systems, as well as the legal and regulatory framework Nepal has established to fulfill its commitments in its action plan on strategic gaps. In 2011 the FATF's most current Mutual Evaluation Report on Nepal's compliance with anti-money laundering and counter-terrorist financing regulations has depicted that Nepal was found to be Compliant for 1 and Largely Compliant for 3 of the FATF 40 + 9 Recommendations, according to that evaluation (Know your Country, 2021) For all six Core Recommendations, it was Partially Compliant or Non-Compliant.

The FATF blacklist lists of the countries with poor regulatory frameworks for anti-money laundering and counter-terrorist financing. The list is intended to highlight specific nations unfavorably on the global level and to act as a warning about the significant danger that certain nations provide for money laundering and terrorism funding. Economic sanctions and other restrictive actions against nations on the "blacklist" are quite likely to be implemented by FATF member states and other international organizations. Countries on the FATF grey list, like those on the blacklist, have a significantly higher risk of money laundering and terrorism financing, but they have agreed to engage with the FATF to develop action plans to address their AML/CFT deficiencies (FATF, 2021).

To counteract money laundering, parties must have a basic understanding of how the process works. The first step is to get illicit money or assets by means of illegal means. Because it is tainted by criminality, this money is referred to as "black money." This 'black money' cannot be placed in any legitimate financial institution, such as a bank, because this would raise suspicion and raise red flags among banks and other financial institutions. So, money laundering includes basic three steps. The countries on the grey list are subject to increased monitoring by the FATF, which either undertakes direct analyses of them or makes use of regional organizations structured after the FATF (FSRBs) to report on their progress toward their AML/CFT goals. Although a grey list designation is less severe than a black list designation, countries on the list could still be subject to trade restrictions and economic sanctions from organizations like the IMF and the World Bank.

Mainly, it takes three steps for money laundering – Placement, Layering and Integration. Placement puts the illegal or dirty money into the legitimate financial system for example Banks. Layering covers the source of the money through the sequence of transactions and book-keeping wiles. In the final step, integration means withdrawing the now-legal money from the legitimate account to be used for whatever purposes. In most cases, this money is used to finance the terrorism activities. Impacts of money laundering and terrorism financing are not just financial. As they influence the economy, it is a aggravates social ills. They devastate the quality of the economy by triggering a destructive impact and become a social evil (Mukhtar, 2018). Viritha, Mariappan and Haq (2015) argued that because of the many effects that illicit money has on a country's economy and security, many governments now recognize how

crucial it is to find and confiscate illicit funds for the protection of their inhabitants' safety and security.

As per FIU-Nepal (2020) Banks and Financial institutions are obliged to report foreign currency transactions totaling more than Rs. 0.5 million in one day's worth of transactions in a single account, plus cash deposits or withdrawals totaling more than Rs. 1 million. Financial Information Unit of Nepal (2021) Strategic Analysis Report depicted that in the fiscal year 2019/20 out of total Threshold Transaction Reporting (TTR) 24,85,361, 90.78% reporting was made by Bank and Financial Institutions followed by Insurance companies and cooperative. From total TTRs, 333 cases were disseminated for Suspicious Transaction Reporting (STR). More over half (185 cases) cases disseminated in year 2019/20 were related to tax evasion. In most cases, personal savings accounts were utilized to channel corporate transactions in order to avoid paying taxes. Similarly, 21.32 percent of the cases that were distributed were related to high-volume transactions made through a personal account where the transaction did not fit the customer's profile.

Adoption of International standards to combat ML/TF

A non-governmental organization known as the Financial Action Task Force (FATF) was established in 1989 to monitor global money laundering and terrorism financing with the objective of enabling the efficient application of legislative, statutory, and operational controls to combat money laundering and terrorist financing (ML/TF) and other challenges to the integrity of the global financial system. Despite not being a direct member of FATF, Nepal continues to maintain relationship with the organization via APG (the FATF Style Regional Body). Nepal was also involved with the FATF through the International Crisis Response Group (ICRG) since 2009 (FIU-NRB, 2020).

A federation of 167 financial intelligence units formed the Egmont Group (FIUs). The Egmont Group offers a secure forum for the sharing of financial expertise and intelligence to fight against ML/TF. On June 10, 2015, FIU-Nepal joined the Egmont Group. The Egmont basically reflects that sharing financial intelligence is critical and has become a cornerstone of international efforts to combat money laundering and terrorist financing (FIU-Nepal, 2020).

The Asia Pacific Group (APG), an intergovernmental organization with 41 members, is in charge of ensuring that its members adhere to international laws against money

laundering, terrorist financing, and financing related to the proliferation of weapons of mass destruction. Nepal joined the APG in 2002 and has stated its commitment to fully comply with international anti-money laundering and counter-terrorist financing standards. Nepal served on the APG Steering Committee for the year 2012–2013 as a representative of South Asian nations.

The central bank governors of 10 nations founded the Basel Committee on Banking Supervision (BCBS) in 1974. The BCBS defines global standards for banking supervision and offers a venue for ongoing cooperation. The Basel Committee issues a guideline on sound risk management in the areas of ML/TF, including risk assessment, and mitigation, customer acceptance policy, customer and beneficial owner identification, verification and risk profiling, ongoing monitoring, information management, and reporting of suspicious transactions, as well as asset freezing. The BCBS principal No. 29 gives guidelines for preventing financial services abuse (FIU-Nepal, 2020).

Nepal has been an active member of World Bank and International Monetary Fund. Both institutions are responsible for specific AML/CFT issues, primarily in accordance with Article IV of the International Monetary Fund's Articles of Agreement. Furthermore, these international organizations have provided training and technical assistance to member countries in order to help them expand their capability (FIU-Nepal, 2020).

The Wolfsberg Group formed in 2000 by 13 global (commercial) banks as a non-governmental organization, strives to create structures and recommendations to control the hazards of financial crime. It also publishes the Financial Industry Standards Policy for Money Laundering Prevention and Counter-Terrorism Financing (FIU-Nepal, 2020).

Adoption of National legal framework to combat ML/TF

The formulation and implementation of Nepal's AML/CFT national strategy, as well as the formulation of the National Risk Assessment, are the first steps in the country's AML/CFT policy framework. From 2011 to 2016, the government had implemented a rigorous National Strategy and Action Plan for Combating Money Laundering and Terrorist Financing FIU-Nepal (2020).

The FATF Recommendations, updated criteria for the prevention of money laundering and terrorism funding, were released in 2012 along with new methodology.

Anti-Money Laundering Act, 2064 is enacted with the objective of providing prevention of laundering from criminal proceeds. The Act has made provision for National Coordination Committee (NCC) and Financial Information Unit (FIU). Coordinating reporting from various entities and making recommendations to the government of Nepal about ML/TF prevention are the duties of this committee (Ministry of Law, Justice and Parliamentary Affairs , 2008).

Nepalese AML/CFT legal regime has been framed by the parliamentary enactments particularly of ALPA, 2008. This system also governs additional laws, including those pertaining to the criminality of predicate offenses, regulation and supervision, MLA, extradition, and confiscation (seizing and freezing) of illicit proceeds, among others (FIU-NRB, 2020).

1.2 Guideline for Suspicious Transaction Reporting

FIU-Nepal requires reporting entities (banks) to provide STR for any suspicious transactions undertaken (or attempted). STRs can begin with any employee of a reporting firm; however, as per Section 7P of ALPA, 2008, a reporting institution must appoint a management-level compliance officer to report STRs and to interact with the FIU on STR-related problems. BFIs can report STR to the FIU-Nepal electronically through the goAML system, while other REs can submit signed paper reports. FIU-Nepal has gradually made STR reporting through goAML mandatory for all REs. REs should contact the FIU-Nepal through their Compliance Officer to report suspicious transactions. Internal reporting processes should be clearly defined in REs, and all workers must comply with them (Nepal Rastra Bank, 2020).

Internal reporting processes should be clearly defined in REs, and all workers must adhere to them. Immediately after suspicious transaction is identified, but no later than three working days after the suspicion is raised or the FIU-Nepal receives the relevant information, it must be notified to the FIU-Nepal. STR Guideline from FIU-Nepal. After sending the report, if the reporting entity discovers additional information and circumstances that support or refute the reporting entity's initial suspicion, the reporting entity must notify the FIU-Nepal in writing or electronically. Whether or whether there is cash involved, the duty to report any suspicious transaction applies to

all forms of transactions or activities. Whether or whether there is cash involved, the obligation to report any suspicious transaction applies to all forms of transactions or activities. Non-cash transactions, such as telegraphic/wire transfers, and suspicious activity, which appear suspicious, must be reported as well. There is no monetary limit on the number of suspicious transactions that must be reported. As a result, any suspicious transaction should be reported to the FIU-Nepal, regardless of the amount involved (Nepal Rastra Bank, 2020).

1.3 Problem statement and Research Question

According to Report of United Nations (2021) up to 2.7% of global GDP is estimated to launder worldwide each year. Bribery of all kinds is estimated to cost between \$1.5 and \$2 trillion each year around the world. These shadowy transactions occur in all countries, but underdeveloped countries are disproportionately affected by them. Thus, being a developing country, Nepal is at risk.

The quality of general anti-money laundering measures is assessed as medium, while the vulnerability of the banking industry as a whole to money laundering is classified as medium-high. Due to the low level of enforcement of AML measures in comparison to its scope, products, the volume of assets and transactions, as well as the vulnerabilities on the higher side caused by the nature of business itself, the deficiency is primarily noted in the effectiveness of the process and practice of supervision (FIU-Nepal, 2020).

Further, International Corruption Index has ranked Nepal at 33th position and World Governance Indicator – Control of Corruption has ranked Nepal at 27th position (Know your Country, 2021).

The corrupted money must be recycled in order to create white money. Because it is vital to enlist the help of bank consumers in order to combat these illicit actions. Despite this topic covers wider scope very few studies are undertaken in Nepalese context. Thus, this study makes available of better understanding of Nepalese Banks' customers awareness on Anti-Money laundering (AML) practices while measuring the factors affecting effective implementation of AML practices.

Organization for Economic Co-operation and Development (2019) highlights that the trend of money laundering is changing. Traditional methods of money laundering imply

more on the use of cash-based businesses. However, Cryptocurrencies, funnel accounts, and offshore bank accounts, Use of cooperatives are some innovative methods for criminals to launder the proceeds of crime.

So, to detect the unlawful money it is necessary to create awareness among auditors to detect these assets. Thus, awareness is an important factor to suppress the money laundering. In between these concepts, the paper aims to answer the following questions:

- What factors affect the effective implementation of AML practices in Nepalese banks?
- What level of awareness do the bank customers have on Anti-money laundering (AML) practices from Bank employees' perspective?
- What level of awareness do the bank customers have on Anti-money laundering (AML) practices from Bank customer perspective themselves?

1.4 Research Objectives

This study is conducted for the purpose of examining the factors affecting effective implementation of AML practices in Nepalese Banks. So, the study is conducted for the following objectives:

Specific objective:

- To examine factors affecting the effective implementation of AML practices in Nepalese banking industry.

General objectives:

- To assess the awareness level of banks' customer in Anti-Money Laundering practices from customer perspective.
- To assess the awareness level of banks' customer in Anti-Money Laundering practices from bank employees' perspective.

1.5 Statement of Hypotheses

Hypothesis is a statement of assumption or expectation that is to be tested by the research. It assumes the relationship between two or more variables included in the research. This assumption may or may not be true. Hypothesis testing involves formal

procedures used by statisticians to either accept or reject the proposed hypothesis. Hypothesis used to examine the factors affecting effective implementation of AML practices are:

H₀₁: Employees Trainings and development regarding AML doesn't affect effective implementation of AML practice in Nepalese banks.

H₀₂: Control over business sophistication doesn't affect effective implementation of AML practice in Nepalese banks.

H₀₃: Ethical behavior doesn't affect effective implementation of AML practice in Nepalese banks.

H₀₄: Customer awareness doesn't affect effective implementation of AML practice in Nepalese banks.

H₀₅: AML system doesn't affect effective implementation of AML practice in Nepalese banks.

1.6 Significance of the study

The identification of factors affecting the effective implementation of AML practices gives an insight into the management of bank more specifically the compliance department on the elements that are important for implementing ALM regimes. Furthermore, government agencies and policy maker shall use the outcome of this research to formulate national policies regarding effective implementation of AML practices.

This study shall also be used to provide information to the researchers and academicians regarding the factors influencing effective implementation of AML practices.

1.7 Limitations of the study

Some of the limitations of the research are mentioned below:

- This study is confined only to commercial banks and development banks, so that it does not claim to address the characteristics of other players (finance companies, microfinance banks) of the banking industry.
- This study considers limited independent variables to examine the factors affecting effective implementation of AML practices in Nepalese Banks.

1.8 Organization of the Study

The study is divided into five chapters. They are:

Chapter I: Introduction

This chapter is the introductory part of the study. It includes the background of the study, statement of the problem, objectives, significance, limitations and organization of the study.

Chapter II: Related Literature and Theoretical Framework

This chapter is a review of the literature and it presents general literature review on organizational justice and turnover intentions. A brief discussion of contribution of scholars in the field of organizational justice and turnover intention is presented in the chapter. Literature related to organizational justice is presented into its aspects of distributive justice, procedural justice, interactional justice and informational justice. It basically presents the theoretical foundations for the study.

Chapter III: Research Methods

This chapter is one of the important parts of the study. It deals with theoretical framework, research design, population and sampling, design of questionnaire and variables, sources and nature of data, data gathering procedure, instruments and measurements, methods of data analysis etc.

Chapter IV: Data Presentation and Analysis

This chapter includes presentation and analyses of data using Microsoft excel, SPSS and other different statistical tools.

Chapter V: Summary

The chapter draws out findings from the data analysis and concludes the research with necessary summary, suggestions, conclusion and recommendation.

CHAPTER II

RELATED LITERATURE AND THEORETICAL FRAMEWORK

The purpose of this graduate research project entitled “Implementation of Anti-Money Laundering Practices in Nepalese Banks: An employee and customer perspective” is to evaluate the factors affecting effective implementation of AML practices in Nepalese Banks and to assess the customer awareness level on AML regimes. This chapter includes the theories in the literature that explains the Anti-Money Laundering practices and the factors responsible for the cause of the implementation of AML practices. In addition, the concepts relevant to the study are described. Furthermore, the empirical review is presented with a Literature matrix prepared to summarize the past empirical work on this topic. Finally, the conceptual framework for this study is included in this chapter.

2.1 Theories in Money Laundering

2.1.1 Economic Theory

Under Classical economic theory Adam Smith identifies the two key elements that influence people's conduct. On the one hand, everyone makes reasonable decisions and strives to maximize their personal utility, a notion that is taken into account for the majority of the decisions that they make. In accordance with this idea also regulates illegal actions taken to amass personal wealth. Contrarily, the usefulness of an economic enterprise is established by anticipated costs and profits, which are controlled by the law of supply and demand.

According to the conventional Smithian realm, the government is accountable for safeguarding its citizens from injustice and violent crimes since people and things in this world are sometimes led by an unseen hand toward goals that they did not set out to achieve. Smith offered the visible and straightforward natural liberty system. In such a system, a person is free to pursue his interests in accordance with his own rules, so long as he doesn't disobey the rules of justice, and to compete with anyone else using his industry and resources. ML is an activity that harms citizens since money is obtained illegally.

The underlying premise of classical economic theory is questionable. State policies actively create incentives for competition that support specific institutional arrangements. Such a situation is risky since it could slow down rather than speed up society's progress toward true prosperity and dignity (Geiger and Wuensch, 2007).

2.1.2 Crying Wolf Theory

The value of the information in reports might be diminished by excessive reporting or "crying wolf." Excessive reporting is the catalyst for the earliest formal analysis of ML practice. Banks keep track of transactions and alert authorities to any suspect behavior. Banks are punished if they fail to disclose ML, and these agencies use the data to identify investigation targets. However, in order to avoid penalties, banks turn to reporting less suspicious transactions, which complicates the data.

The formal approach is based on five key financial barriers. Communication between banks and governments is the first barrier. The issue, however, is with accuracy rather than with information's verification. The bank's poor incentives to report is the second barrier. Banks are only subject to fines if they fail to disclose transactions that later turn out to be ML, not if they hide information that could be used to prosecute them. The third barrier is that banks never know the true nature of a transaction, making every transaction a possible ML case. The fourth barrier involves banks needing to oversee all transactions and report any questionable activity. The fifth barrier relates to bank information, namely a transaction signal that cannot be verified.

The model shows that "crying wolf" or dangerous overreporting is still a possibility. Banks are unable to share their signal with the government, therefore later judgments must be relied on reports that banks have provided (Takáts, 2007).

Above theories do not exactly guide the objective of this study. However, they lie within the periphery of Money Laundering.

2.2 Empirical Review

Using Switzerland as a case study, Chaikin (2009) assessed the effectiveness of a suspicious transaction reporting system as an anti-money laundering mechanism. As part of worldwide anti-money laundering (AML) systems, banking institutions submit suspicious transaction reports (STRs) to Intelligence Units-Finance. Along with Financial Action Task Force (FATF's) global AML guidelines, there are still national

regulations and mechanisms that apply to STR systems. To evaluate STR systems, primary source documentation is used, which is supplemented by observations made at FATF meetings. The analysis results in the conclusion that FATF evaluations of a nation's adherence to international standards are objective, expert-driven, and consistently applied. Because of a lack of meaningful reporting of suspicious transactions, the Swiss STR system's effectiveness is questioned. In the meantime, the Swiss STR system is well-known for its efficiency, as substantial sums of money are instantly frozen as a result of the mandatory reporting requirement.

Jun and Ai (2009) evaluate the practice of customer due diligence (CDD) in China by methodically introducing the most recent customer due diligence (CDD) materials produced by developed nations and international organizations. To arrive to this conclusion, they study the most recent CDD legislation and guidelines at the worldwide level, as well as the mechanism of CDD compliance in China. According to the findings, China has implemented a succession of CDD measures since 2007, in response to an international need set by the Financial Action Task Force. Since 2007, Chinese banks' CDD and KYC have been updated on a regular basis. Practical compliance, on the other hand, must strengthen AML strategies. In terms of legislation, China has mostly produced comparable legal rules and regulations that meet international standards, but which are focused on practical operation and technical advancement.

ML/FT activities not only declines economic growth, fluctuates foreign exchange rates and interest rates, but also weakens the business of legal aspects, and the state's ability to fight against corruption & informal economy (Department of Money Laundering Investigation, Nepal, 2021). The case study of Gul, Asghar, and Ali (2021) mentions that in third-world country like Pakistan, where there are few transparent money transfer systems and no rule of law, have found it easier to engage in illegal activities and conduct ML/TF activities. However, implementation of several counter actions taken by Pakistan including conforms to international standards. The country's capacities for monitoring and enforcing laws, as well as for coordinating among agencies and with stakeholders, have comparatively increased. Pakistan has been moved from the black to the grey list. Pakistan's economy has suffered positively as a result of this. Pakistan has put in place a number of centralized methods for monitoring the financial transaction system that are working well. This method is currently on the

verge of meeting certain critical requirements for detecting and freezing money laundering and terrorist funding cases that have been established and emphasized.

Young (2014) examined the current condition and prospects of money laundering in Jamaica, as well as the UK-Jamaica financial crime linkages. The study found that due to weak legislation, Jamaica remains vulnerable to money laundering in the remittance business. Furthermore, because Jamaican criminals stay in the United Kingdom and send money back to their homeland, the remitted funds are thought to originate from drug trafficking in the United Kingdom.

Suspicious Transaction Reports (STRs) to the Financial Intelligence Unit (FIU) were evaluated as an anti-money laundering mechanism in India by (Viritha, Mariappan, and Haq 2015). Researchers also examined its impact on money laundering prevention through conviction and confiscation based on Financial Action Task Force (FATF) principles. From 2006-2007 to 2011-2012, a descriptive study was done to investigate the effectiveness of STR utilizing secondary data from FIU-India and FATF annual reports. The findings demonstrate a considerable increase in the number of STRs filed over the study period. Similarly, the impact of money laundering prevention isn't measured in terms of prosecutions or confiscations. However, India's anti-money laundering framework has only recently begun, and it is still in its infancy.

Republic of Ghana (2016) demonstrates broad lack of understanding of AML/CFT issues and their importance in sustaining security in Ghana. The study further recommends that the financial information unit should work with the NGOs Standards Commission to support the anti-money laundering practices implementation and anti-terrorist financing measures, as well as a gift acceptance policy. To raise awareness of the schemes related with ML/TF, the financial information unit shall work with the Islamic Education Unit of the Ghana Education Service and other religious organizations. More attorneys should be educated in financial crime prosecutions across Ghana. Also, Financial Information Unit Nepal (2017) urges financial institutions to implement various practices to prevent the assets laundering.

Qureshi (2017) presented some popular Anti-money laundering cases. In late 1990s, Russian capital worth \$7.1 billion was laundered through bank accounts controlled by several Bank of New York. Initially, the bank was declared not guilty, and the wrongdoing was confined to the bank's employee side. However, after additional

inquiry, the bank admitted in 2005 that it had made a mistake by failing to follow the AML regulations' recommended method and paid \$38 million in fines. Likewise, another popular case was found during 2000s, Standard Chartered Bank was found guilty of laundering billions of dollars in Iran. A total of almost 60,000 transactions worth a combined \$250 billion were made possible by the bank on behalf of Iran. Later, the bank was penalized \$340 million for its role in aiding unlawful transactions and money laundering.

As Money laundering (ML) and terrorist financing (TF) disrupts international peace, security, and law and order while having a negative effect on the financial, economic, and criminal justice systems, pose the greatest risks to the integrity of the financial system, economic growth, and, ultimately, human civilization. The crime encourages illegal financial activities, the development of weapons of mass destruction for terrorist attacks, the undermining of tax systems, and the erosion of transparency. Thus, financial institutions must put in place a variety of practices to prevent asset laundering by implementing strong AML/CFT policies. The directive mandates that these policies and processes include Customer Due Diligence (CDD) or the identification of customers (KYC) (Financial Information Unit, 2020).

2.3 Review based on variables

2.3.1 Employee Training and Development

Shanmugam and Thanasegaran (2008) argues that adequate training methods, such as AML programs, are an effective way to assure employee expertise. The AML practice consists of awareness on AML/CFT, forensic accounting, investigation expertise, and mutual legal for asset confiscation and criminal cases.

The study of Chisenga and Phiri (2011) highlights the importance of the AML training for AML effectiveness. Further the study of Viritha (2016), AML training is insufficient, implying that while employees are given AML training, it is insufficient to fulfill the employees' requirement to execute AML operations, and that's why its crucial to provide sufficient and high-quality training to bank employees. However, Biswakarma and Koirala (2021) found that Employees Trainings and development has comparatively low influence in implementation of AML practices in Nepalese banks. Researcher assessed the level of AML awareness among banking employees in Nepalese context. The study proposed that banking employees must be extra vigilant

of anti-money laundering practices since banks perform financial intermediation, and thus the risk of AML is higher. The findings indicate that Banking employees are aware of ML and AML dimensions. However, employees are less aware about FIU's functioning department under NRB. The study further advises the financial institution to offer ongoing training and development opportunities to staff members, particularly those working in front line and back office who are involved in AML activities. Government of Nepal (2020) found that there is a requirement for AML/CFT training for investigators of the predicate offenses, as well as a uniform standard financial crime investigation manual.

Further, The study of Bahrin, Yusuf, Muhammad, and Ghani (2022) found that staff knowledge has a positive impact on the AML system's effectiveness. One way to ensure staff competency is adequate training and development program to frontline bankers concentrating on employee's ability to identify risks associated in suspicious transaction reports (STRs) and efficiently applying customer due diligence (CDD) processes.

H1: Employees Trainings and development regarding AML effect effective implementation of AML practice in Nepalese banks.

Table 1

Summary of Review on Employee Training and Development

Author(s)	Title	Findings
Viritha (2016)	Anti-Money laundering regulation and practices in Indian commercial Banks: The banker and customer perspective	Found that training provided in Indian Banking industry is insufficient to trace the ML activities. So, there is a need to provide sufficient and high-quality training to bank employees
Government of Nepal (2020)	National Risk Assessment Report on Money Laundering and Terrorist Financing, 2020.	There is a requirement for AML/CFT training for investigators of the predicate offenses, as well as a uniform standard financial crime investigation manual.

Biswakarma and Koirala (2021)	Implementation of anti-money laundering regulations in Nepalese banking sector in Nepal: an employee perspective	Employees Trainings and development' has comparatively low influence in implementation of AML practices in Nepalese banks. The study further recommends that the financial institution should provide continuous training and development programs to the employees more particularly those working in front line and back office who are involved in AML activities.
Bahrin, Yusuf, Muhammad, and Ghani, (2022)	Determinants of anti-money laundering program effectiveness	Staff knowledge has a positive impact on the AML system's effectiveness

2.3.2 Control Over Business Sophistication

The study of Gill and Taylor (2004) conducted in the financial industry in UK found that implementing AML legislation has led to severe doubts regarding its effectiveness. Even though the Financial Service Authority (FSA) stated that it wanted to allow businesses to adopt a risk-based approach, many respondents felt that the requirements would have alienated their long-standing clients if they had been in place at the time that these accounts were opened. Many also criticized the lack of flexibility within the rules. The urgency to respond to the major threat posed by money laundering, it is suggested that the requirements of KYC are disproportionate to the risk.

Leong (2007) proposed that Money laundering and terrorism funding remain significant threats despite enormous efforts and cooperation by governments, law enforcement organizations, professional associations, and private financial institutions. There's also the worry that tighter regulation may burden the banking industry even more. Further, Lucian (2010) noted the issue of open borders, a consequence of globalization and regionalization of international organizations. The world community of criminal gangs utilizing sophisticated technology methods and open borders has been highlighted. Thus, the increase in business sophistication has created a challenge to track money laundering. That's why the anti-money laundering process requires the incorporation of special national regulations.

Money laundering should, in theory, have diminished as a result of the new legislation. However, the study of Unger and Hertog (2012) demonstrate even estimating the trend in criminal proceeds and laundering over time is problematic. Criminals appear to move between the less closely controlled financial markets and the more strictly regulated

banking sector, as well as between these two sectors and other businesses. Mostly Electronic payments modes and trading mode is adopted to demise the black money. Biswakarma and Koirala (2021) shows moderate level of influence of ‘control over business for the effectiveness of the AML practices.

H2: Control over business sophistication effects effective implementation of AML practice in Nepalese banks.

Table 2

Summary of Literature review on Control over Business Sophistication

Author(s)	Title	Findings
Gill and Taylor (2004)	Preventing money laundering or obstructing business? financial Companies' perspectives on 'know your customer' procedures	Found that the requirements would have alienated their established clients
Leong (2007)	Chasing dirty money: domestic and international measures against money laundering	Money laundering and terrorism funding remain significant threats despite enormous efforts and cooperation by governments, law enforcement organizations, professional associations, and private financial institutions
Lucian (2010)	The concept of money laundering in global economy.	The world community of criminal gangs utilizing sophisticated technology methods and open borders has been highlighted. Thus, the increase in business sophistication has created a challenge to track money laundering.
Unger and Hertog (2012)	Water always finds its way: Identifying new forms of money laundering.	Criminals appear to go from the more tightly regulated banking industry to the less tightly regulated financial markets, as well as from financial markets to other industries. Mostly Electronic payments modes and trading mode is adopted to demise the black money.
Biswakarma and Koirala (2021)	Implementation of anti-money laundering regulations in Nepalese banking sector in Nepal: an employee perspective	Shows moderate level of influence of ‘control over business for the effectiveness of the AML practices.

2.3.3 Ethical behavior

Vaithilingam and Nair (2007) took the sample from 88 developed and developing countries to examine the factors affecting implementation of AML practices. The study found that a strong judicial system and banks that act ethically lowers the pervasiveness of money laundering activities. Later, Parashar (2010) figured out that Banks' ethical behavior has a significant and favorable impact on the volume of illegal money flows. In order to discourage people and businesses from engaging in money laundering, an effort should be made to raise awareness of the negative effects of the practice on the economy.

According to the Nepal Bankers Association (2020) Ethical behavior of the bank is determined by the fairness, standard of services, ensure the privacy, is accountable in dealing with the customers, is transparent in terms of providing information and decisions. Furthermore, if any kind of suspicious transactions is seen then they are reported to the relevant authority with respect to the NBA.

Money laundering and other financial crimes are on the rise for a variety of reasons, including banking operations that do not adhere to professional ethics. Khan (2021) conducted the qualitative study following deductive approach. The study found that Professional activities that are ethically compliant have also been discovered to have crucial role to prevent money laundering. Some of these activities have supposedly included developing strict codes of conduct for financial transactions, warning people about the consequences of involving into or attempting into unlawful activities concerned with AML, and putting effective techniques for management and control in place that can adequately monitor institutional improper behavior. Biswakarma and Koirala (2021) examined the factors influencing effective implementation of AML practices among 136 employees of Nepalese Banks. Among the 6 variables tested, the respondents gave highest degree of agreement on 'ethical behavior of bank' meaning that it exerts highest influence in effective implementation of AML practices.

H3: Ethical behavior effects effective implementation of AML practice in Nepalese banks.

2.3.4 AML system

In addition to rules and regulations that impose the required requirements on financial institutions, a good AML-CFT system must contain enforceable measures that enable a country to provide the broadest range of international cooperation. (United Nations office on drug and crime, 2009)

The study of Subbotina (2009) assess banks' adherence to the anti-money laundering (AML) regulations developed by the Russian regulator for the financial institutions. A comparative analysis was conducted using the information gathered through a detailed examination of the regulator's regulations for financial institutions, practitioner interviews, and observations of various banking activities. The article draws the conclusion that current practice has demonstrated the financial institutions' and banks' failure to adhere to the AML rules. This result raises more concerns about the banks' or financial institutions' unwillingness or incapacity to follow the regulator's regulations.

Ahmed (2017) proposed that for implementation of the AML framework, the internal structural development of Bangladesh must be enhanced addressing social and economic issues. (International Finance Corporation (2019) claims that the inherent risks indicated by the risk assessment should be mitigated by AML policies, procedures, and internal controls. They should be used to prevent, detect, and report any suspicious activities, as well as to comply with local regulations and create a strong internal control and risk management environment. The bank should take a risk-based approach when developing and implementing policies, processes, and internal controls. Higher-risk clients, higher-risk items, and other circumstances may demand more strict controls and constant monitoring under this method.

The findings of Ofoeda, Agbloyor, Abor, and Osei (2020) states that AML regulations contribute to the expansion of the financial sector in developing nations. Asia Pacific Group (APG) is a Financial Action Task Force (FATF) associate member with a specialization on Asia and the Pacific. APG's mission is to effectively implement the FATF standards in its memoranda in order to combat money laundering and terrorism financing. Nepal has pledged to fully adhere to global AML/CFT norms ever since becoming a member of APG. Nepal is connected to the FATF through APG even though it is not a direct member. Legislative acts, in particular the Money (Asset) Laundering Prevention Act, 2008; Second Amendment - Asset (Money) Laundering

Prevention (Second Amendment) Act, 2014, have shaped Nepal's AML/CFT legal regime (Biswakarma and Koirala, 2021).

The Financial Information Unit (FIU), Nepal's financial intelligence unit, was formed on April 21, 2008 as an administrative FIU with the mission of collecting, processing, analyzing, and disseminating financial information and intelligence on suspected money laundering and terrorism financing activities to the money laundering investigation department, other pertinent law enforcement agencies, and foreign FIUs (Financial Information Unit, 2021).

The study of Issah and Antwi (2022) examined how AML policies affect the stability of the banking industry in Africa as well as the impacts of varying AML effectiveness levels. The study found that improving the efficiency of anti-money measures will strengthen the stability of the nation's financial system.

H5: AML system effects effective implementation of AML practice in Nepalese banks.

Table 3

Summary of Literature review on AML system

Author(s)	Title	Findings
Subbotina (2009)	Challenges that Russian banks face implementing the AML regulations	Current practice has demonstrated the financial institutions' and banks' failure to adhere to the AML rules. This result raises more concerns about the banks' or financial institutions' unwillingness or incapacity to follow the regulator's regulations.
(Ahmed, 2017)	Practical application of anti-money laundering requirements in Bangladesh: an insight in the disparity between anti-money laundering methods and their effectiveness based on resources and infrastructure	AML framework must be enhanced addressing social and economic issues.
International Finance Corporation, 2019	Anti-Money Laundering (AML) and Countering Financing of Terrorism (CFT) Risk Management in Emerging Market Banks.	The inherent risks indicated by the risk assessment should be mitigated by AML policies, procedures, and internal controls.
Ofoeda, Agbloyor, Abor and Osei (2020)	Anti-money laundering regulations and financial sector development	Found that AML regulations contribute to the expansion of the financial sector in developing nations

Biswakarma and Koirala (2021)	Implementation of anti-money laundering regulations in Nepalese banking sector in Nepal: an employee perspective	Ever since Nepal obtained membership in APG, Nepal has committed to fully comply with international AML/CFT standards. Parliamentary enactments, particularly the Money (Asset) Laundering Prevention Act, 2008; Second Amendment - Asset (Money) Laundering Prevention (Second Amendment) Act, 2014, have shaped Nepal's AML/CFT legal regime.
Issah and Antwi (2022)	Anti-money laundering regulation and banking sector stability in Africa	Found that improving the efficiency of anti-money measures will strengthen the stability of the nation's financial system

2.3.5 Customer awareness

FIU-Republic of Mauritius (2006) undertook a questionnaire survey among general public of Mauritius over the age of 18 to assess the customer awareness and understanding on ML and perception on risk associated with it. The result indicates that awareness among all stakeholder groups with respect to anti-money laundering legislation and the role of the FIU is comparatively high which helps in weakening the potential money laundering activities. Further respondents showed high degree of agreement in the favor of generating the customer awareness on the money laundering impact and anti-money laundering regime to reduce the risk of money laundering and the financing of terrorism,

Singh (2009) in a conference on Controlling Money Laundering in India – stated that lack of customer awareness on the consequences of ML is a significant barrier to effective AML regime. Indians who are underprivileged and ignorant do not trust banks. Instead, they choose the hawala method since it eliminates the extensive paperwork needed to send money through a banking institution. The hawala method offers the same remittance service as a bank with little to no documentation, cheaper rates, and security and confidentiality. Due to the fact that many users do not view this as criminal activity and are unaware of the implications of the crime, this is common practice.

Gerstein and Hervieux-Payette (2013) presented the opinion about the importance of customer awareness and customers being informed about the activities that constitute money laundering and terrorist financing. Likewise, Viritha and Mariappan (2016) assessed the level of customer awareness and acceptance in AML practice in Indian

banks. The study shows low level of awareness with regard to usage of banks as a channel for ML/TF, reporting function of the banks, AML and combating financing of terrorism (CFT) legislation and about the existence of Financial Intelligence Unit (FIU)-India and its function. The customers were aware of ML and customer identification requirements. The participants demonstrated neutral attitude towards acceptance of AML measures.

Further, the study of Latif and Abdul-Rahman (2018) conducted among 6 Islamic and Conventional banks in Malaysia depicts that lack of customer awareness has been one of the significant obstacles to implementation of AML regulation. The study further shows customer are unaware on money laundering and financial crime. Customer are unaware of bank as a channel for money laundering and terrorism financing activities. Also, customers are unaware of the norms of customer identification and KYC. The study further recommended that banks and local media to work together to raise public awareness and education about money laundering and terrorism financing and increase financial literacy among general public. Government of Nepal (2020) Across the public and private sectors, there is a lack of proper awareness of AML/CFT issues. Rather than AML/CFT systems, regulators are concentrating on KYC. Regulatory reporting is ad hoc and unresearched.

Later, Joshi and Shah (2020) conducted similar research in Nepalese context with the objective to examine the relationship between Customer awareness on AML and acceptance of AML regimes. The study depicts the significantly positive relationship between awareness of AML related factors and acceptance for AML regimes. Further, the researcher found that Bank customers of Nepal have comparatively moderate level of awareness on ML, TF, AML, KYC, AML legislation and AML investigating agency.

This study has taken following factors into consideration to assess the customer awareness level from customer perspective:

- **Money Laundering and its impact**

Laundering is the phrase used to describe the mafia's technique of transferring illegal funds into firms that functioned as fronts for their unlawful enterprises. Money laundering is all about hiding the illicit origins of money by passing it through a complex system of banking operation. Money laundering, in other word, is the procedure through which funds or assets obtained through illicit conduct are transferred

or hidden to eliminate their association to the illegal activity. This variable is used to examine the extent of awareness bank customer have about ML, its impact on economy and its link with terrorism financing.

Since money laundering and terrorism funding are inextricably linked, it is essential to have a thorough understanding of ML to fully comprehend terrorism financing. (Mukhtar, 2018). Terrorism financing is raising money to support terrorist activities.

- **Terrorism Financing**

Government of Nepal (2008) defines terrorism financing as any funding for an act that, aims to intimidate a population or compel a government or international organization to carry out or abstain from carrying out an action that would kill or seriously harm a civilian or anyone else not actively engaged in hostilities in an armed conflict. Bank is used as the channel for ML and TF. Thus, it is assumed that bank customers must have generic idea on TF.

- **Bank as channel for ML/TF activities**

Unknowingly, money obtained by illicit activities may be transferred or deposited through banks and other financial institutions. Criminals and their associates utilize the financial system to send money from one account to another, conceal the source of the money and who is really the rightful owner, and store cash in bank vaults (Basel Committee on Banking Supervision, 1988).

- **Customer identification norms and its importance**

Know Your Customer (KYC) is one of the tools of Anti-Money Laundering. Therefore, it has been used as a single variable because of its close interlink. The term "anti-money laundering" is more frequently used to describe a set of procedures designed to discourage, discover, and report money-laundering operations. Finding, freezing, and forfeiture of illegal funds or assets are the three Fs of AML. The fight against money laundering seeks to identify the causes of its criminality. This variable is used to examine the extent of awareness bank customer have about AML, its tools and uses of its tools.

Know Your Customer (KYC) is a procedure that act as a critically to assess risk associated with the customer and a legal requirement to comply with Anti-Money

Laundrying (AML) laws. Effective KYC comprises knowing a customer's true identity, their financial activities and the risk they pose to the economy of the nation.

- **Reporting Function**

In 1988, Basel Committee issued ethical principles to ensure that banks are not channelized for washing illicit money and put forth the discouraging transactions that do not appear legitimate naming it Suspicious Transaction Reporting (STR). A financial transaction is considered suspicious if there are compelling reasons to suspect that the money was obtained illegally or that it was an attempt to launder money. From the client identification process through the transaction monitoring, the overall goal of the AML regime is to find any suspicious instances of money laundering and terrorism funding and to report them to the Financial Intelligent Unit. Reporting entities (REs) and bank employees are liable to identify the transaction of suspicious transaction. An employee is only expected to report STRs to FIU. FIU then decide on whether the transaction is actually illicit or not based on STR as prescribed by the Assets Laundrying Prevention Act (ALPA) and associated regulations.

- **AML & CFT Law**

The banded rules, regulation and law regarding anti-money laundrying and combating financing terrorism are included in this section. Legislative and regulatory agencies have created a set of guiding principles to help the fight against the funding of terrorism and money laundrying (Nobanee and Ellili, 2017). The acts related to anti-money laundrying in Nepal used to measure the awareness related to AML legislation are Assets Laundrying Prevention Act, Mutual Legal Assistance Act, Extradition Act, Organized Crimes Prevention Act and Confiscation of Criminal Proceeds Act.

- **Financial Information Unit**

Financial Information Unit of Nepal (FIU-Nepal) serves as a central national agency a mandate to deal with AML. It is accountable for gathering, processing, and sharing information on potential money laundrying, terrorism funding, and suspected criminal proceeds of crime. The Nepal Rastra Bank, the nation's central bank, is residence to FIU-Nepal, a functionally independent institution. According to Sections 9 and 10 of the Asset Laundrying Prevention Act of 2008, it was founded on April 21, 2008, as an administrative FIU. In addition to managing information sharing with overseas FIUs

via the EGMONT network of FIUs, FIU-Nepal plays a significant role in ensuring the delivery of financial intelligence relevant to AML/CFT to the domestic law enforcement agencies.

As a consequence of Globalization and liberalization, without international collaboration, money laundering cannot be prevented (Yasaka, 2017). Financial Action Task Force (FATF) is the global monitor for money laundering. In an attempt to prevent money laundering, it has implemented 49 distinct standards. The FATF 40 recommendations are related to money laundering. Whereas, 9 different Special recommendations are on terrorist financing (FATF 40 + 9). These are the international minimum standards for all jurisdictions. Nepal is a member of FATF.

H4: Customer awareness effects effective implementation of AML practice in Nepalese banks.

Table 4

Summary of Literature Review on Customer Awareness

Author(s)	Title	Findings
FIU-Republic of Mauritius (2006)	The risk, extent and trend of money laundering and financing of terrorism in Mauritius.	Found that awareness among all stakeholder regarding anti-money laundering legislation and the role of the FIU is comparatively high which helps in weakening the potential money laundering activities. Further, respondents showed high degree of agreement to generate the customer awareness on the money laundering impact and anti-money laundering regime to reduce the risk of money laundering and the financing of terrorism,
Singh (2009)	Controlling money laundering in India - problems and perspectives	Found that lack of customer awareness on the consequences of ML is a significant barrier to effective AML regime.
Gerstein and Hervieux-Payette (2013)	Follow The Money: Is Canada making progress in combating Money Laundering and Terrorist Financing? Not Really	Presented the opinion about the importance of customer awareness and customers being informed about the activities that constitute money laundering and terrorist financing.
Republic of Ghana (2016)	National Risk Assessment on Money Laundering and Terrorist Financing	Demonstrated lack of understanding of AML/CFT issues and their importance. Further, recommends that the financial information unit should work with the NGOs Standards Commission to support the implementation of anti-money laundering and anti-terrorist financing measures, as well as a gift acceptance policy.

Viritha and Mariappan (2016)		Anti-Money Laundering practices in banks: customer's awareness and acceptance in India	Shows the low level of awareness on AML/CFT and low level of acceptance of AML/CFT practices among the customers of India.
Latif Abdul-Rahman (2018)	and	Combating Money Laundering in Malaysia: Current Practice, Challenges and Suggestions	Depicts that lack of customer awareness has been one of the important barriers to effective implementation of AML regulation. Also, recommends that banks and local media to work together to raise public awareness and education about money laundering and terrorism financing and increase financial literacy among general public
Government of Nepal (2020)		National Risk Assessment Report on Money Laundering and Terrorist Financing, 2020	Across the public and private sectors, there is a lack of proper awareness of AML/CFT issues. Rather than AML/CFT systems, regulators are concentrating on KYC.
Joshi and Shah (2020)		Anti-money laundering awareness and acceptance among the bank customers of Nepal	Shows high level of customer awareness on AML/CFT and high level of acceptance on AML/CFT practices among the bank's customers of Nepal

Table 5

Empirical Literature Review Matrix

Authors (Date)	Title	Sample Size	Research Method	Variables	Findings
Vaithilingam and Nair (2007)	Factors affecting money laundering: lesson for developing countries	88	Ordinary Least square method	Technology, Quality of Human Capital, Efficiency of legal framework, ethical behavior of firms, and Innovation capacity	Strong judicial system and banks that act ethically lowers the pervasiveness of money laundering activities.
Parashar (2010)	Factors affecting money laundering: A lesson for developing countries	180	Multiple linear regression	Technology, Innovation, Business Sophistication, Financial Sophistication, Macroeconomic stability, Higher Education and Training, Ethical behavior of firms	Strong positive influence of Ethical Behavior of firms, financial market Sophistication, Technology, and Innovation, on the amount of illicit money flows. Whereas, Business Sophistication has an inverse impact on money flows and Training and development regarding AML do

					not appear to have any significant influence on money laundering activities.
Chisenga and Phiri (2011)	Factors that lead to money laundering in the real estate sector based on the financial action task force standards	62	Regression Analysis	Suspicious transaction reports, AML Officer, Internal Controls, Customer Due Diligence and AML Knowledge/Training	Effective AML relies on the AML training and effective Internal Controls.
Viritha (2016)	Anti-Money laundering regulation and practices in Indian commercial Banks: the banker and customer perspective	392	Descriptive statistics, parametric tests (t-test, and Anova), and correlation are used to analyze the research objectives.	AML awareness, Perception towards money laundering regulation, AML practices, and Constraints in AML Implementation	Moderate awareness of ML and TF risks among employees, training provided on AML has been inadequate, Employees have shown a low level of confidence in the AML law, and bank employees are not fully committed to properly adhering to the AML safeguards., banks partially comply with AML measures.
Biswakarma and Koirala (2021)	Implementation of anti-money laundering regulations in Nepalese banking sector in Nepal	136	Descriptive statistics, Correlation Analysis, and Regression Analysis	Training & development of employees regarding AML, ethical behavior of banks, technology, control over business sophistication and auditing & reporting standards of the banks	Control over business sophistication is the most significantly influencing factor for effective implementation of AML practices. whereas, training and development of employees 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.
Bahrin, Yusuf, Muhammad, and Ghani (2022)	Determinants of anti-money laundering program effectiveness	152	Descriptive Analysis, Correlation and Multiple linear regression	The success of an AML program is significantly influenced by employees' expertise, rules, and laws, and is significantly impacted negatively by IT technology.

2.4 Research Gap

Different researcher has made praiseworthy effort and their work has provided significant insight on international and national Anti-Money laundering framework and the state of BFIs complying the AML/CFT practices. Various studies have been conducted internationally on the state of AML regimes, its effectiveness, customer awareness, overview of AML laws, the relationship between AML and CFT, Factors affecting money laundering, Anti-money laundering regulation and banking sector stability, and Implementation of anti-money laundering regulations in Nepalese Banks..

Money Laundering in Nepal has received attention in recent years. As technological advancement, business sophistication has made incremental effect on banking services. Furthermore, the Budget of FY 2079/80 has also encouraged to use banking service for most of the transactions as in National payment switch which includes payment cards, retail payment, QR code payment and other digital payment and wire transfer. Despite of government ban on cryptocurrency, the tendency of people involving in its transaction is increasing which has increased the scope of Money laundering in Nepal. With all these advancements there arises a question, whether the banking business sophistication is brought to control money laundering or to ease it?

The central bank, FIs and the government itself are formulating and implementing AML regimes to curb the problem of ML. Many research is conducted internationally to identify the effectiveness of AML regulations and examine the factors affecting effective implementation of AML regimes. However, very few studies have been done in Nepalese context. Therefore, to enlighten the present status of AML implementation and to identify the factors significantly affecting the effective implementation of AML regimes this empirical study has been conducted.

Very few AML research have been done in Nepal so far. So, this research paper is focused on identifying the factors affecting the effective implementation of AML practices in Nepalese Banks. Furthermore, this paper helps to assess the level of customer awareness regarding AML.

2.5 Conceptual Framework

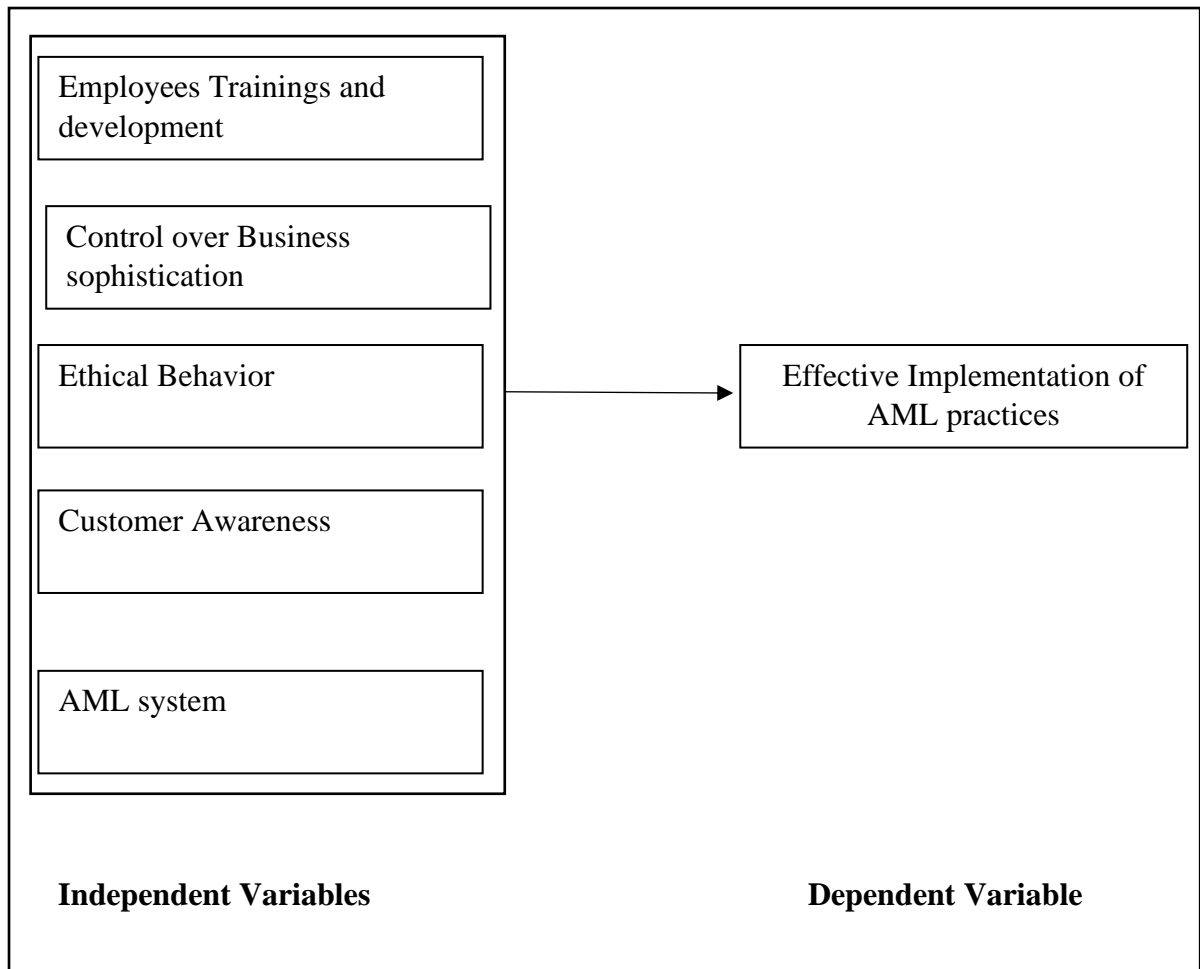


Figure 1

Conceptual Framework

(Source: Biswakarma and Koirala, 2021; Bahrin, Yusuf, Muhammad and Ghani, 2022; Viritha and Mariappan, 2016)

2.6 Specification of Variables

Independent Variables

- **Employees Trainings and Development**

For the effective implementation of AML practices, Nepalese banks conduct two different types of training programs i.e., awareness level training and regulation related training. Awareness level training should be conducted for effective learning on money laundering activities and anti-money laundering practices. This can be further effective to deliver knowledge to a large group of employees. Likewise, regulation related training should be regularly given to frontline employees.

A systematic questionnaire with closed-ended questions and a five-point agreement scale was created to compute this factor. The statement was created based on the theoretical framework and findings from previous research. A total of six questions from the study of Bahrin, Yusuf, Muhammad and Ghani (2022) helped this study to understand the status of training and development plans adopted by the banks are effective for implementation of AML practices.

- **Control over Business sophistication**

Money laundering prospects are anticipated to grow as company sophistication rises. Due to the complexity of corporate operations, tracking finances will become more difficult. Thus, the increase in business sophistication has created a challenge to track money laundering. That's why the anti-money laundering process requires the incorporation of special national regulations. Biswakarma and Koirala (2021) shows moderate level of influence of control over business sophistication for the effectiveness of the AML practices.

A systematic questionnaire with closed-ended questions and a five-point agreement scale was created to compute this factor. A total of ten questions referring to the study of Bahrin, Yusuf, Muhammad and Ghani (2022) and FATF (2021) helps this study to understand the degree to which Increased Business Sophistication will affect effective implementation of AML practices.

- **Ethical Behavior**

Bank ethics play a key role in controlling money laundering. The ethical behavior of banks can be seen through the effective performance of compliance department via having adequate process and policies, strict customer due diligence, and comply with AML/CFT guidelines. Thus, this helps in effective implementation of AML.

A systematic questionnaire with closed-ended questions and a five-point agreement scale was created to compute this factor. A total of seven questions referring to the study of Viritha and Mariappan (2016) helps this study to understand the degree to which Business Ethics or Ethical Behavior of bank will affect effective implementation of AML practices.

- **AML System**

The existing AML laws & regulations, and reporting entities' policies are the factors that determines the effective implementation of AML practices. Ahmed (2017) proposed that the internal structural growth of Bangladesh must be improved, taking social and economic concerns into consideration, in order to execute the AML framework.

This factor was calculated by constructing a structured questionnaire comprised of closed-ended statements on a five-point agreement scale (Likert Scale). A total of eleven questions that will help us to understand the degree to which AML System effect on effective implementation of AML practices. A total of eleven statements referring to the study of Viritha and Mariappan (2016) is being prepared.

- **Customer Awareness**

Customer awareness on money laundering and anti-money laundering practices, reporting function, KYC, AML legislation helps in effective implementation through active participation of customers in information disclosure, KYC updating, and transaction reporting.

The customer awareness level is assessed directly from customers' point of view and also from employees view point. The statement for employees view-point is referred from the study of Viritha and Mariappan (2016) and researcher's observation.

This variable to assess the customer awareness level is investigated using a structured questionnaire with closed-ended statements on a five-point Likert Scale. A total of seven questions will be asked to customers to see if customer awareness of ML/AML and its regulation has an impact on the effective implementation of AML measures. The customer awareness level of bank customers is assessed from different statements considering various constructs pertaining to Viritha and Mariappan (2016).

Dependent Variable

- **Effective implementation of AML practices**

The above reviewed literature identified different variables affecting the implementation of AML regimes. Employee training and development, control over business sophistication, ethical behavior of banks, customers awareness, employee perception, and AML system determines the effective implementation of AML practices.

The study conducted by Bahrin, Yusuf, Muhammad and Ghani (2022) examined the factors that influence the effectiveness of AML practices among banking staff. The article found that IT infrastructure has a considerable negative impact on an AML practice, but employee expertise and an AML system have a positive impact. Money laundering and other frauds are effectively combated by AML regulations relating to customer records, employee training, and reporting suspicious transactions.

Further the study of Isa, Sanusi, Haniff and Barnes (2015) stated that since front line employees come into touch with clients first, are seen as the "first line of defense" in detecting money laundering operations. As a result, frontline bankers should be able to detect and assess customer risks, as well as efficiently apply customer due diligence (CDD) processes. At this point, bankers should be able to spot red flags connected to money laundering or suspect customer activity, and they should be on the lookout for any potential threats. The capacities of bank officials could be increased through money laundering training, which should be necessary for all employees to attend or complete and pass at a particular level. Later, the study conducted by Biswakarma and Koirala (2021) argued that for the effective implementation of AML practices in Nepal's banking sector, technological change, employee AML training and development, bank ethical behavior, control over business sophistication, auditing and reporting standards, and

other factors are all beneficial. However, control over business sophistication is the most crucial factor that needs to be emphasized more.

CHAPTER III

RESEARCH METHODS

The chapter describes the various research approaches used to assess the customer awareness level on AML practices from Bank customers' and Bank employees' perspective and to determine the impact of independent variables on effective implementation of AML regimes.

This chapter shows the overall research design in detail that has been adopted by the researcher. This chapter also includes details about the population, sample size, sampling techniques, instruments used for the study, sources of data collection, and data management and analysis tools.

3.1 Study -I: Bank Customers' awareness on ML/AML

3.1.1 Source of Data

Primary data was gathered from customers of banking institutions from different sectors, including government, the general public, and joint ventures, who reside in Nepal's Kathmandu district. The target demographic is made up of people who are above 18 and have bank accounts.

3.1.2 Sampling Plan

Out of total of 27 Commercial banks and 18 Development banks, the study comprises the response of customers from 35 banks. Previous study undertaken by Joshi and Shah (2020) assessed Customer awareness level on AML practices on 168 bank customers using convenient sampling method. The study's final sample consisted of 200 customers of the banks Kathmandu district assuming that the sample size of 200 is sufficient. The convenience sampling method, is used to choose the Sample to accomplish the data collection within a stipulated time frame.

3.1.3 Data Collection Tool

A structured, and self-administered questionnaire was used to collect the data. Given the sample size, the questionnaire approach was chosen since it allowed respondents to respond to the questions or assertions at a time that was convenient for them. The

google questionnaire are distributed via mail and social media, to the potential respondents of the study.

The study included closed-ended questions with a five-point agreement scale.

3.2 Study – II: Bank Employees’ Perception

3.2.1 Source of Data

Primary data was collected from the staff of commercial banks in Nepal within Kathmandu district that operate in a variety of sectors, including government, public, and joint ventures. The employees who work in the banks' back offices were the target population. It includes employees performing role of Operations In-charge, Branch Manager, and Compliance (AML/CFT Unit) team.

3.2.2 Sampling Plan

According to a banks supervision report by Nepal Rastra Bank as of July 2021, there are a total of 27 Commercial banks and 18 Development Banks in Nepal. Thus, the total population of the study is 45 banks. Due to the non-availability of employee count on the basis of department, the population of the study is assumed to be unknown. However, the researcher framed sample in such a way that the sample represents overall banks. Thus, the findings of the study are based upon the response from the employees from total of 35 banks (including Branch and Head office) out of 45 Banks. The study comprises the response of Operations In-charge, Branch Manager, and Compliance (AML/CFT Unit) team, a total of 156 response. The study of Vaithilingam and Nair (2007), Chisenga and Phiri (2011), Biswakarma and Koirala (2021) and Bahrin, Yusuf, Muhammad, and Ghani (2022) were based upon the sample size of 88, 62, 136 and 152 respectively. Thus, to examine the factors affecting effective implementation of AML practice, under this study the sample size of 156 is assumed to be sufficient.

The Snowball sampling method, a nonprobability sampling approach, is used to choose the Sample. Since the inferential goal of the study is to get responses from mid-level of employees, Snowball sampling is appropriate. Under this method, the present respondents suggest their counterparts who work in the branches and other banks of their bank to the prospective respondents. The study's final sample consisted of 156 employees of the banks from across all the three sectors working in three different departments in Kathmandu district.

3.2.3 Data Collection Tool

A structured and self-administered questionnaire was used to collect the data. Given the sample size, the questionnaire approach was chosen since it allowed respondents to respond to the questions or assertions at a time that was convenient for them. The questionnaires were distributed in person, to the respondents of the study.

The study included closed-ended questions with a five-point agreement scale (Likert Scale). The questionnaire was created using the conceptual framework, relevant previous findings, and FATF's AML standards. The format is attached in annexure.

3.3 Research design

To assess the customer awareness level on AML practices and to evaluate the relationship between independent variables and effective implementation of AML practices, the researcher has carried out a quantitative research design approach. The research is based on a Quantitative research approach to test the hypothesis of the study and perform an empirical investigation of quantitative properties. A descriptive study is also conducted for looking at the respondents' profiles with the focus on who, what, and how much types of questions to meet both the objectives of the study. The study has also used causal research design as it attempts to establish cause and effect relationships between independent and dependent variables. Data collection is done with the application of a close-ended questionnaire.

3.4 Instrumentation

3.4.1 Study - I: Bank Customers' awareness on ML/AML

The research paper is based on primary source of data. The primary data were collected using questionnaire. Where the first section covers demographic information as gender of the respondents, age, education level, and occupation type of the respondents.

The second section of the questionnaire consist of statements regarding the constructs of Customer awareness on ML and TF. A total of 19 statements to capture awareness on the aspects: ML and its impact, Terrorism Financing, Bank as a channel of ML/TF activities, Customer identification norms and its importance, Reporting function, AML & CFT law, and FIU-Nepal.

In this study, a likert type five-point scale questionnaire was used to assess the customers' awareness level on ML/AML has been abstracted from the study of Viritha and Mariappan (2016).

Furthermore, the responses were arranged using Ms-Excel and data analysis is done using SPSS software. Descriptive analysis will be used to present the data of each item. Descriptive analysis was used to assess the level of customers' awareness on AML practices.

3.4.2 Study – II: Bank Employees' Perception

The research paper is quantitative research, based on primary source of data. The primary data were collected using structured questionnaire. Where the first section covers demographic information as gender of the respondents, type and location of the bank, and work experience of the respondents.

The second section of the questionnaire consist of statements regarding the independent variable: Employee Training and Development adopted from the study of Bahrin, Yusuf, Muhammad, and Ghani (2022), Control over business sophistication adopted from the study of Bahrin, Yusuf, Muhammad, and Ghani (2022), Ethical Behavior adopted from the study of Viritha and Mariappan (2016), AML System adopted from the study of Viritha and Mariappan (2016) and customer awareness adopted from the study of Viritha and Mariappan (2016) . In this study, a Likert type five-point scale questionnaire was used to examine the impact of independent variables over dependent variable (Effective implementation of AML practices). The scale's five points ranges from 1 to 5: Strongly Disagree, Disagree, Neutral, Agree, Strongly Agree.

Furthermore, the responses were arranged using Ms-Excel and data analysis is done using SPSS software. Descriptive analysis was used to present the data of each item. In this study, the relationship between the independent and dependent variables was examined using Pearson's Correlation analysis. Hypotheses were tested using Regression analysis.

Table 6*Sources of Instruments*

Instruments	Source
Employee Training and Development	Bahrin, Yusuf, Muhammad and Ghani (2022)
Control over Business Sophistication	Bahrin, Yusuf, Muhammad and Ghani (2022)
Business Ethics	Viritha and Mariappan (2016)
Customer Awareness	Viritha and Mariappan (2016)
AML System	Viritha and Mariappan (2016)

Model Specification for Study - II:

A linear regression was developed by Galton (1886) was used to examine the factors affecting effective implementation of AML practices.

$$Y = \beta_0 + \beta_1(ET\&D) + \beta_2(IBS) + \beta_3(EB) + \beta_4(CA) + \beta_5(AS)$$

Where, Y= Effective implementation of AML

β_0 = Constant

ET&D= Employees Training and Development

COBS= Control over Business sophistication

ET= Ethical Behavior

CA= Customer Awareness

AS= AML System

The model parameters $\beta_0, \beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ will be estimated using the ordinary least square technique.

3.5 Reliability

In this study, Cronbach's alpha is used to test the reliability of the data. In general, data with alpha value ranging from 0.70 to 0.95 are considered to be reliable.

3.5.1 Reliability Statistics: Study - I

Table 7

Reliability statistics of bank customer responses

Variables	No. of statements	Cronbach's Alpha
Money Laundering and its impact	5	0.86
Terrorism financing	2	0.61
Bank as a channel for ML/TF activities	2	0.81
Customer identification norms and its importance	4	0.72
Reporting function	2	0.88
AML & CFT law	2	0.79
Financial Information Unit	2	0.82

Table 7 depicts Cronbach's alpha for seven different variables that have been used to assess the customer awareness level in this study. The table shows that Money laundering and its impact, terrorism financing, Bank as a channel for ML/TF activities, customer identification norms and its importance, Reporting function, AML & CFT law, Financial Information Unit with reliability statistics of 0.86, 0.61, 0.81, 0.72, 0.88, 0.79, and 0.82 respectively. All the variables Cronbach's alpha is greater than 0.7. Therefore, the scales are considered to be reliable and consistent to measure the respective variable.

3.5.2 Reliability statistics: Study - II

Table 8

Reliability statistics of employee response

Variables	No. of statements	Cronbach's Alpha
Employee training and development	6	0.796
Control over Business sophistication	8	0.743
Business Ethics	7	0.789
Customer Awareness	7	0.812
AML system	12	0.896
Effective Implementation of AML Practices	13	0.843

Table 8 shows Cronbach's alpha for six different variables that have been used to examine the factors affecting effective implementation of AML practices in Nepalese Banks. The table shows that Employee training and development, Increased Business sophistication, Business Ethics, Customer awareness, AML System and Effective Implementation of AML Practices with reliability statistics of 0.796, 0.743, 0.789, 0.812, 0.896 and 0.843 respectively. All the variables Cronbach's alpha is greater than 0.7. Therefore, the scales are considered to be reliable and consistent to measure the respective variable.

CHAPTER IV

ANALYSIS AND RESULTS

This chapter presents the analysis of the study results and their interpretation. Basically, study's results using proposed statistical tools and techniques are presented in this chapter.

This study has fulfilled the two objectives. First one includes assessing the customer awareness level and second includes examining the factors affecting effective implementation of AML practices in Nepalese Banks. Descriptive analysis has been presented in the preceding section of this chapter. Ages, gender, education, and occupation of bank customers in the first part. The second part includes type and location of the bank, role of the employee in bank and experience in banking industry. These statistics provide demographic description of the study which will have many implications in this study.

In the following sections, correlational study results have been presented. The study results work in two ways. First, the results give the idea about the nature and degree of association between the study variables. Second, the results make way out further proceeding; i.e., exploratory analysis.

At the end of the chapter, discussion of the study finding has been presented linking this study result with previous studies. Similarly, discussions of the findings of the results have been presented. At the end of the chapter, summary table of the research hypothesis have been presented. It provides a clear and quick glance for readers to acquire findings of the study.

4.1 Descriptive Analysis: Assess Customers' Awareness Level

4.1.1 Study - I: Bank Customers' awareness on ML/AML

Table 9

Demographic Distribution of bank customers

		Frequency	Percentage
Gender	Male	83	41.3
	Female	118	58.7
Age (years)	18-25	131	65.2
	26-40	68	33.8
	41-60	2	1
Latest Academic degree	Masters and above	105	52.2
	Bachelors	92	45.8
	Intermediate	4	2
Occupation	Government Service	9	4.5
	Private Service	39	19.4
	Self-employed	21	10.4
	Student	132	65.7

Table 9 exhibits the demographic profile of the respondent bank customers. Respondents have been grouped in different demographic indications that include gender, age group, level of education, and occupation. This study consists of 202 respondents in total. Out of total 202 respondents, Majority of the participants were females 58.7% and 41.3% were male.

Majority of the respondents fall under age group 18-25, i.e 65.2 percent of the respondents belong to the age group 18-25, 33.8 percent belong to the age group 26-40 years, and 1 percent belongs to the age group 41-60 years. More than half of the participants i.e., 52.2 percent had completed their Masters level education followed by Bachelor level and Intermediate level.

Out of 202 respondent 65.7 percent of them were student, 19.4 percent were employee in private organization, 10.4 percent were self-employed and 4.5 percent were

employee at governmental organization.

Table 10

Descriptive statistics on Customer Awareness level

Variables	Mean	Std. Deviation
Money Laundering and its impact	4.14	0.89
Terrorism financing	3.51	0.99
Bank as a channel for ML/TF activities	3.31	0.94
Customer identification norms and its importance	4.24	0.89
Reporting function	4.06	0.87
AML & CFT law	3.16	1.14
Financial Information Unit	3.12	1.11
<i>Average of Above</i>	3.65	0.98

The statements were rated from 1-5. (1= Strongly disagree, 2= disagree, 3= Neutral, 4= agree, 5= Strongly Agree)

Table 10 shows that the awareness of Nepalese bank customers on money laundering impacts and anti-money laundering practices is high. Nepalese bank customers showed high level of agreement on being aware of Customer identification norms and its importance followed by the awareness on Money laundering and its impact awareness of ML and TF, Reporting function of BFIs, Terrorism financing, Bank as a channel for ML/TF activities, AML & CFT law and awareness on Financial Information Unit.

Further, as an evident of customer showing high level of agreement on being aware on ML/AML activities the study finds that the bank customers are aware on ML and AML activities considering all the seven factors used to assess customer awareness level.

The above result is based upon the responses given by the bank customers. This study has also covered the customer awareness level on AML practices from the employee perspective.

4.1.2 Study – II: Bank Employees’ Perception

Table 11

Descriptive statistics on Customer Awareness: Employees’ perspective

Variables	Mean	Std. Deviation
Money Laundering and its impact	2.9	0.92
Bank as a channel for ML/TF activities	3.1	0.89
Customer identification norms and its importance	2.86	0.93
Reporting function	2.93	0.82
Financial Information Unit	2.56	0.82
<i>Average of Above</i>	<i>2.87</i>	<i>0.876</i>

Table 11 shows that the awareness of Nepalese bank customers on money laundering impacts and anti-money laundering practices from employees’ perspective. As evidence that employee showed disagreement to customer being aware of ML/AML, the findings shows that the customers are not aware on ML and AML practices as the mean awareness level is less than 3 out of 5.

Above table depicts that customer are only aware about bank being used as one of the channels for ML/TF activities with average mean of 3.10. Besides customer are unaware of Money laundering and its impact, Customer identification norms and its importance, reporting functions of banks and FIU.

4.1.3 Comparative analysis: Employee and customer perspectives

From the customers’ perspective this study finds that Nepalese banks’ customer are highly aware of ML and AML practices. However, the result contradicts from the employee perspective. The findings depict that from the Bank employees’ perspective customer are not aware of ML and AML practices.

To assess the customer awareness level from customers’ perspective, the instrument was designed in generic form that includes customer being informed of ML/AML, importance of KYC, AML/CFT laws, and FIU-Nepal. Whereas, to assess the customers awareness level from employees’ perspective, the instrument is designed in a way that considers the acceptance towards AML regimes basically related to customers’ support to fill up KYC, disclosure of information and so on.

Thus, the analysis depicts the gap on customer awareness level on ML/AML from employees and customers perspectives.

4.2 Descriptive Analysis: Examine factors affecting effective implementation of AML practices

Table 12

Classification of Bank type

	Frequency	Percent
Public	107	68.59
Government	20	12.82
Joint Venture	29	18.59
Total	156	100

Table 12 shows the distribution of respondents according to the type of bank they are currently employed. It shows the majority of respondents are from public bank i.e., 68.59% followed by Joint venture (18.59%) and Government bank (12.82%).

Table 13

Classification of Role of Employee

	Frequency	Percent
Head Teller	5	3.21
Operations In charge	29	18.58
Branch Manager	41	26.28
Compliance team	76	48.72
Others	5	3.21
Total	156	100

Table 13 shows the distribution of respondents according to the job role they are assigned to. It shows that 48.72% of the respondents were from Compliance team followed by Branch manager (26.28%), Operations In charge (18.58%), and Head Teller (3.21%).

Table 14*Distribution of Work experience*

	Frequency	Percent
Less than 1 year	7	4.49
1-3 years	7	4.48
more than 3 years	142	91.02
Total	156	100

Table 14 shows the distribution of respondents according to work experience in banking industry. It shows that majority of the respondents i.e., 91.02% of them have more 3 years of experience in banking industry.

Table 15*Distribution of Location of the Bank*

	Frequency	Percent
Inside Kathmandu Valley	138	88.46
Outside Kathmandu Valley	18	11.53
Total	156	100

Table 15 shows the distribution of respondents according to location of the bank. It shows that majority of the respondents i.e., 88.46% were from Kathmandu valley and 11.53% were employed outside valley.

Table 16*Tabulation of data related to training and employee awareness*

Statements	Options	Frequency	Percent
I have received training in KYC/AML operations.	Yes	153	98.07
	No	3	1.92
The bank conducts training in AML	Only at the time of joining the bank	4	2.56
	Yearly	79	50.64
	Once in every two years	7	4.48
	Multiple times a year	66	42.31
I am aware that Banks are used for the purpose of Money Laundering.	Yes	145	92.95
	No	7	4.49
	Unaware	4	2.56
I am aware that branches have a major role to play in detecting money laundering activities.	Yes	150	96.15
	No	1	0.64
	Unaware	5	3.21

Table 16 shows the summary of the responses related to training on AML practices to bank employees and employee awareness on ML/AML. Above table depicts that out of total respondents (153) 98.07% have received AML training. 50.64% have received AML training yearly, 42.31% have received training multiple times a year and 4.48% have received only at the time of joining bank.

Majority of the respondents i.e., 92.95% of the respondents are aware that Banks are used for the purpose of Money Laundering. Also, 96.15% are aware that branches have a major role to play in detecting money laundering activities. Whereas, 3.21% are unaware and 0.64% of the respondents claims that branches do not have major role to play in detecting money laundering activities.

4.2 Descriptive Statistics of the variables

The descriptive analysis of the data gathered by the questionnaire during the research phase is covered in this part. A descriptive analysis is a type of statistical summary that quantifies and enumerates the characteristics of the information gathered. Instead of using the data to understand the population the sample data represents, it seeks to summarize the sample. Calculation of statistical metrics like mean and standard deviation is part of descriptive analysis. The SPSS output resulted in a total of 53 questions, each with a unique mean score and standard deviation. There were 156 responses to each question.

The effectiveness of implementing AML practices was assessed using a five-point Likert scale, with 1 indicating Strongly Disagree, 2 marking Disagree, 3 specifying Neutral, 4 defined in clause Agree, and 5 denoting Strongly Agree. The three independent variables were employee training and development, increased business sophistication, business ethics, customer awareness, and the AML system.

The sum of all value from 1 to 5 equals to 5 and divided by number of items gives mean value of the item that is 3. The mean value of item greater than 3 indicate that there is inclination towards agreement and value of mean below 3 indicate that there is inclination towards disagreement with the statements. Standard deviation indicates the variation the value from the mean value.

Table 17

Descriptive statistics for Employee training and development

Statements	Mean	Std. Deviation
The bank provides training or guidance to me on the policies and procedures of anti-money laundering.	4.19	0.66
The bank allocates adequate resources, including staff and financial resources to manage the Anti-money laundering (AML) program.	3.99	0.71
There are periodic classroom trainings or e-learnings that the I need to complete.	3.59	1.02

There is sufficient budget to carry out the Training and development activities related to Anti-money laundering.	3.91	0.81
Compliance trainer have proper exposure of AML mechanism.	3.96	0.74
Present mechanism to measure the effectiveness of training & and development related to AML program is sufficient.	3.22	0.93

Table 17 shows the respondents' level of agreement regarding various constructs of Employee training and development on AML. There are 6 statements with mean value ranging between 3.22 to 4.19, this depicts that employee are inclined towards agreement meaning that employees agree on Bank providing sufficient training and development program on AML. Besides, highest mean 4.19 indicates that maximum respondents agree with the statement that the bank provides trainings on the policies and mechanisms of anti-money laundering. Whereas. The mean 3.22 on the statement present mechanism to measure the effectiveness of training & and development related to AML program is sufficient indicates that not majority of the employee agree on that training measurement mechanism is not sufficient.

The standard deviation statistics indicated the average of deviation between the respondents Furthermore, the table shows that has the highest standard deviation of 1.02 whereas lowest standard deviation of 0.66.

Table 18

Descriptive statistics for Control over Business sophistication

Statements	Mean	Std. Deviation
The bank has acquired or developed IT systems or databases related to AML.	4.09	0.67
The bank has sophisticated IT infrastructure in detecting suspicious transactions.	3.62	0.89
Bank invest sufficient in updating its IT infrastructure to adapt to the current trends in money laundering activities.	3.70	0.89

Staff are equipped with sufficient IT skills to use the AML software to analyze the information gathered from the systems.	3.54	0.91
Use of technology like electronic payment system has not created challenges to track ML.	2.72	1.06
There has been time when Money Laundering (ML) cases were identified through wire transfer.	3.48	0.77
The digital banking system has sufficient mechanism to track ML.	3.25	0.90
Increased business sophistication has not hindered the implementation of AML regulations.	3.08	0.91

Table 18 shows respondents' agreement and disagreement on if increased business sophistication has hindered implementation of AML practices. The highest mean of 4.09 in the statement indicates that banks has installed sufficient IT infrastructure to track all the transactions more specifically ML/TF. However, the least mean of all in above table 2.72 denotes that majority of the respondents feel that use of technology like electronic payment system has created challenges to track ML. Further the mean 3.08 depicts that not all respondents gave agreement on Increased business sophistication has not hindered the implementation of AML regulations.

Table 19

Descriptive statistics for Business Ethics

Statements	Mean	Std. Deviation
Banks has sufficient Compliance officers.	3.86	0.90
Bank is serious towards Customer Due Diligence (CDD).	4.24	0.67
Ongoing monitoring is performed for high-risk customers like PEP and their associates.	4.26	0.68
Bank reports suspicious transaction to FIU.	4.37	0.64
There is not much pressure to expand banking business at the cost of compliance.	3.42	0.99
Bank comply with relevant laws and regulations related to AML.	4.28	0.60

I speak out to supervisors if I became aware of any suspicious transaction.	4.30	0.74
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Table 19 shows the respondents' level of agreement regarding various constructs of Business Ethics. Above table shows that majority of the respondent agree on Bank being serious towards suspicious transaction reporting to FIU with highest mean of 4.37, followed by employee speaking out to supervisors if they became aware of any suspicious transaction (4.30), Bank complying with relevant laws and regulation (4.28). All of the statements mean score is above 4 implying that Bank is very serious towards conducting ethical business. However, the above table shows that employee showing disagreement on the statement that there is not much pressure to expand banking business at the cost of compliance with average mean of 3.42 least of all.

Table 20

Descriptive statistics for Customer awareness

Statements	Mean	Std. Deviation
Customers are aware of adverse impact of Money laundering.	2.90	0.92
Customers are aware about Banks being used for money laundering activities.	3.10	0.89
Customers are aware about the obligation on the part of bank to report suspicious transaction to the FIU	2.93	0.82
Customers are not reluctant to disclose information related to transaction details, their identity, and source of funds.	3.06	0.93
Customers do not feel burden to fill up KYC form.	2.71	0.96
Customers are not reluctant to spare time for KYC update.	2.82	0.92
Customers are aware on the role of FIU.	2.56	0.82

Table 20 shows respondents' agreement on the awareness of Nepalese bank customers on money laundering impacts and anti-money laundering practices from employees' perspective. The table shows that the customers are not aware on ML and AML practices as the mean awareness level is less than 3 out of 5. Above table depicts that customer are only aware about bank being used as one of the channels for ML/TF activities with average mean of 3.10. Besides customer are unaware of Money laundering and its impact, Customer identification norms and its importance, reporting functions of banks and FIU.

Table 21

Descriptive statistics for AML System

Statements	Mean	Std. Deviation
The bank has internal AML policy and procedures	4.41	0.58
The AML policy and procedure are periodically reviewed to meet the evolving legal and regulatory obligations	4.21	0.69
The bank is obliged to meet the requirements set by the regulators in preventing money laundering activities	4.23	0.58
Supervision is vital to ensure effective implementation of anti-money laundering regimes in the bank	4.24	0.55
Banks gathers sufficient information (includes identity, and source of funds) about PEPs and their associates	4.15	0.70
There is proper risk profiling of each customer	3.98	0.82
The AML risk of the customer account is reviewed periodically	4.05	0.73
The KYC compliance report is tabled before the AML committee of the board at regular intervals	4.11	0.61
KYC information of customers are updated on periodic basis	4.02	0.71
High-risk customers are subjected to intensive monitoring	4.24	0.63

The customer identification record is maintained even after closing the customer account	4.06	0.81
The bank keeps record of STR after reporting to FIU	4.31	0.61

Table 21 depicts the respondents' level of agreement on various construct of AML system. The mean of each statement is greater than 4 out of 5. This indicates respondents' agreement towards implementation of AML policy and procedures, The mean score ranges from 3.98 to 4.31 indicating that majority of respondents agree that banks business is performed highly concerning the AML policy.

4.3 Normality Test

Table 22

Skewness and Kurtosis

Variable	Skewness		Kurtosis	
	Statistic	Std. Error	Statistic	Std. Error
Employee Training and development	.051	.194	-.450	.386
Control over business sophistication	.016	.194	-.454	.386
Business Ethics	-.886	.194	2.162	.386
Customer Awareness	.312	.194	.113	.386
AML System	.124	.194	-.376	.386

Table 22 exhibits the Skewness and Kurtosis test to the normality of the data. The results of the analysis show that the statistics lies between +3 to -3. This value is often compared to the normal distribution.

4.3 Correlation Analysis

Table 23

Correlation coefficient Matrix

	ET&D	COBS	BE	CA	AS	Y
	1	.629**	.561**	.300**	.572**	.552**
ET&D		.000	.000	.000	.000	.000
		156	156	156	156	156
			.474**	.551**	.451**	.689**
COBS		1				
			.000	.000	.000	.000
			156	156	156	156
				.293**	.646**	.603**
BE			1			
				.000	.000	.000
				156	156	156
					.293**	.646**
CA				1		
					.315**	.610**
					.000	.000
					156	156
						.617**
AS					1	
						.000
						156
Y						1

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

Where,

Y= Effective implementation of AML practices

ET&D= Employees Training and Development

COBS= Control over Business sophistication

EB= Business Ethics

CA= Customer Awareness

AS= AML System

Table 23 shows the correlation between variables. Table indicates Pearson correlation of ($r > 0.500$, $p < 0.05$) meaning that there is positive correlation between all independent variables and between dependent variables and independent variables.

Table 24

Correlation Analysis

Variables	Effective implementation of AML practices
Employee training and development	.552**
Control over Business Sophistication	.689**
Business Ethics	.603**
Customer Awareness	.610**
AML system	.617**

Relationship between Employee training and development and Effective implementation of AML practices

Pearson correlation of ($r = 0.552$, $p < 0.05$) indicates that there is moderate positive relationship between employee training and development and Effective implementation of AML practices. The significant value 0.00 is less than level of significance which provides strong evidence that these two variables are linearly correlated and have positive correlation. Thus, increased employee training and development leads to effective implementation of AML practices.

Relationship between Control over Business sophistication and Effective implementation of AML practices

Pearson correlation of ($r = 0.689$, $p < 0.05$) indicates that there is high positive relationship between Increased business sophistication and Effective implementation of AML practices. The significant value 0.00 is less than level of significance which provides strong evidence that these two variables are linearly correlated and have positive correlation. Thus, increased business sophistication leads to effective implementation of AML practices.

Relationship between business Ethics and Effective implementation of AML practices

Pearson correlation of ($r = 0.603$, $p < 0.05$) indicates that there is high positive

relationship between business ethics and Effective implementation of AML practices. The significant value 0.00 is less than level of significance which provides strong evidence that these two variables are linearly correlated and have positive correlation. Thus, increased business ethics leads to effective implementation of AML practices.

Relationship between Customer awareness on AML and Effective implementation of AML practices

Pearson correlation of ($r=0.610$, $p<0.05$) indicates that there is high positive relationship between customer awareness on AML and Effective implementation of AML practices. The significant value 0.00 is less than level of significance which provides strong evidence that these two variables are linearly correlated and have positive correlation. Thus, increased customer awareness on AML leads to effective implementation of AML practices.

Relationship between AML system and Effective implementation of AML practices

Pearson correlation of ($r=0.617$, $p<0.05$) indicates that there is high positive relationship between AML system and Effective implementation of AML practices. The significant value 0.00 is less than level of significance which provides strong evidence that these two variables are linearly correlated and have positive correlation. Thus, increased AML system leads to effective implementation of AML practices.

Impact of Factors on Effectiveness implementation of AML Practices in Nepalese Banks

The Regression model depicts, the R-square value is 0.68, $F=62.47$, $p=0.000$, which means that the employee training and development, increased business sophistication, business ethics, customer awareness, and AML system account for 62.47 percent of the variation in the effectiveness of AML practices in Nepal's banking sector. Regression coefficients of 0.02, 0.31, 0.20, 0.30, and 0.24, respectively, are found for the five dimensions of the effectiveness of AML practices in Nepal's banking sector, which include employee training and development, increased business sophistication, business ethics, customer awareness, and AML system.

The regression equation for the efficiency of AML practices in Nepal's banking industry can be stated as: $= -1.71 + 0.02ET\&D + 0.31COBS + 0.20BE + 0.30CA + 0.24AS$ based on

the coefficients. The outcome, however, demonstrates that the employee training and development dimension is insignificant else all other factors are significant that impact on effectiveness of AML practices in banking sector of Nepal.

Table 25

Regression Analysis Estimates

R	R ²	Adjusted R ²	Std. Error of Estimate	F-value	Sig.		
0.82	0.68	0.67	3.74	62.47	0		
Variables	Unstandardized Coefficients		Standardized Coefficients	t-value	Sig.	VIF	
	B	Std. Error	Beta				
(Constant)	-1.71	2.96		-0.58	0.56		
Employee training and development (ET&D)	0.03	0.13	0.02	0.22	0.83	2.12	
Control over Business sophistication (COBS)	0.47	0.11	0.31	4.45	0.00	2.21	
Business Ethics (BE)	0.37	0.12	0.2	3.15	0.00	1.93	
Customer Awareness (CA)	0.45	0.09	0.3	5.31	0.00	1.47	
AML system (AS)	0.29	0.08	0.24	3.73	0.00	1.96	

Table 25 depict that the R² value is 0.68, that means the independent variables employee training and development, control over business sophistication, business ethics, customer awareness, and AML system affect the effective implementation of AML practices in Nepalese commercial bank by 68 percent. This means the remaining 32 percent can be explained by other factors or variables. Further the F- value of 62.47 with the corresponding P- value 0 indicates the acceptance of the regression equation. It validates the regression model fits the study. The F- value is 0.6247 or 62.47 percent that means the independent variables account for 62.47 percent of the variation in the effectiveness of AML practices in Nepalese bank.

Further investigation is required if the VIF is over 4, and a VIF of 10 or more indicates substantial multi-collinearity and the need to update the variables or make modifications to them. The data analysis result suggests that there is no issue with

multicollinearity between the independent variables since the VIF of all the independent variables is less than 4, according to the data.

The beta coefficient of constant value -1.71 indicates that in the absence of all the independent variables the value of dependent variable would be -1.71.

Similarly, the Beta coefficient value of ET&D is 0.02 which signifies that per unit change in ET&D result 0.02 unit change in value of effective implementation of AML practices in Nepalese bank.

The beta coefficient value of control over business sophistication (COBS) is 0.31 which signifies that per unit change in CBS result 0.31 unit change in value of effective implementation of AML practices in Nepalese Bank.

The beta coefficient value of Business Ethics (BE) is 0.20 which implies that per unit change in BE results in 0.31 unit change in value of effective implementation of AML practices in Nepalese Bank.

The beta coefficient value of Customer Awareness (CA) is 0.30 which implies that per unit change in CA results in 0.30 unit change in value of effective implementation of AML practices in Nepalese Bank.

Similarly, the Beta coefficient value of AML system (AS) is 0.24 which signifies that per unit change in AS results in 0.24 unit change in value of effective implementation of AML practices in Nepalese Bank.

4.4 Hypothesis testing Summary

Table 26

Hypothesis testing Summary

Null Hypothesis	Hypothesis	P-Value	Result
H ₀₁	Employees Trainings and development regarding AML doesn't affect effective implementation of AML practice in Nepalese banks.	0.830	Accepted
H ₀₂	Control over business sophistication doesn't affect effective implementation of AML practice in Nepalese banks.	0.000	Rejected
H ₀₃	Ethical behavior doesn't affect effective implementation of AML practice in Nepalese banks.	0.000	Rejected
H ₀₄	Customer awareness doesn't affect effective implementation of AML practice in Nepalese banks.	0.000	Rejected
H ₀₅	AML system doesn't affect effective implementation of AML practice in Nepalese banks.	0.000	Rejected

Table 26 exhibits the hypothesis testing result summary. It can be seen that hypotheses i.e., H₂, H₃, H₄ and H₅ have been accepted because p-value is 0.000 which is less than 0.05 which states that there is significant positive impact of control over business sophistication, business ethics, customer awareness, and AML system on effective implementation of AML practices in Nepalese Banks. H₁ has been rejected because the p-value which is 0.830 is greater than the 0.05 level of significance which states that there is no impact of employee training and development in effective implementation of AML practices in Nepalese Banks.

4.4 Major findings

The two objectives of this study are (i) To assess the bank customer awareness level on ML/AML practices from bank customers' and bank employees' perspective, and (ii) To examine the factors affecting effective implementation of AML practices in Nepalese Banks. In order to carter the first objectives bank customers were the sample. The response of 202 bank customer was taken in the study. In order to meet second objective bank employee including Compliance team, Branch manager, Operations In

charge, and Head teller were the sample, the sample of 153 employees was taken in the study.

4.4.1 Study - I: Assess banks' customer awareness on ML/AML

- Out of total respondent to assess customer awareness level 58.7% were female and remaining 41.3% were male. This indicates that the majority of respondent were female.
- Out of 202 respondent 65.7 percent of them were student, 19.4 percent were employee in private organization, 10.4 percent were self-employed and 4.5 percent were employee at governmental organization. This depicts that the majority of the respondents have obtained formal education. This is evidence that the respondents have at least generic idea on ML/AML or say the topic is at least not complete new to them.
- From Nepalese bank customer perspective, they are highly aware of ML/AML practices.
- Whereas, from bank employee perspective, the awareness of Nepalese bank customers on money laundering impacts and anti-money laundering practices is very low.

4.4.2 Study - II: Examine the factors affecting effective implementation of AML practice

- Majority of respondents to examine the factors affecting effective implementation of AML practice are employee of public bank followed by Joint venture and Government bank.
- Nearly half of the respondents were from Compliance team followed by Branch manager, Operations In charge and Head Teller.
- 91.02% of the respondents had three years plus of experience in banking industry.
- All of the respondents (bank employees) have received AML training once. Nearly half of them have received once in a year, and another half have received training multiple times a year.
- The average mean scale of Employee training and development 3.81 depicts that respondent inclined towards agreement on Bank providing sufficient training and development program on ML/AML.

- The average mean scale of Control over Business sophistication 3.44 suggests that respondents inclined towards agreement on Control over business sophistication has hindered implementation of AML practices.
- The average mean scale of Business Ethics 4.10 shows that respondent gave high level of agreement on Bank conducting its business prioritizing ethics.
- The average mean scale of Customer awareness 2.87 suggests that bank employees inclined towards disagreement on bank customers being aware of ML/AML activities.
- The average mean scale of AML system 4.17 suggests that respondents inclined towards agreement. This means respondents agree that Bank conducts is serious towards implementation of AML policy and procedures.

CHAPTER V

DISCUSSION, CONCLUSION AND IMPLICATIONS

This chapter includes a discussion, conclusion, and implication of the study. First, it compares the findings of this study with those of other studies, emphasizing similarities and differences. In addition, the research's conclusions and implications are drawn based on the findings and discussion

5.1 Discussion

Money laundering has the tendency to distort global macroeconomic predictions, distort currency markets, and weaken financial system by establishing illegal economies (Alexander, 2001). Money laundering has a detrimental impact; hence the international community has established tools to combat it by making recommendations to the commercial and financial professions as well as other responsible parties (Go and Benarkah, 2019). Complying with international practices against money laundering and developing the legal and regulatory framework, Nepal has established to fulfill its commitments in its action plan on strategic gaps.

Several studies have suggested that Anti-Money Laundering practice is affected by factors Employee Training and Development (Biswakarma and Koirala 2021), Control Over Business Sophistication (Parashar, 2010), Business Ethics (Vaithilingam and Nair 2007), Customer Awareness (Viritha, 2016) and AML System (Bahrin, Yusuf, Muhammad, and Ghani 2022). Therefore, it can be implied that Anti-Money Laundering practices is an important issue and there comes a need to assess the factors affecting the effective implementation of AML practices in Nepalese Context. The study examined the relationship of Factors affecting effective implementation of AML practices with Employee Training and development, Control over Business Sophistication, Business Ethics, Customer awareness and AML system. Further, this study attempted to assess the customer awareness level on AML from Bank Customer and Employee perspective.

To assess the awareness level of bank customer, the response was collected from bank customer themselves and bank employees. From the customers' perspective, this study finds that Nepalese banks' customer are highly aware of ML and AML practices. However, the result contradicts from the employee perspective. The findings depict that

from the Bank employees' perspective customer are not aware of ML and AML practices. Thus, the analysis depicts the gap on customer awareness level on ML/AML from employees and customers perspectives.

This study finds that from banks' customer perspective, the majority of respondents have considerably high level of awareness of ML/TF practices. The customers have comparatively highly level of awareness on money laundering, reporting function and customer identification norms and its importance in comparison to awareness on Terrorism Financing, banks as a route for ML and TF operations, AML and CFT regulations, and the presence and role of the FIU-NRB. In contrast to the findings of Joshi and Shah (2020), and similar to the Viritha and Mariappan (2016) this study finds that customers have moderate level of awareness on ML/AML practices.

Joshi and Shah (2020) proposed that higher customer awareness on AML practices may be the result of the fact that bank clients are given thorough information on AML/CFT during the KYC fill-out and account opening processes, as well as on the bank's website and/or in the form of posters and display boards, which are exhibited there.

Further the study mentions the reason for significantly low level of awareness on AML/CFT regulation. The Customer being unaware of national laws and regulations might be because of frequent change in Nepal. Additionally, Nepalese citizens lack basic level of awareness due to inadequate 'civic education.' In this study, despite the majority of respondents i.e., 65.2 percent having academic degree of bachelor and above, the result shows that large number of respondents are unaware of "Asset (Money) Laundering Prevention Act, 2008. The level on awareness of FIU-NRB and its function was comparatively low among the customers.

The second main purpose of the study is (ii) to examine factors affecting the effective implementation of AML practices in Nepalese banking industry. This study finds that Control over Business sophistication, Business Ethics, Customer awareness and AML system has significant positive influence on effective implementation of AML practices in Nepalese Banks. Whereas, Employee training and development has no impact on effective implementation of AML practices in Nepalese Banks.

This study finds that almost all of the respondents (bank employees) have received AML training once in their life time. Nearly half of them have received once in a year,

and another half have received training multiple times a year. At this point of time the bank employees have received sufficient training on ML/AML thus it can be said that presently Training and development practices does not significantly impact the effective implementation of AML practices. The finding of the study aligns and contradicts with the study of Vaithilingam and Nair (2007), Parashar (2010), Chisenga and Phiri (2011), Viritha (2016), Biswakarma and Koirala (2021), Bahrin, Yusuf, Muhammad, and Ghani (2022).

Vaithilingam and Nair (2007) found that Strong judicial system and banks that act ethically lowers the pervasiveness of money laundering activities. The findings align with Parashar (2010) i.e., Strong positive influence of Unethical behavior of firms, financial market Sophistication, Technology, and Innovation, on the amount of illicit money flows. Whereas, Business Sophistication has an inverse impact on money flows and Macroeconomic stability, and Higher education and training do not appear to have any significant influence on money laundering activities.

In contrast to the findings of Parashar (2010), Chisenga and Phiri (2011) found that Effective AML relies on the AML training and effective Internal Controls. Viritha (2016) conducted study in Indian Banks to find out the factors affecting effective implementation of AML practices. Researcher found that training provided on AML has been inadequate, no complete acceptance in bank employees to strictly follow the AML measures, also banks partially comply with AML measures. The study found insufficient training, Bank negligence in implementation on AML laws, by-laws and procedures have been the major factors hindering the effective implementation of AML practices.

Biswakarma and Koirala (2021) found that Control over business sophistication is the most significantly influencing factor for effective implementation of AML practices. Whereas, employee training and development has no impact on effective implementation of AML practices in Nepalese Banks. Researcher further recommended that training and development of employees 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. The study of Bahrin, Yusuf, Muhammad and Ghani (2022) depict Staff expertise and rules and regulations have a significant positive influence on the effectiveness of an AML

program. Whereas IT infrastructure has a significant negative influence on an AML program.

Descriptive analysis shows that bank employees gave high level of agreement on bank being serious towards implementation of AML laws, policy, bylaws and procedures. Bank employee also showed high level of agreement on bank being serious towards conducting ethical business. The analysis depicts that bank employees shows agreement towards present training and development program is enough. However, Employee shows high level of agreement on training effectiveness measure is being insufficient. The analysis further shows that respondents gave agreement of Increased Business sophistication creating hinderance towards implementation of AML practices. Likewise, Employees show high level of disagreement towards customers being aware of ML/AML and its impact.

Thus, this suggests that the focus should be given on developing the IT infrastructure and knowledge in the bank and the employees so that it will help on identification, and control of suspicious transaction in this global world where digitalization: development of digital currency, modernization in information technology is developing rapidly. If the policies and practices of AML is constructed focusing on controlling the business sophistication it will help in effective implementation of AML practices in Nepal.

Further, bank officials should also consider the ethical behavior that the bank need to perform to effectively implement the AML practices. Similarly, Customer are the key for effectively implementing the AML practices. So, commercial bank in Nepal should come up with different plans and polices for enhancing the awareness level of customer and irradiate the deviation of perception of customer awareness level from customer's point of view and employee's point of view. Those action would help in effectively implementing the AML practices in Nepal. Lastly, although every bank in Nepal has its own AML mechanism in accordance with the AML law and policy, those bank's own policies and standards should be strict enough in implementation part as well. In other words, the knowledge of general AML practices should be provided to all the staffs of the bank including back and front office. Since, according to the observation of the researcher there is existence of deviation in the knowledge of AML practices among the bank employees. So, by irradiating those discrepancies the AML practices can be effectively implemented in Nepalese Commercial Banks.

5.2 Conclusion

Rapid increase in economy's interconnectivity, the elimination of restrictions on the free flow of cash, and the IT based financial transactions, have created new business opportunities (Alexander, 2001). The innovations have also made money laundering a less challenging global illegal activity (Issah, Antwi, Antwi, and Amarh 2022). Anti-Money Laundering practices is an important concern because empirical studies have shown that it is linked with preventing Money laundering.

This entire study is based upon two major objectives (i) to assess the awareness level of bank customers in Anti-Money Laundering practices from bank customers' and employees' perspective and (ii) to examine factors affecting the effective implementation of AML practices in Nepalese banking industry. To assess the customer awareness level factors including: Money laundering and its impact, terrorism financing, Bank as a channel for ML/TF activities, Customer identification norms and its importance, Reporting function, AML and CFT law were taken into consideration. To examine the factors influencing effective implementation of AML practices factors Employees training and development, Control over Business sophistication Business ethics, Customer awareness, and AML system were taken into consideration. For this purpose, quantitative research is taken into consideration. The study is based on primary source of data.

In order to meet the first objective, Bank customers were the sample. The study was concentrated within Kathmandu district and a total of 202 questionnaires were collected. The collected data has been processed with the use of the descriptive analysis via SPSS package. The findings revealed that from customer perspective they are highly aware of ML/AML and their impacts. Similarly, from Bank employee's perspective Customers are unaware of ML/AML and their impacts.

In order to meet the second objective Bank employees were the sample. The study was concentrated within and outside the Kathmandu valley and a total of 156 questionnaires were collected. Since the data have a normal distribution, a parametric method Linear regression was used for data analysis to examine the factors affecting effective implementation of AML practices.

The correlation analysis shows that there is positive correlation between independent variables and also between dependent and independent variables. The analysis showed

that there is significant positive impact of Increased business sophistication, business ethics, customer awareness, and AML system on effective implementation of AML practices in Nepalese Banks. Further, the analysis showed that there is no impact of employee training and development in effective implementation of AML practices in Nepalese Banks.

Among all independent variables the Control Over Business Sophistication has the highest influence on the effective implementation of AML which means that control over business sophistication is the major factors influencing the effective implementation of AML practices in Nepalese commercial bank. That is effective implementation of AML can be done through factors that determines control over business sophistication like the technological advancement, IT infrastructure and knowledge.

All the findings of this study are in line with the previous empirical findings. The R^2 0.681, which indicates a near predictive power of the model. Finally, the current study has attempted to fulfill the gap in Nepalese literature and has a practical implication and implication for future studies in Nepalese context.

5.3 Further Research Implications

The findings of the study have suggested that there is significantly low customer awareness on AML from Bank employees' perspective whereas from customers' perspective they are highly aware on AML practices. Moreover, the study has suggested that Control over business sophistication, Ethical Behavior, Customer awareness, AML system have significant impact on effective implementation of AML practices. The findings of the study will be beneficial to the Banks, Banks' customers, and policy formulating body.

Based on the findings and the observation, this study proposes following research implications for the development of present AML system:

- There exists deviation in the knowledge of ML/AML practices among the bank employees based on the departments they are assigned to. To be more precise, it seems that the mid-level officers like Operations In-charge, Branch Manager, have comparatively more knowledge and attended more training and development programs as compared to ground level employees like front line employees. This

study is concentrated on examining the factors affecting effective implementation of AML practices from Mid-level employees' perspectives (*including Operations In-charge, Branch Manager and Compliance team*). Thus, independent study with similar objective shall be conducted targeting front line employees, who has first-hand exposure to ML.

- Besides Commercial Banks and Development Banks, Finance companies, Micro-Finance, Cooperatives, and Insurance are also other channels to Money Laundering. That's why similar study shall be conducted to examine the factors affecting implementation of AML practices in B, C, D class Banks in Nepal.

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APPENDIX

Anti-money laundering practices in Nepalese Banks: Customer's awareness

Dear Respondent,

I am Priti Bhusal, an MBA student at School of Management, Tribhuwan University. I am conducting research on "Implementation of Anti-money Laundering Practices in Nepalese banks: An employee and customer perspective" with one of the objectives to assess the awareness level of banking customers in anti-money laundering.

You have been chosen as the sample and your authentic responses will have an impact on the result of the study. Your information will be kept confidential and will solely be used for the purpose of the study. Kindly spare 10 minutes to genuinely fill the questionnaire.

Thank you for your valuable time. Please go through all the questions and select the best option for you.

Section A: Demographic information (Tick mark)

1. Gender

Male ()

Female ()

Others ()

2. Age

18-25 ()

26-40 ()

41-60 ()

Above 60 ()

3. Education:

Masters & above ()

Bachelors ()

Intermediate ()

4. Occupation:

Government service ()

Private Service ()

Self-employed ()

Students ()

others ()

5. Name of the bank you have account on.....

Section B: Likert type question

How far do you agree/disagree with this statement? Please tick mark at in the appropriate number for each statement based on the following) (1=strongly disagree, 2=Disagree, 3=neither agree nor disagree, 4=agree, 5=strongly agree)

1. Money Laundering and its impact

Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
I am aware of "Money laundering" (i.e., process of disguising black money to make it appear as white money) activity.					
Money laundering increases crime.					
Money laundering affects our economy and nation.					

Money laundering increases terrorist activities.					
Money laundering promotes bribery and corruption.					

2. Terrorism financing

Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
I am aware of “Financing of Terrorism” (i.e., supply of funds for terrorist activities).					
Donations are the major source of financing of terrorism.					

3. Bank as a channel for ML/TF activities

Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Banks are used for money laundering activities.					
Banks are used as a channel for financing terrorist activities.					

4. Customer identification norms and its importance

Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
I am aware of providing address proof and identity proof for opening an account in the bank.					
I understand the importance of providing the address and identity proof to the bank.					
I know the importance of providing information about the nature of job, purpose of opening account, source of income, etc. to the bank.					
I Know that customer details and establishing the identity of the customer helps banks to prevent financial frauds.					

5. Reporting function

Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Banks are required to report certain transactions of the customers to the concerned authority.					
Reporting is necessary to detect money laundering activities.					

6. AML & CFT law

Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
I am aware of the “Asset (Money) Laundering Prevention Act, 2008”					
I am aware that every bank has its AML/CFT policy and procedure to implement above act.					

7. Financial Information Unit

Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
I am aware of the financial intelligence unit (FIU) under Nepal Rastra Bank.					
I am aware of the role of FIU.					

IMPLEMENTATION OF ANTI-MONEY LAUNDERING PRACTICES IN NEPALESE BANKS: AN EMPLOYEE AND CUSTOMER PERSPECTIVE

Dear Respondent,

I am Priti Bhusal, an MBA student at School of Management, Tribhuvan University. I am conducting research on “Factors affecting effective implementation of Anti-money laundering practices in Nepalese Banks: An employee perspective” for academic purpose.

You have been chosen as the sample and your authentic responses will have an impact on the result of the study. Your information will be kept confidential and will solely be used for the purpose of the study.

Kindly spare 10 minutes to genuinely fill the questionnaire.

Thank you for your valuable time. Please go through all the questions and select the best option for you.

Section A: Demographic section (Tick mark)

1. Type of the Bank:

Public

☐

Government

☐

Joint Venture

☐

2. Location of Branch:

Inside Kathmandu Valley

☐

Outside Kathmandu Valley

☐

3. I am performing the role of in my bank.

Head teller
Manager

☐

Operations Incharge

☐

Branch

☐

Compliance or Risk Team

☐

Others

3. Work experience:

< 1 year

☐

1-3 years

☐

More than 3

☐

years

4. Name of the bank currently employed in

Section B: Likert type question

How far do you agree/disagree with this statement? Please tick mark at in the appropriate number for each statement based on the following) (1=Strongly disagree, 2=Disagree, 3= Neutral, 4=Agree, 5=Strongly Agree)

I. Employee Training and Development

Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
The bank provides training or guidance to me on the policies and procedures of anti-money laundering.					
The bank allocates adequate resources, including staff and financial resources, to manage the Anti-money laundering (AML) program.					
There are periodic classroom trainings or e-learning that I need to complete.					
There is sufficient budget to carry out the Training and development activities related to Anti-money laundering.					
Compliance trainer have proper exposure of AML mechanism.					
Present mechanism to measure the effectiveness of training & development related to AML program is sufficient.					

II. Increased Business Sophistication

Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
The bank has acquired or developed IT systems or databases related to AML					
The bank has sophisticated IT infrastructure in detecting suspicious transactions.					
Bank invest sufficient in updating its IT infrastructure to adapt to the current trends in money laundering activities.					
Staffs are equipped with sufficient IT skills to use the AML software to analyze the information gathered from the systems.					
Use of technology like electronic payment system has not created challenges to track ML.					
There has been time when Money Laundering (ML) cases were identified through wire transfer.					
The digital banking system has sufficient mechanism to track ML.					
Increased business sophistication has not hindered the implementation of AML regulations.					

III. Business Ethics

Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Banks has sufficient Compliance officers.					
Bank is serious towards Customer Due Diligence (CDD).					
Ongoing monitoring is performed for high-risk customers like PEP and their associates.					
Bank reports suspicious transaction to FIU.					
There is no much pressure to expand banking business at the cost of compliance.					
Bank comply with relevant laws and regulations related to AML.					
I speak out to supervisors if I became aware of any suspicious transaction.					

IV. Customer Awareness

Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Customers are aware of adverse impact of Money laundering.					
Customers are aware about Banks being used for money laundering activities.					
Customers are aware about obligation on the part of bank to report suspicious transaction to the FIU.					
Customers are not reluctant to disclose information related to transaction details, their identity, and source of funds.					
Customer do not feel burden to fill up KYC form.					
Customer are not reluctant to spare time for KYC update.					
Customer are aware on the role of FIU.					

V. AML System

Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
The bank has internal AML policy and procedures.					
The AML policy and procedure are periodically reviewed to meet the evolving legal and regulatory obligations.					
The bank is obliged to meet the requirements set by the regulators in preventing money laundering activities.					
Supervision is vital to ensure effective implementation of anti-money laundering regimes in the bank.					
Banks gathers sufficient information (includes identity, and source of funds) about politically exposed person.					
There is proper risk profiling of each customer.					
The AML risk of the customer account is reviewed periodically.					
The KYC compliance report is tabled before the AML committee of the board at regular intervals.					
KYC information of customers are updated on periodic basis.					
High-risk customers are subjected to intensive monitoring.					
The customer identification record is maintained even after closing the customer account.					
The bank keeps record of STR after reporting.					

VI. Effective Implementation of AML Practices

Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Training on AML measure is sufficient.					
There is enough manpower to conduct periodic training.					
Increased Business sophistication has not hindered in implementation of AML regimes.					
GOAML system software is used for reporting to FIU.					
GOAML system has no issues in itself.					
FIU takes action when informed of Suspicious transactions.					
I have never noticed bank conducting business against banking ethics.					
Banking policy is directed towards conducting ethical business.					
Customer are aware of ML and AML practices.					
Customer are not reluctant to update KYC information while establishing banking relationship.					
Customer are aware of banks' obligation for Threshold Transaction reporting to FIU.					
The AML policy is dynamic and amended to meet the new risk factors arising.					
The AML procedures are tailored to mitigate the risk of Money laundering arising out of banking operation.					

Training in AML:

1. Have you received training in KYC/AML operations?

Yes

No

2. How often did the bank conduct training in AML for its employees?

Only at the time of joining the Bank

Yearly

Once in every two years

Multiple times a year

Employee Awareness:

3. I am aware that Bank is the main channel of Money Laundering Activities

Yes

No

Unsure

4. I am aware that operation department has major role in helping compliance officers to detect money Laundering

Yes

No

Unsure

Thank You!