THE IMPACT OF ANTIMONEY LAUNDERING REGULATIONS ON FINANCIAL PERFORMANCE IN KENYAN BANKS: A CASE STUDY OF CHASE BANK.

BY

TABITHA MUGECHI MICHUGU

UNITED STATES INTERNATIONAL UNIVERSITY AFRICA

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I the undersigned, declare that this research report is my own original work and has not been presented for examination or otherwise to any other university, college, tertiary institution or institute for academic credit other than the United States International University.

……………………………………. ……………………………..

Tabitha Mugechi Michugu **Date**

Student No:

This research report is submitted for examination with my authority as the designated supervisor.

……………………………………. ……………………………..

Dr. George Achoki **Date**

Supervisor

……………………………………. ……………………………..

Dr. George Achoki **Date**

Dean, Chandaria School of Business

ABSTRACT

The purpose of this study was to examine the impact of anti-money laundering regulations on financial performance of Chase Bank. To achieve this, the study identified the research questions: What was the impact of Anti-Money laundering regulations on commercial banks? What were the costs of implementing the Anti-Money Laundering regulations? What were the benefits of compliance to the Anti-Money Laundering regulations on the bank's financial performance?

The study utilized a descriptive research design using Chase Bank as a case of the study. The population of the study was drawn from employees of Chase bank totaling 1,012 distributed across the branches and head office of the bank. Using a stratified random sampling technique, a sample size of 80 respondents was selected for inclusion in the study. Data collection was done in the months of October to December 2014 using a questionnaire that was self-administered by the researcher. Collected data was inspected, keyed and coded into SPSS vs. 20 for analysis using descriptive statistics. Analyzed data was presented using tables and figures for easy interpretation.

The study found that AML regulations had an impact on the operations of Chase Bank. The positive impact of AML regulations were reduced levels of internal and external fraud, broadened regulatory framework, increased customer and investor confidence in the bank and improved efficiency in operations of the bank. However, there were increased frequency and number of reports submitted to the regulator and FRC by the bank which increased the reporting costs as well as increase in the screening of transactions for prevention of money laundering that increased transaction costs.

Secondly, the study found that AML regulations had an effect on the total costs of banks. The cost of banks increased due to increased investment on staff training to detect and prevent fraud, increased transaction costs, increased monitoring and reporting costs and increased opportunity costs due to forgone investment opportunities by the bank.

However, Chase Bank enjoyed various benefits as a result of AML regulations. This included, improved training of staff on fraud detection and prevention, enhanced due diligence during onboarding customers through centralized customer account opening and monitoring, documentation of AML policies and procedures, customer identification programs, employee awareness on SAR, allocation of resources for anti-money laundering, pro-activeness in identifying and preventing fraud, reduced noncompliance penalties and costs and identification of AML champions.

This study concluded that the implementation of money laundering regulations has a positive and negative impact on the performance of commercial banks. Positive impacts enhanced the confidence in the bank as well as reduced risks and frauds. Negative impacts mostly revolved around increased costs for the bank.

The study concluded that the total operating costs of the bank increased as a result of implementation of AML rules and regulations. Further, this study concluded that there were benefits of compliance to AML rules and regulations. The benefits incurred from compliance to AML rules and regulations include: increased investors confidence and increased staff awareness and knowledge on detection and prevention of money laundering hence reduced fraud cases.

This study recommended that banks across the globe should implement and ensure full compliance to AML rules and regulations due to the apparent benefits of compliance to the AML rules and regulations. It further recommended that banks can leverage on modern information management technologies to reduce the costs of compliance and screening. Through the use of information management systems, the banks could be proactive at analysing high risk clients and report or flag down these clients' transactions in compliance to the regulation. Finally, the study recommended that banks should invest in AML systems since the benefits outweighed the costs.

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LIST OF ACROYNMS

AML	Anti Money Laundering
AMLR	Anti Money Laundering Requirements
CBK	Central Bank of Kenya
FATF	Financial Action Task Force
FCA	Financial Conduct Authority
FICA	Financial Intelligence Centre Act
FRC	Financial Reporting Centre
ID	Identification Document
IT	Information Technology
PEPS	Politically Exposed People
SAR	Suspicious Activity Reporting
STR	Suspicious Transaction Reporting
UK	United Kingdom
USA	United States of America

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Problem

Le-Khac et al (2009) refer to money laundering as 'a process of disguising the illicit origin of "dirty" money and making them appear legitimate'. The process of money-laundering includes a series of multi-specialized deals designed to disguise the source of financial assets so that these assets and funds can be used as legitimate sources resulting from legitimate business operations (Agarawal and Agarawal, 2005). Douglas (2012) explains that it is the process of concealing proceeds of crime by moving it around in order to disguise their 'nature, location, source, ownership, or control'. More often than not, these proceeds of crime are moved around using the world's financial system which is made up of interconnected financial institutions: financial institutions are interconnected by SWIFT. The United Nations Convention against Transnational Organized Crime (2000) defines money laundering as the conversion or transfer of property, knowing it is derived from a criminal offense, for the purpose of concealing or disguising its illicit origin or of assisting any person who is involved in the commission of the crime to evade the legal consequences of his actions.

According to Linda (2004), the term money laundering is believed to have originated from the Laundromats owned by mafia. The funds earned from gambling, prostitution, extortion etc were mixed with the cash earning of the Laundromats. These Laundromats thus offered an opportunity to wash or launder the tainted funds into clean funds. In the US, money laundering was formally made an offence when the Money Laundering Control Act of 1986 was passed. Prior to that, criminal investigations into money laundering were first established in 1919. Tax evasion was rampant during those times as it was not customary for a bank to ask for sources of funds before accepting deposits. According to James (2000), as society and the instruments of society have become more sophisticated, so have the processes of hiding wealth. While a hole in the ground might have well served our ancestors, today to achieve the

same degree of "invisibility" a panoply of legal and business devices will often be employed to achieve the same results.

According to the Central Bank of Kenya prudential guidelines to financial institutions in Kenya (2013), money laundering process can be divided into three distinct stages, namely, placement, layering and integration. Owing to its complexity, the methods of money laundering are variable and may occur at any of the three stages either concurrently or in separable forms. According to Idowu and Obasan (2011), placement stage involves placing or presenting the illicit money before banks or financial institutions or smuggling it out of the country. The aims of the launderers are to remove the cash from the location of acquisition so as to avoid detection from the authorities and then transform it into other assets forms, e.g. Travelers' cheques, Postal order etc. This stage is also referred to as immersion. It is the most vulnerable stage in money laundering particularly if the fund involved is raw cash.

Layering stage involves the creation of complex web of transactions aimed at dissociating the illegal monies from their criminal origin. Such transactions not only prevent any audit trail being left but also conceal the source and ownership of fund. It is often referred to as dilution or heavy soaping since it involved transferring of money or funds to off-shore countries and once deposited in a foreign bank, the fund can be moved through accounts of "Shell" Corporations which exist solely for laundering purpose. Layering therefore makes it difficult for an investigator to follow the trail left by the layers of transactions as these layers tend to leave a smoke screen (McCathy 2011). Integration stage of the process involves the introduction of the funds into the legitimate economic and financial system. This stage provides apparent legitimacy to the criminality derived wealth as nobody would ever suspect its criminal origin. This stage is also referred to as spinning, repatriation, or re-integration.

Anti-money laundering can be explained as the process or set of activities that are aimed at preventing money laundering from happening. The definition of 'criminal income' varies by jurisdiction (some activities are illegal in some countries and not in others). Similarly, the aims of AML are not necessary the same in different jurisdictions. The aims might include deterring and detecting organized crime, to reduce drug dealing, to deter terrorism or to

maintain the reputation of the financial services industry (Yeandle et al, 2005). The US Certified Anti-Money Laundering Specialist Association had expressed that money laundering being a threat to the good function of a financial system, it is critically important that Governments include all relevant voices in developing a national and international anti-money laundering program(Ahmad, 2013). The Financial Action Task Force on money laundering began the G7 summit in 1989 to take cognizance to the threat posed by the money launderers to the banking system and financial institutions. The G-7 Heads of State or Government and President of the European Commission convened the Task Force from the G-7 member States, the European Commission and eight other countries. FATF initially came up with 40 recommendations on preventing money laundering but later on added 9 more which focused on combating terrorism financing. Money laundering being a global phenomenon that affects all countries to varying degrees, other member countries from different continents became FATF members later on.

The Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) is an FATF associate association of which Kenya is a member since its induction in the year 1999. In line with the provisions and guidelines of the FATF most governments have implemented and put in place measures that track and report activities that are considered suspicious e.g. Suspicious Activity Reporting (SAR) or Suspicious Transaction Reporting (STR). These models as an essential component of their overall anti-money-laundering regimes (ESAAMLG, 2000). According to FATF (2003), full implementation of anti-money regulations will make the bank more credible and attract more clients and in return the bank will make substantial profits. Kenya has endorsed the FATF recommendations by criminalizing money laundering and terrorism financing. According to Prudential Guideline (2010), the Proceeds of Crime and Anti-Money Laundering Act (POCAMLA) (2009) came into effect on June 28, 2010. In an effort to ensure full compliance with FATF recommendations specifically on the 9 recommendations, enactment of Terrorism Financing Act was passed in 2013 as well as revision of POCAMLA (Prudential Guideline, 2013).

According to Central Bank of Kenya Act (2000), the financial institutions in Kenya, specifically banks are governed by the Banking Act, the Companies Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). Commercial banks should be aware that the statutory definitions of the crime of money laundering and, even more so, the predicate offenses that are held to generate illicit proceeds, vary considerably among jurisdictions (Hutter, 2005). Because governments are increasingly broadening the spectrum of reportable conditions, commercial banks should be aware that entities may need to expand their scope of monitoring for, and reporting of, suspicious activity to cover certain types of frauds, including even identity theft and computer intrusion (FATF, 2003).

1.2 Statement of the Problem

According to Ping (2010), money laundering can be committed through simple ways such as cash smuggling and complicated ways such as via financial institutions, realty or gambling as well; money laundering can be committed through surfacely legal activities such as international trade and illegal activities such as underground banks and shell companies as well. Anti-money laundering is not the responsibility shouldered by the government alone. Only when all walks of life establish the awareness of anti-money laundering stably and build a solid dam to guard against money laundering, can we yield twice the result with half the effort. To combat money laundering activities, commercial banks have been given a greater role by Anti- Money Laundering legislations (Dan, 2009).

The emergence of electronic money, internet bank, internet casino offer criminals wider space to commit money laundering. Anti-money laundering is not the responsibility shouldered by the government alone (Ping, 2010). In its regular business operation, a bank shall give special attention to suspicious performance of the following clients: new clients who are unwilling to reveal information about the content and premise of their business, as well as their directors; those who provide insufficient, contradictory or inconsistent information when entering into a contract with bank; those who refuse to give phone numbers of their office; those who only give copies of their documents; those whose fiscal

reports are sharply different to the enterprises of the same size and in the same business; those who are engaged in a business gaining plenty of cash but seldom paying cash; those who order quite a lot of cash transfers involving off-shore banks, off-shore companies or risky business; those whose actual activities are distinct from their nominal business, e.g. a company whose claimed business is confined to domestic or regional transactions, actually engaged in international transactions involving plenty of cross-border remittance (James, 2000).

Scholars such as Robin Thomas Naylor (1999) and Petrus C van Duyne (1998) implied that very little is known about money laundering, and what is known is often ignored by law enforcers and the media. Anti-laundering measures make citizens feel better (with cleaner consciences) and it may not be in the interests of well-funded law enforcement agencies and their allies in the media to develop a more accurate and rational view of the issue. According to Duyne (1998), the threat of money laundering is politically, economically, and socially constructed. International efforts to combat money laundering have increased significantly in the past decade. The United Nations Conventions and a number of multilateral governmental initiatives and bilateral agreements have contributed to the development of a broad set of national and international legal standards. Yeandle, Mainelli, Berendt and Healy (2005) conducted a study that assessed the perceived costs and benefits of UK Anti-Money Laundering Requirements (AMLR) compared with other jurisdictions including the USA, Germany, France and Italy in different business sectors of banks and other industrial sectors.

Blum (1998) conducted a study the examined the world of offshore financial centers and bank secrecy jurisdictions in the context of the control of money laundering and financial crime. Yu and Xiaoshu (2009), analyzed the difficulties and Countermeasures for Commercial Banks Anti-Money Laundering in China. Idowu and Obasan (2011) conducted a research on Anti-Money Laundering Policy and its Effects on Bank Performance in Nigeria.

In Kenya, previous studies have been done on implementation of Antimoney Laundering Regulations in banks. Locally, Bwayo (2004) wrote a paper on the Strategies Applied by Commercial Banks in Kenya in Anti Money Laundering Compliance Programs; Mutheu

(2008) examined the Perceived Effects of Money Laundering on International Business using a case study of banks in Kenya. Njagi (2009) investigated the effectiveness of Know Your Customer (KYC) policies adopted by commercial banks in Kenya in reducing money laundering and fraud incidences; Toroitch (2010) conducted a research on the challenges faced by the Central Bank of Kenya in combating money laundering. Most recently, Muriithi (2013) conducted a research on the effect of anti-money laundering regulation implementation on the financial performance of commercial banks in Kenya.

Thus, little is known about the impact of Antimoney Laundering Regulations on financial performance of banks in Kenya. None of these papers presented a study on impact of the regulations on financial performance of Chase Bank Ltd. Moreover, there were numerous studies in the literature that critically examined the costs and benefits of anti-money laundering regulations in various jurisdictions, the numbers of studies specific to Kenya were rather scarce. It is against this background that the research sought to bridge by analyzing the impact of Antimoney laundering regulations on the financial performance of Chase Bank while keeping up with the mandate of international forums.

1.3 Purpose of the Study

The purpose of this study was to examine the impact of anti-money laundering regulations on the financial performance of Chase Bank.

1.4 Research Questions

In order to gain a better understanding of the stated problem, the study was guided by the following research questions:

1.4.1 What was the impact of Anti-Money laundering regulations on commercial banks?

1.4.2 What were the costs of implementing the Anti-Money Laundering regulations?

1.4.3 What were the benefits of compliance to the Anti-Money Laundering regulations on the bank's financial performance?

1.5 Importance of the Study

1.5.1 The Shareholders and Strategic Partners

The stakeholders benefit from the study as it intends to provide insights on costs and benefits of compliance with AML regulations by the institution. This will greatly lead to informed decision making on compliance with AML regulations by the shareholders and instilled confidence by strategic partners, specifically debt finance providers while making debt financing investment decisions.

1.5.2 The Kenyan Government and the Central Bank of Kenya

This study brings insight into the understanding of the issue of Money Laundering and the progress made to counter various cases of money laundering in the country by financial institutions. The study also highlights benefits as a result of bank's compliance to the regulation which has a reflection of good governance and credit rating on the financial institution, therefore a good international reputation of the government based on efforts made to combat money laundering.

1.5.3 Academic Researchers

This study adds to the body of knowledge in the discipline of finance since this area of study has been scarcely researched in the country. Therefore, it serves as a reference point and literature review source while conducting further studies in all financial institutions in Kenya or undertake the same research in subsequent periods.

1.6 Scope of the Study

This research was limited to Chase Bank limited with a geographical scope of Head Office units and branches specifically in Nairobi. The population comprised Senior, middle and lower level management staffs. The study used data from both primary and secondary sources. The primary data was obtained through a semi-structured questionnaire with both open and closed ended questions issued out to personnel using simple random sampling

technique. Secondary sources of data included analysis and review of published financial accounts. This study was conducted between October, 2014 and December, 2014.

1.7 Definition of Terms

1.7.1 Money Laundering

Money laundering is typically described as the ownership of property obtained through illegal to legitimate sources (Conyers & Pearman, 2013).

1.7.2 Shell corporation.

A shell corporation is a company which serves as a vehicle for business transactions without itself having any significant assets or operations. Shell companies and trusts: Trusts and shell companies disguise the true owner of money. Trusts and corporate vehicles, depending on the jurisdiction, need not disclose their true, beneficial, owner (FATF, 2011).

1.7.3 The Proceeds of Crime and Anti-Money Laundering Act (POCAMLA)

The Regulations cover a wide range of issues including the requirement on the part of institutions to report suspicious transactions to the Financial Reporting Centre, carry out a money laundering risk assessment to enable it identify, assess, monitor, manage and mitigate the risks associated with money laundering and to carry out due diligence on customers both at the account opening stage and during any transaction. These regulations were issued by the Ministry of Finance, 2013 (The Proceeds of Crime and Anti-Money Laundering Act, 2013).

1.7.4 Financial Action Task Force

The FATF is an inter-governmental body whose purpose is to establish international standards and develop and promote policies, both at national and international levels, to combat money laundering and terrorist financing. FATF assesses member compliance with those standards, promotes global compliance with the standards, and identifies AML/CFT threats (FATF, 2013).

1.7.5 Financial Reporting Centre

It is an independent body whose principal objective is to assist in the identification of the proceeds of crime and combating money laundering. The Financial Reporting Centre (FRC) (Kenya's Financial Intelligence Unit) is established by Section 21 of POCAMLA. The Financial Reporting Centre and the Central Bank of Kenya signed a Memorandum of Understanding to enhance the bilateral cooperation on anti - money laundering and combating the financing of terrorism and supervision of financial institutions licensed by the Bank (Bank Supervision Annual Report, 2013).

1.8 Chapter Summary

This study sought to examine the benefits and cost implication of the AML regulation. It further looks at the impact of implementation of AML regulations on the financial performance of Chase Bank. This study compares with what has previously been researched on by different researchers. The population of the study consists of Chase Bank's senior, middle and lower level management staffs.

Chapter Two reviews the literature review which looks at the theoretical foundations related to the problem of the study. Literature that documents earlier empirical studies on impact of AML regulations on financial performance of the bank. Chapter three presents the research methodology and design used in the study including the population and sampling techniques, the research procedures, data collection and analysis. Chapter four presents the findings and results of the study. Chapter five presents the summary of findings, discussion of results, conclusions of the study and recommendations for practice and further studies.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter summarizes the findings from other researchers who have carried out their research from several sources which are closely related to the theme and the objectives of this specific study. It is guided by the specific objectives of the study which were distributed into the following sub-headings: the impact of the Anti-Money Laundering regulations on banks, the costs of implementing the Anti-Money Laundering regulations and the benefits of compliance to the Anti-Money Laundering regulations on the Bank's financial performance. The chapter finally presents the chapter summary.

2.2 The Impact of Antimoney Laundering Regulations on Commercial Banks.

Money laundering schemes have become more refined as the volumes continue to increase over the years. Therefore, financial institutions are increasingly faced with money laundering risks and the need to comply with anti-money laundering (AML) regulations imposed by regulatory bodies and governments across the globe. Moreover, the banks face the risk of being a sanctioned entity as a result of suspected intentional participation, or unintentional facilitation of money laundering by the correspondent bank.

2.2.1 Prohibited Business.

Antimoney laundering regulations prohibits business with financial institutions not licensed in a particular jurisdiction from offering their services as well as particular types of businesses deemed to be high risk. According to Ping (2010), the banks should limit the types of permitted online services or the amount of such transactions, prohibit financial institutions not licensed in a particular jurisdiction from offering their online services in that jurisdiction, develop new information technology capabilities that will permit both the detection of suspicious online transactions and verification of the customer, establish new

procedures that will facilitate the ability of financial institutions to truly know their customers over the life of the business relationship. Oversight must be exercised by both the jurisdiction chartering internet banking and by those jurisdictions where the internet banks have clients (FATF, 2000).

2.2.2 Reputational Risk.

According to Ricardo (2010), the level of combat against money laundering is an endogenous variable but may be strongly affected by design of the regulatory system: the compliance costs compared to loss expected as a result of not coping with anti-money laundering regulations is what matters to determine the willingness of banks and employees to choose the legal behavior. Of course, these decisions are affected by the design of optimal regulatory system made by the government which reflects its commitment to combat money laundering. The results from Ricardo's test were similar to those of Masciandaro (2008) in which the decision of a country to be an offshore centre is dictated by the comparison of the expected gains from international flow of capitals and the loss of reputation.

Muriithi (2013) in her study noted that reputation risk is a major consequence of money laundering in the banking sector. According to the study, the integrity and reputation of the banking and financial services sector is heavily influenced by the legal framework, professional and ethical standards that the bank provides. However, cases or reports of money laundering have an effect on the reputation and brand image of a bank (Muriithi, 2013).

According to FATF (2006) funds from criminal and illegal activities that are legitimized in the banks or financial institutions provide a reputation risk to the financial institution, this is because the funds were processed due to corruption activities or bribes in the banks or even cases of complicity (FATF, 2006).

Yeandle and Berendt (2005) in their study, anti-money laundering requirements, costs, benefits and perceptions found that, money laundering had various impacts on the business operations as well as risks associated with commercial banks. Banks that were involved in or

suspected to be involved in money laundering increased their reputational risk which led to customer flight, regulatory restrictions and fines on the bank. In addition, the brand image of the bank was tarnished due to cases of money laundering. Engagement in money laundering claims and activities had led to the closure of various banks as evident in Kenya and other parts of the continent (Abudu, 2012).

2.2.3 Termination of Banking Business.

The growth of the financial sector is critical to economic growth and expansion. Consequently, banks play a critical role in economic growth and their closure often leads to collapse or instability in the overall economy. Dan and Estrada (2011) in their study Bilateral Relating to money laundering in the United States and Mexico found that, money laundering had the effects of causing instability in the banking system which influenced instability in the overall economy. Further, they noted that money laundering could lead to collapse, closure or failure of the banks in the economic system.

According to CBK prudential guideline (2008), if the institution is convicted of Money Laundering offence then it may face termination of the operations license. The Charterhouse Bank, a Kenyan indigenous investment was put under statutory management in 2006.The Central Bank backed their move by claiming alleged money laundering activities at the bank. The bank lost its license to operate its banking business as a result even though at the time there was no law enacted for criminalizing money laundering.

2.2.4 Monetary Penalties

Regulators worldwide are cracking down on money laundering controls. Britain's Financial Conduct Authority (FCA) fined the UK division of South Africa's Standard Bank Group (SBKJ.J) 7.6 million pounds ($12.6 million) for lax anti-money laundering controls, the first commercial bank penalized in Britain for such an offence in January, 2014. The FCA reviewed 48 Standard Bank corporate customer files between December 2007 and July 2011.

It said all had connections with PEPs and highlighted "serious weaknesses" in how the bank applied its policies and procedures. According to FCA, Standard bank, had failed to check and monitor the relationships its corporate customers had with PEPS (politically exposed people). in 2013, HSBC (HSBA.L) paid a hefty $1.92 billion to settle U.S. charges that it allowed Mexican and Colombian cartels to launder drugs proceeds.

In April, 2014 South Africa's big four banks were fined R125m by the Reserve Bank for failing to have appropriate measures to ensure compliance with the provisions of the Financial Intelligence Centre Act (FICA). Standard Bank was slated with the highest financial penalty of R60m, FirstRand was hit with R30m, Nedbank R25m and Absa R10m. Absa, FirstRand and Nedbank were also penalized for keeping inadequate customer verification details and transactional records.

According to various publications on dailies, below is a summary of the monetary penalties as a result of money laundering related charges on various international banks in different jurisdictions between the periods of 2004 to 2012.

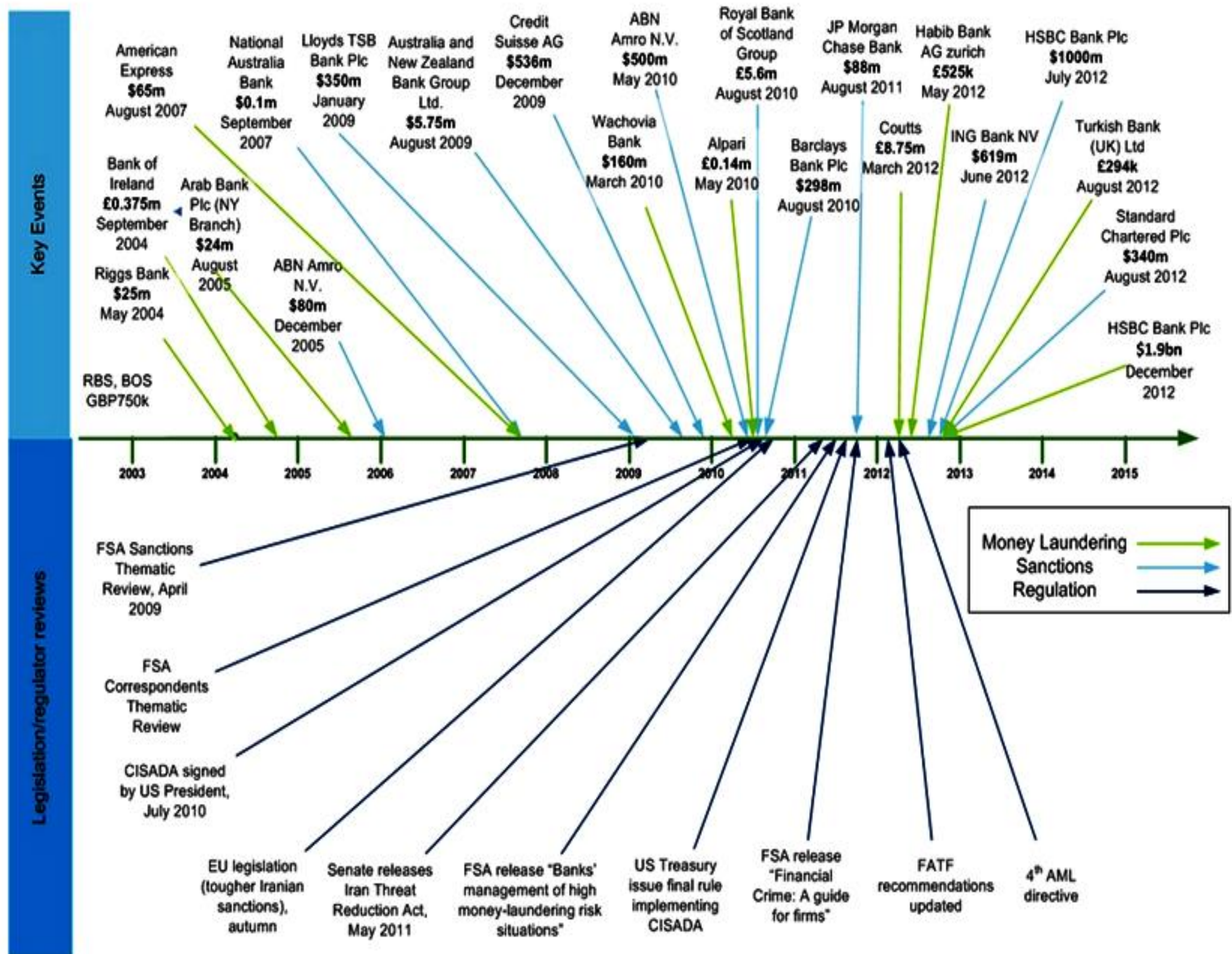

Figure 2.2: Monetary Policy

Source: Robin (2005)

With these the cost of money laundering is seen to have gone up due to the hefty charges levied on the banks as a result on violation or non-compliance to the regulations (Robin, 2005).

Other effects of money laundering on commercial banks include huge demand on cash from banks, regulatory risks, and instability in the financial sector and volatility in the capital inflows as well as exchange rates due to funds transfers (FATF, 2003).

Isern and Porteous (2012) noted that money laundering and the financing of terrorism has major consequences on the financial systems as well as the financial institutions across the globe. According to the study by Isern and Porteous, money laundering can damage national financial systems and have serious consequences on the economic growth and expansion of economic development in the country. Camdessus (2012) the former Chief Executive Officer of the International Monetary Fund, identified other impacts of money laundering on the national economy as well as the financial markets. According to Camdessus (2012) the money laundering business may surpass the total government budget which presents risks of loss of control on economic policies and interventions by the government. Furthermore, money laundering could negatively impact on the macroeconomic indicators such as the foreign exchange rates, the interest rates and the levels of money supply in the economy which could lead to inflation or depreciation of the national output of the economy. The risk is especially higher in smaller economies and countries than large companies (Camdessus, 2012).

2.3 Anti-money Laundering Regulations Implementation Costs.

The costs of implementing Anti Money Laundering regulations can be divided into three distinct groups within an economy, those that affect the government, those that affect the financial services industry or other industries required to comply with the Act and those that affect the general public. According to Ping (2010), the duties that responsible offices are supposed to fulfill include but not limited to formulating anti-money laundering instructions, conducting regular inspection, and sponsoring anti-money laundering training projects. Owing to the need for compliance, additional costs are likely to increase in the areas of administration, training and the provision of storage space for records (Leong, 2007).

2.3.1 Transaction Monitoring Costs

With the rise in globalized financial transactions across the world, commercial banks constitute the major center for money laundering crimes. Therefore, monitoring money-laundering activities to ascertain doubtful transaction reports is a daily routine in major commercial banks in Kenya. According to Yeandle *et al* (2005), money laundering imposes

high cost to commercial banks as it affects the level of performance and operational effectiveness within commercial banks in Kenya. It has been established that AML affects bank reporting as it leads to increased transaction costs due to the frequency in reporting as well as screening. Some of the costs are felt to a very great extent due to not only the running of operations within banks but also due to the cost incurred to train staff on how to identify illegitimate and suspicious activities from the client community. Yeandle *et al* further reiterates that AML costs are divided into three different groups in an economy. In this sense, the AMCL costs affect the financial industry, the public, as well as the government. However, this research paper primarily focuses on Anti Money Laundering Regulation (AMLR) within the commercial banks in Kenya. Total compliance to AMLR enables the commercial banks to implement a formal way that proofs clients' identity such as national ID and passport, declaring the source of income, and establishing whether the given source of income fully aligns with the actual amount remitted to the clients account.

2.3.2 Training Costs.

Coupled with the above, commercial banks in Kenya have incurred huge costs associated with the implementation of the AML regulations. First, commercial banks incur staff training costs, as bank professionals need to be equipped with the necessary training to ascertain the genuineness of clients' transactions on a daily basis. In fact, many commercial banks in Kenya have proven that the highest cost is the opportunity cost incurred while training staff member concerning AML regulations.

Yeandle *et al* (2005) asserts that an estimate of the opportunity cost incurred through AMLR training could be calculated by establishing the hours taken in training and multiplying it with the average charge out rate. Secondly, commercial banks incur monitoring costs in the implementation of AMLR, where bank professionals' monitor financial transactions to ascertain the genuineness of the source of income. In this sense, banks ensure that the information collected from the client community for the purpose of opening account is treated as confidential. According to Leong (2007), due to the need for compliance, additional costs are expected to proliferate in the regions of administration, training and the provision of storage space for records.

2.2.3 Record Keeping Costs.

In Kenyan Commercial banks, monitoring transactions requires that banks obtain and retain records from customers concerning their personal information such as identification, residential address of the customer, and source of income. Know Your Customer (KYC), which operates as an AMLR measure prevents banks from being used intentionally or unintentionally by criminal elements for money laundering or suspicious activities. KYC guidelines further require that financial institutions conduct 'ongoing due diligence on their business dealings and scrutinize transactions undertaken throughout the course of the transactions, to ensure that the financial operations/transactions being conducted are consistent with what the financial institutions know about the customers'. Therefore, KYC is essential in fight against money laundering in financial institutions. Below is an illustration of the AML framework.

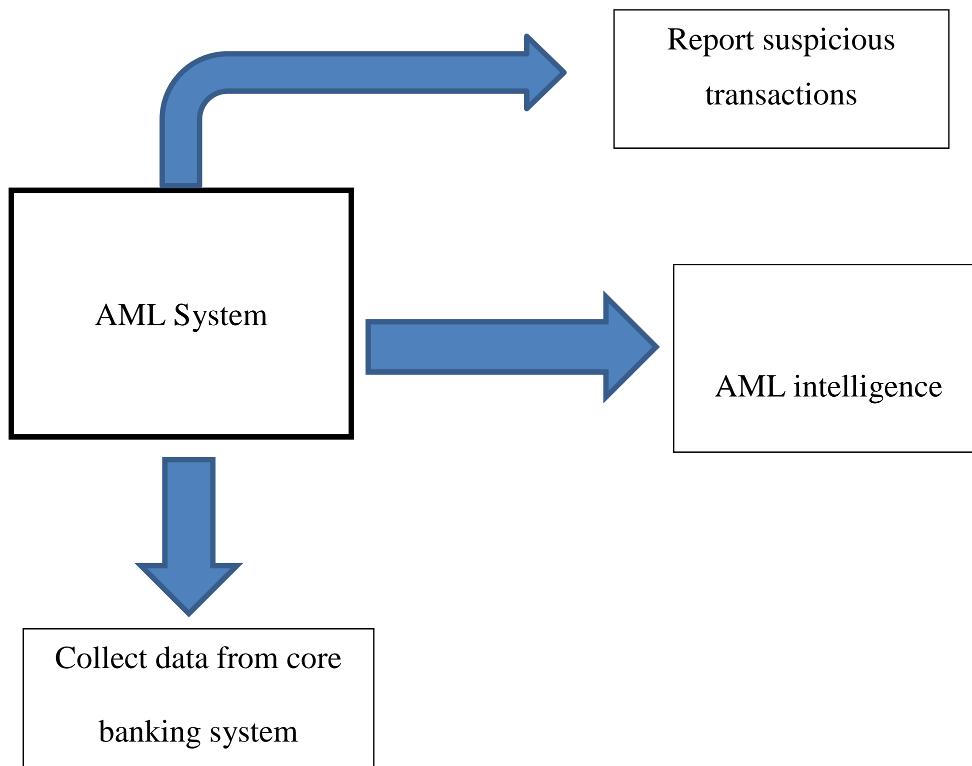

Figure 2.2: the AML Framework

Source: (Leong, 2007)

However, even the KYC policy guidelines, many commercial banks in Kenya have not been able to apply meaningful due diligence measures to establish the legitimacy of customers' sources of income. Owing to the above, some banks fail to comply with the KYC guidelines due to little concern on AML due diligence and monitoring of relationships.

2.2.4 System Costs

The commercial banks in Kenya incur system costs, as they have to acquire automated AML systems for monitoring financial transactions. According to Yeandle *et al* (2005), costs can be divided between the initial systems set up cost and the ongoing/ continuing costs. In addition, the problem with AML systems is the need to learn to utilize the software in deterring and detecting organized crimes as well as detecting terrorists and reducing the prevalence of money laundering within the banking industry (Murithi, 2013). In line with the added need to learn the AML system is an added cost to the commercial banks as they endeavor to implement money-laundering activities.

On the other hand, money laundering is conducted in a very sophisticated manner, and money launders always find a way round the AML regulations and stopping them becomes tricky. In this connection, Commercial banks have to improve their AMLR systems in order to keep up with the money launders sophisticated ways of laundering. An effort to improve the systems is itself an added cost to the commercial banks.

2.2.5 Staff Costs

Salma, Al Zoubi, & Mohammad (2014) in the study banking secrecy and its impact on anti-money laundering in commercial banks in Jordan noted that, the implementation of anti-money laundering programs and policies in the commercial banks and other financial institutions increased the overall costs of the bank due to factors such as compliance costs incurred, monitoring costs that the banks incur and additional employee and staff costs that are required to train and equip employees with the skills and techniques to implement the programs and policies. This was similar to the findings and conclusions of Hanagi and Abu

Qahef (1992) in an earlier study on corruption and fraud in the banking sector and that of Tawfik (2000).

2.2.6 Social Costs

While most of the costs associated with antimoney laundering are internal and borne by the financial institution, there are other costs that are associated with the social costs incurred. According to the Asian Pacific Group (2011), anti-money laundering regulations implementation and non-implementation often lead to social costs and risks for the business. The money laundering process is primarily aimed at protecting the interests and investments of the launderer. This process is made worthwhile by ensuring that the proceeds of money laundering are protected (Asian Pacific Group, 2011).

Money laundering ensures that individuals involved in illegal activities such as drug trafficking, smuggling and other criminal activities invest their proceeds in profitable ventures as well as expanding their existing businesses. The primarily result of this activity is the increase in government expenditure and costs due to the demand for higher levels of law implementation and health costs incurred in rehabilitating drug traffickers, protecting the public from drug traffickers, providing health facilities for the drug traffickers etc. (Asian Pacific Group, 2011).

There are other costs that are associated with money laundering in governments and economies. This includes impacts such as transfer of economic power from the market dynamics, government rules and regulations and demand factors to the launderers (Abudu, 2012). In summary, as noted by Yeandle *et al* (2005), the costs of anti-money laundering activities and policies can be subdivided into three major categories: the costs that are borne and bared by the government and governmental regulations, the costs incurred by financial institutions, markets and systems which include costs for the monitoring, identification and prevention of money laundering and costs that are incurred by the general public through the acquisition of documents to proof ownership, source and purpose of funds or monies.

2.3 The Benefits of AML Regulation

Whereas Commercial banks endeavor to make profits in order to maximize on shareholders wealth, implementation of the AML regulation benefits commercial banks through increased revenues, and reduced costs and risks. Banks executives consider the full impact of the AMLR as essential and unique in creating an opportunity for banks to capitalize on the mandate and a corresponding opportruity cost for those banks.

2.3.1 Updated Customer Records

Research reveals that AMLR provides an enhanced customer reource management system, which allows bank staff to monitor, analyze, and act enterprisewide on clients informaton in a timely and calculated manner (IBM Business Consulting Services, 2011). Some of the information required include the source of funds, how a client uses those funds, product preferences, as well as the basic account information gatherable from others areas of the bank. The above information coupled with information collected from customer contact as well as activity form & call centers from all bank branches and over the internet, provides commercial banks much of the data needed to meet AMLR requirements. Collecting such data enables commercial banks to create a smooth avenue for making clean money, which is the foundation for increased revenues that maximizes profits as well as shareholders wealth (IBM, 2011).

Similarly, other compliance needs such as advanced AML data clean up and pattern detection, which ensures commercial banks maintain most updated customer information leads to economies of scale and ease of use thereby increasing revenues. In addition, improving worldwide compliance with AMLR benefits the entire international financial structure as it increases public confidence in commercial banks and national systems that promote the integration of business as well as markets through cross border investments and foreign direct investment. Therefore, establishing a robust AMLR regime does not only benefit a given local commercial bank but also the worldwide financial systems and the global community as a whole (IBM, 2011).

Also, it is worth noting that revenues to a local commercial banks increases as a result of a fuly implemented AMLR regime because of the following main outcomes. First, AMLR frameworks enhance financial sector integrity and stability coupled with the itegration within the global financial marketplace. In addition, the AMLR promotes transparent governance within local commercial banks as well as effective fiscal administration (IBM, 2011).

2.3.2 Counter Parties Relations

AMLR requirements with which financial institutions must comply help financial institutions broaden their links with counterparties abroad. However, whenever kenyan comercial banks fail to implement AMLR, they undermine the abilty of local banks and the country itself to partner with more advanced global financial institutions or participate in global paymet systems (IBM, 2011). Therefore, to be fully integrated into global financial and payment systems , local commercial banks in Kenya need to demonstrate that they have effective AMLR frameworks and that those policy guidelines continue to conform to the developed and enhanced standards from time to time.

2.3.3 Good Governance

The AMLR framework promotes good governance as such policy guidelines require legal and regulatory requiremens that promotes fincial transparency and encourages the rule of law. In addition, the anti money laudering and corruption standards rely upon AMLR controls and the wider effort to fight corruption provides a way of prosecuting corrupt individuals thereby preventing them from benefiting from the proceeds of their ill acts (International Monetray Fund, 2009). Therefore, preventing such activities enables local commercial banks to leverage on revenue making that maximizes net annual profits and dividends to their esteemed shareholders. As per research conducted by Delloite (2012), Failure to comply with AML laws and regulations and breaches of financial sanctions can have serious consequences: punitive fines, criminal proceedings, damaged reputations and sanctioning – all crystal clear motivations to justify efforts of compliance.

2.3.4 Risk Reduction

Risk reduction is a major consequence of antimoney laundering regulations and legislations. Mbwayo (2004) noted the adoption and implementation of antimoney laundering measures and regulations in Kenyanbanks had the impact of enhancing risk identification, risk reduction and risk management in Kenyan Banks. Furthermore, banks have adopted professional channels and strategies that enhanced the fight against money laundering in the country.

Reduction of risk to the local commercial banks is another benefits realized as a result of implementing AMLR within the financial system marketplace. Commercial banks in Kenya employ a risk based approach to account opening and in this case, the commercial banks use a range of factors to assign a risk rating to the client such as the nature of client's business, the country risk, and the value of the client's anticipated business. In addition, an overwhelming number of local commercial banks usually report customers profile using three tiered risk rating system(high, medium, and low) and this system drives the frequency with which KYC information concerning customers is reviewed. In this sense, Know Your Customer (KYC) guidelines helps in reducing the risks associated with money laundering, corruption, as well as fraud posed by the customer within local commercial banks.

Conversely, AMLR policy guidelines enhances monitoring of transaction due to wide application of sophisticated IT systems to aid in the automation of access to crucial information concerning the clients. Precisely, many Kenyan local commercial banks have maintained a separate AML function, which is regulated under the Risk and Compliance department to provide the role of compliance in testing and monitoring. In addition, a similar role is undertaken by the internal audit team, operations which takes 63 percent, external audit which takes 83 percent and financial/ fraud prevention which takes 44 percent and this contributes to monitoring and testing of AML controls and Systems (KPMG, 2011).

With the above enhanced transaction monitoring AML departments within local commercial banks and AML compliance champions become the largest cost driver for financial

institutions in Kenya. A report by KPMG (2011), reveals that AML departments are capable of monitoring a single customer's transaction across different business units and this enables commercial banks to reduce the cost associated with fraud and money laundering. Finally, as there is increased focus on investing in AMLR programs with a particular goal to monitor transactions, without corruption ,fraud or money laundering, this cost on commercial banks operations is reduced, as banks are enabled to step up greater heights in the future in line with their mission and vision coupled with less challenges.

2.3.5 Enhanced Internal Controls

Various scholars have identified other impacts of AML regulation across the globe. Mutheu (2008) in the study percevied effects of money laundering on international business in Kenya found that the risk and global impact money laundering has reduced as a result of enactment and implementation of the antimoney laundering bill and act of Kenya. According to Mutheu (2008) the Kenya government enactment of the antimoney laundering and Anti-terrorism Financing Act has led to reduction of cases of antimoney laundering as well as financial sector fraud in the country.

Isem and Porteours (2005) in their paper, AML/CFT regulation: Implications for financial service providers that serve low income people, found that anti money laundering initiatives and policies are critical in enhancing the efficiency and management of firms in the financial sector. This was achieved through benefits such as enhanced internal controls that ease the identification, management and control of risk, undertaking of customer due diligence on new and existing customers, increased surveillance and detection of suspicious transactions and activities and report of suspicious activities and transactions to the relevant authorities (Isem and Porteours, 2005).

Finally, Ashour (2008) in a study titled, the roles of banks in the control of money laundering operations noted that the implementation of anti money laundering laws and policies increased the strength of internal controls and systems in the banks. This prevented the

occurrence of other forms of fraud and corruption in the bank in addition to enhancing the fight against money laundering in the banks.

Honiara (2006) made a presentation on the importance and benefits of an effective AML system using banks and financial institutions in the Solomon Islands and the Pacific area. The study found that, the major benefits included a collective approach in the fight against money laundering and financing of terrorism activities by all countries in the area, improved political goodwill to prosecute and implement anti money laundering laws, improved economic growth and expansion, sustainable development and growth in the countries, improved governance and security in the area due to regionalism (Honiara, 2006).

Yeandlre and Berendt (2005) in the paper, money laundering laws and requirements: costs, benefits and perceptions noted that the implementation of money laundering laws and regulations improved the overall financial stability of economies and financial systems, improved the level of reputation in the economy which was instrumental in driving foreign direct investment and capital inflows into a country. Furthermore, the implementation of antimoney laundering laws improved the stability of macro economic indicators such as exchange rates, money supply in an economy and interest rates, consequently inflation rates were better monitored and controlled in the economy.

Other benefits of antimoney launder laws across the globe according to Honiara (2006) in cluded the improvement of economic standards and growth in the economy, expansion of incomes and revenues in the population, improved revenue collection by the government and allocation of resources in an economy to generate wealth and fight against social ills such as resource misallocation, poverty and illiteracy. Anti-Money laundering laws and regulations have also improved the levels of transparency in banking institutions such as banks which has improved corporate governance, best management practices and the fufillment of all the stakeholders expectations and needs by the bank (Honiara, 2006).

2.4 Chapter Summary

To fully accomplish KYC guidelines, commercial banks require a well developed AMLR system that monitors customers' accounts transactions from the initial stage of onboarding and during the customers' stay with the bank on a daily basis. However, AML regulatory implementation is associated to varied costs that commercial banks have to incur; First, training costs as banks have to outsource qualified AML professional to train staff about AML regulation in preveting and detecting money laundering and fraud within the financial industry. Secondly, costs for monitoring financial transctions and system costs which entail acquisition of an automated AML system for monitoring customers transactions across different business units within the banking sector. Finally, commercial banks incur cost associated with data clean up that ensures that customer most updated information is maintained.

Chapter three enlightens on the research methodology of the study, it defines the research design, population and sample size together with the description on data collection which was used to carry out the study.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the research methodology and procedure that was used for data collection and analysis in the study of the impact of Anti-Money laundering regulations on the financial performance of Chase Bank. It discusses the research design, population, sampling design, sampling frame, sampling technique, sample size, data collection, data analysis and chapter summary.

3.2 Research Design

Strauss and Corbin (1994) defined a descriptive research as a course of collecting data in order to test hypotheses or answer queries regarding the current position of the subject in study. It involves formulating the objectives of the study, designing the methods of data collection, choosing the sample, data collection and analyzing the outcomes. According to Trochim (2000), a research design provides the link that grips the research project together and includes it as a part of a whole. Mugenda and Mugenda (1999), states that the design offers a detailed account of events, relationships, experience or processes resultant in that particular occurrence.

The study was conducted through a descriptive survey which was aimed at determining the extent of compliance to money-laundering policy by chase bank and whether it had an effect on the financial performance. A descriptive survey study is concerned with finding out what, where and how of a phenomena (Cooper and Schindler, 2006). The data used was quantitative.

3.3 Population and Sampling Design

3.3.1 Population

Cooper and Schindler (2007) describes a population as the subject that was measured therefore it was a unit of observation; and it was also the total number of elements that a researcher wants to make inferences from. Target population is the specific population about which information is desired (Touliatos and Compton, 1988). In this research the target population was Chase Bank Limited. The population size was 1012 employees distributed in 17 departments and 39 branches in the country. A sample is the subset of individuals from a population that is used to get an estimate of the characteristics of the entire population (Leong, 2007). The sample size was drawn from the target population of 395 employees; from 2 control departments and all the 39 branches. This was the population of interest in the study.

3.3.2 Sampling Design

Sampling is the process of a representative part of the population size in order to determine the characteristics of the entire population (Troendle & Kai, 2003). Sampling saves on time and costs since research is not conducted on the entire population.

3.3.2.1 Sampling Frame

A sampling frame is a listing of what the researcher will use to define his or her population of interest (Lewis-Beck et al., 2004). According to Baxter and Babbie (2004), sampling frame is defined as a set of information used to identify a sample population for statistical treatment. It includes numerical identifier for each individual, plus other identifying information about characteristics of the individuals, to aid in analysis and allow for division into further frames for more in-depth analysis.

It has a representation of the elements in the selected population for research in the study (Cooper and Schindler, 2005). For this study, the sampling frame was sourced from CBK

prudential guideline on prevention of money laundering and terrorism financing inorder to get the most accurate data on whose responsibility is in the banking industry. According to CBK POCAMLA (2010), it is every employees responsibility to prevent and report on suspicion of money laundering activities in customers' transactions. Moreover the assurance units have the sole responsibility of assuring business units as well as the board that the bank has taken adequate controls for prevention and reporting on suspicion of money laundering activities.

3.3.2.2 Sampling Technique

A sampling technique is the method used when a researcher is drawing a sample that will determine the findings on the population (McGraw-Hill, 2003). For the purpose of this study, the researcher used probability sampling method when collecting data. The most effective sampling technique was stratified random sampling which is one of the sampling techniques under probability sampling. During data collection the targeted population for the study was the risk champions of the bank in various departments and branches. They were picked randomly from each strata to provide information and data. The advantage of random sampling was its cost effective since it required a smaller sample and it provided greater precision over simple random technique.

3.3.2.3 Sampling Size

The smaller size of the larger population is referred to as a sample size (Cooper and Schindler, 2008). It has a benefit of being cheaper as opposed to researching on a whole population. At a confidence level of 90%, the margin of error is 10%. To obtain a sample size that has an adequate size relative to the goals of the study, the researcher adopted Yamane's formula is as follows:

$$n = \frac{N}{1 + N(e)^2}$$

Where **n** is the sample size, **N** is the population size and **e** is the margin of error (Yamane, 1967).

$$n = \frac{395}{1 + 395(0.1)^2}$$

$$n = \mathbf{80}$$

A sample size of 80 respondents was used to analyze and achieve the specific objectives of the study.

Table 3.1: Sample Size Distribution

Category	**Population**	**Sample Size**
Risk and Compliance Department	15	15
Audit Department	40	10
Branches	340	55
Total	**395**	**80**

3.4 Data Collection Method

The research relied on primary data and secondary data. A survey questionnaire was used as the main data-gathering instrument for this study. According to Saunders (2003), a questionnaire can be used for descriptive research. The benefits of using a questionnaire are it is an efficient and effective way of gathering information, cost effective.

The questionnaire was made up of four parts: The first section contained the background information of the respondents, the second section addressed the effects of banking reporting on the effectiveness of AML and the extent it affected the operations of the bank, the third section covered costs of AML and measures taken to prevent Money Laundering and the fourth section is monitoring costs associated with AML. A 5-point likert scale was applied and it expressed a series of statements that expressed the respondents views from strongly agree to strongly disagree.

3.5 Research Procedure

Questionnaires formulated were pretested and analyzed for correctness, ambiguity, errors and appropriateness of the questions. This was done using ten respondents who identified mistakes and errors in the questionnaire. After editing of the questionnaire, the researcher administered the questionnaire.

The questionnaire was formulated as the research instrument that was used in the study to address the research objectives. The questionnaires was self administered by the researcher through hand delivery, courier and e-mails.

3.6 Data Analysis Methods

According to Troendle and Kai (2003), data analysis is the process of systematically applying statistical or logical methods to describe summaries and evaluate data. The data collected was coded and analyzed using both descriptive statistics and inferential statistics (using correlation coefficients).

Descriptive statistics indicate trends and patterns in the data. The results were computed using Statistical Program for Social Scientists. Data is presented in figures and tables, summary statistics of the mean, and standard deviation.

3.7 Chapter Summary

This chapter forms the ‘glue’ of the project. It brings out the methods and procedures the researcher adopted in conducting research on establishing the impact of Antimoney Laundering Regulations implementation on the financial performance of chase bank. There by answering the three research questions. The research design was adopted for this study as well as the target population and sampling design. The research instruments were utilized; the research procedures that were followed as well as the data analysis methods have also been discussed in this chapter.

Chapter four presents the findings and results of the study.

CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

This chapter presents the findings of the research project through analysis of data collected using questionnaires. The objective of the study was generally to establish the relationship between implemented Anti-money laundering regulations and the financial performance of the bank. The data collected was analyzed through SPSS and presented in tabular form, charts and bar graphs to enable the representation of results for addressing the specific objectives of the study.

The study was successful with a high response rate of 98% as represented by the 78 responses received out of 80 questionnaires sent out. It also conforms to the recommendation by Mugenda and Mugenda (2003) where a response of 70% and over is deemed to be very good.

Table 4.2: Response Rate

Category	Samples	Percent
Risk and Compliance Department	15	19
Audit Department	10	13
Branches	53	68
Total	**78**	**100**

4.2 Background Information

4.2.1 Gender

Data for this study showed that 57.7% of the respondents were of the female gender while 42.3% were of the male gender.

Table 4.3: Gender

	Frequency	Percent
Female	45	57.7
Male	33	42.3
Total	78	100.0

4.2.2 Age

Forty four point nine percent of the respondents to this study were of the ages between 21 – 30 years and 55.1% were of the ages 31 – 40 years.

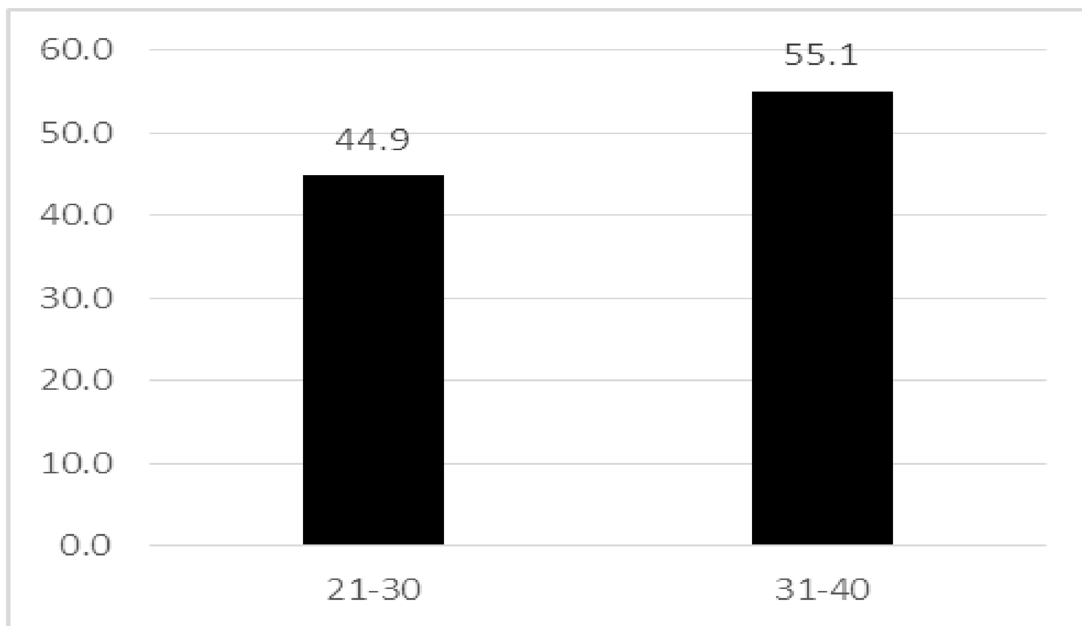

Figure 4.1: Age

4.2.3 Position

Fifteen point four percent of the respondents to this study were lower level managers, 78.2% were middle level managers, and 6.4% were top managers. This enhances the reliability of data based on the use of data from multiple managerial cadres.

Table 4.4: Position of Respondents

	Frequency	Percent
Lower	12	15.4
Middle	61	78.2
Top	5	6.4
Total	78	100.0

4.3 Impact of Anti-Money Laundering Regulations on Commercial Banks

4.3.1 Transaction Screening

All the respondents to this study indicated that the implementation of anti-money laundering regulations had increased screening costs in banks. This is according to 16.7% of the respondents who agreed and 83.3% who strongly agreed.

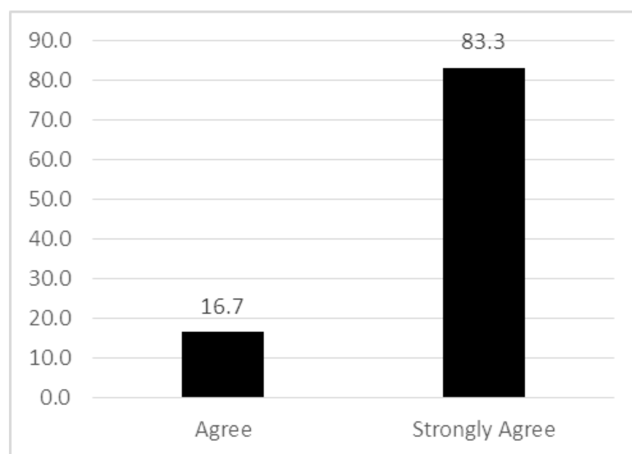

Figure 4.2: Transaction Screening

4.3.2 Reduction in External Fraud Cases

Twenty three point one percent of the respondents were neutral that implementation of anti-money laundering regulations had reduced the number of external fraud cases in the banks. Further, 21.8% of the respondents agreed and 55.1% of the respondents strongly agreed.

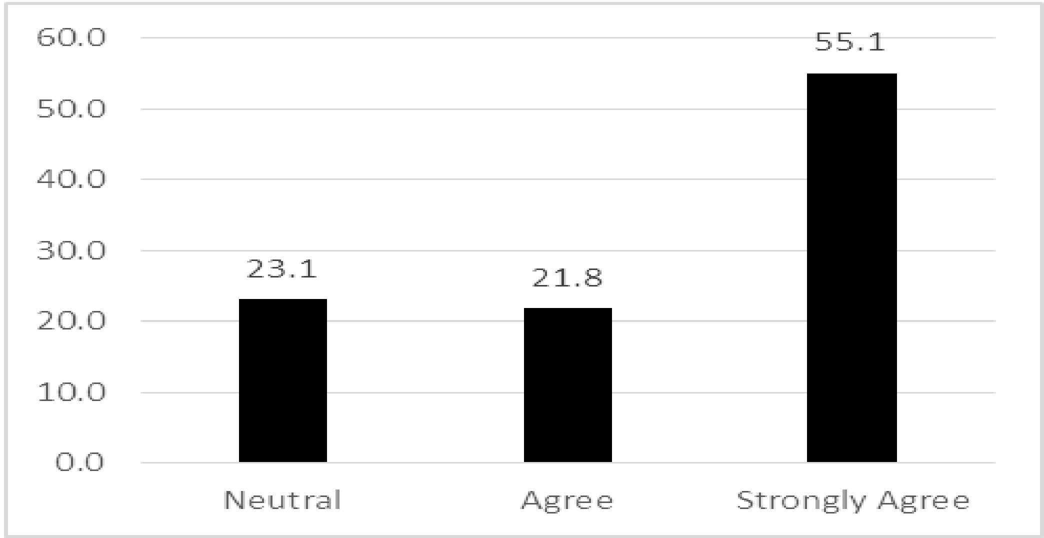

Figure 4.3: Reduction in External Fraud Cases

4.3.3 Stringent Employment Rules

According to 17.9% of the respondents, implementation of AML regulations did not make all the applications for employment too stringent due to diligence background checks. On the other hand, 82.1% of the respondents were neutral that applications for employment were too stringent due to due diligence checks on employees.

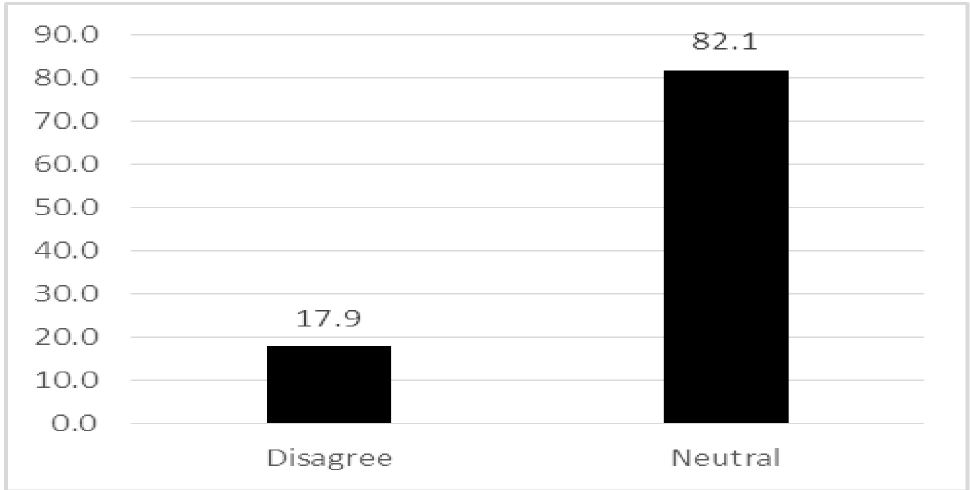

Figure 4.4: Stringent Employment Rules

4.3.4 Investor Confidence

According to all the respondents in this study, implementation of AML regulations enhanced the investor confidence in local banks. One hundred percent of the respondents agreed that implementation of AML regulations enhanced investor confidence. This showed that AML regulations implementation had a huge boost on the levels of investor confidence.

4.3.5 Access to International Markets by Local Banks

Respondents to this study agreed that AML regulations had led to increased access to international markets by local banks. This is according to 62.8% (agreed) and 21.8% (strongly agreed). Fifteen point four percent of the respondents were neutral.

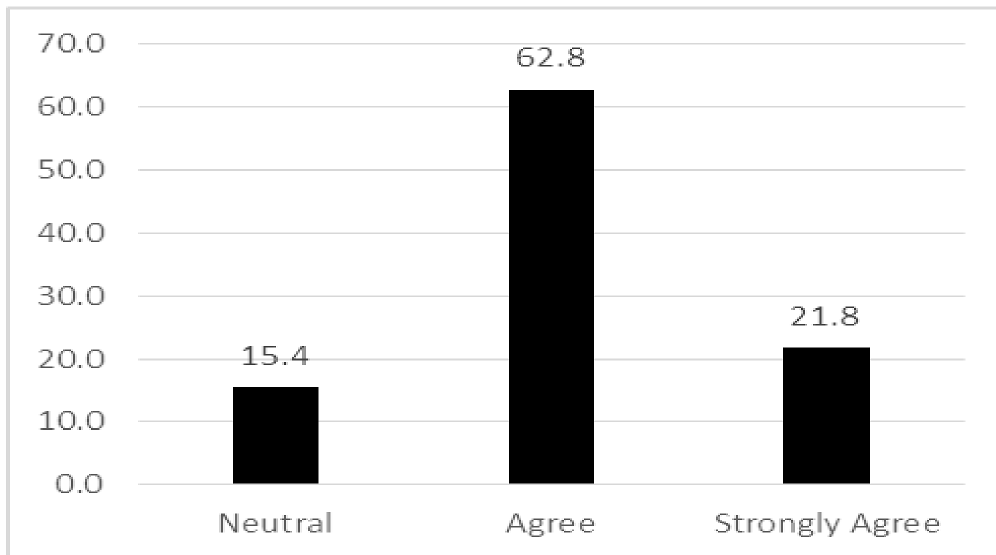

Figure 4.5: Access to International Markets by Local Banks

4.3.6 Increased Cost of Capital

Twenty point five percent of the respondents were neutral that AML regulations had led to increased cost of capital. However, 79.5% of the respondents agreed that AML regulations had led to the increase of cost of capital.

Table 4.5: Increased Cost of Capital

	Frequency	Percent
Neutral	16	20.5
Agree	62	79.5
Total	78	100.0

4.3.7 Increased the Reporting Frequency of Fraud

According to 47.4% of the respondents to this study AML regulations had led to increased reporting frequency to the Financial Reporting Centre. However, 52.6% of the respondents were neutral.

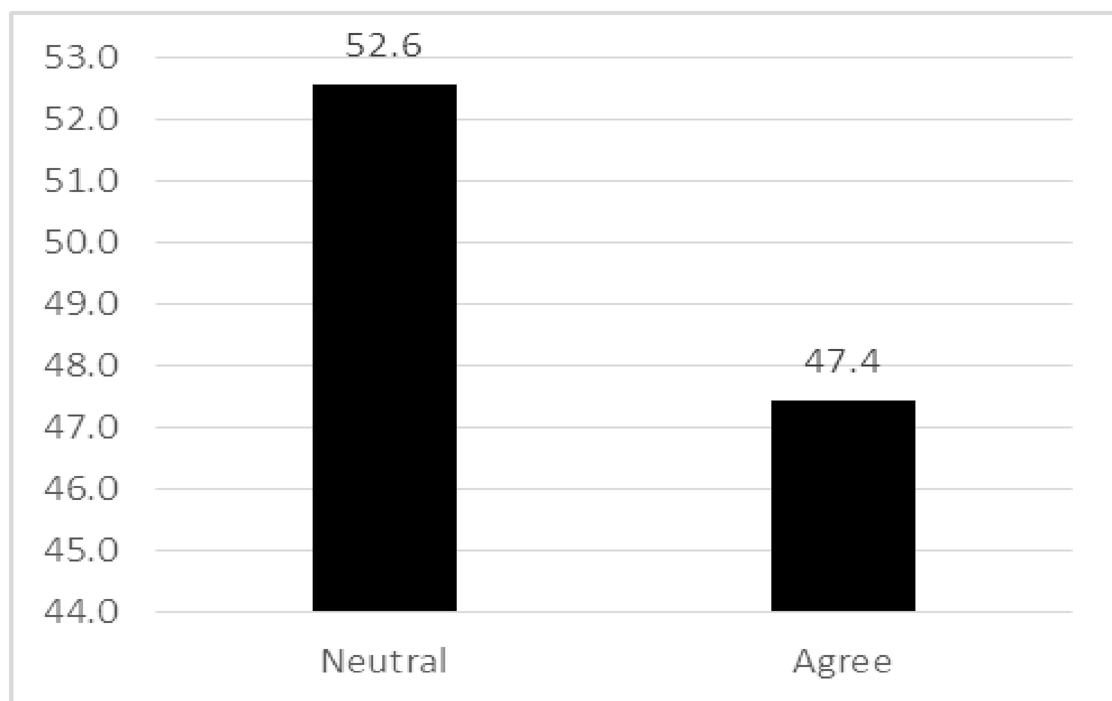

Figure 4.6: Increased Reporting Frequency of Fraud

4.3.8 Types and Number of Reports

All the respondents to this study agreed that AML regulations had led to the increase in the number and types of reports that banks prepared and reported to Financial Reporting Centre

& the regulator, CBK. It showed that AML regulations had led to increased reporting in banks which enhanced transparency.

4.3.9 Regulatory Framework Broadening

According to all the respondents in this study, AML regulations had increased the regulatory framework for banks. All the respondents to this study agreed that AML regulations had increased and broadened the regulatory framework that guided banks in Kenya.

4.3.10 Reduction in Internal Fraud Cases

Thirty seven point two percent of the respondents disagreed, 17.9% were neutral and 44.9% agreed that the implementation and adoption of AML regulations had reduced the cases of internal fraud in the bank. The finding showed that to most employees internal fraud had reduced as a consequence of AML regulations. However, it is important to note that a significant proportion (37.2%) indicated that fraud had not reduced.

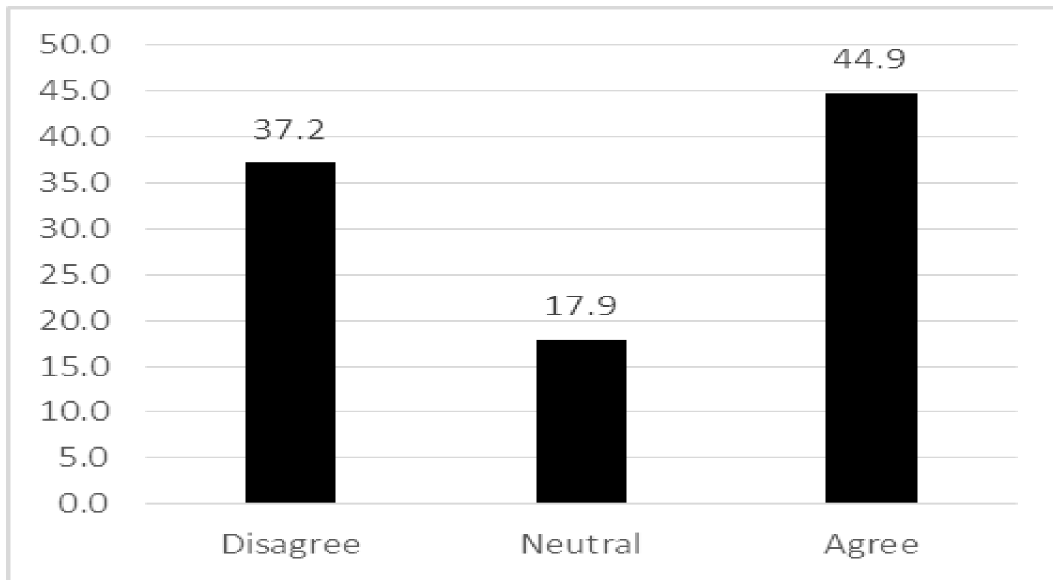

Figure 4.7: Reduction in Internal Fraud Cases

4.3.11 Increased Customer Confidence

Ten point three percent of the respondents to this study disagreed that AML regulations had increased customer confidence in the bank. Nonetheless, 89.7% of the respondents agreed that AML regulations had improved customer confidence in the bank. This showed that AML regulations had improved the level of customer confidence in the banks.

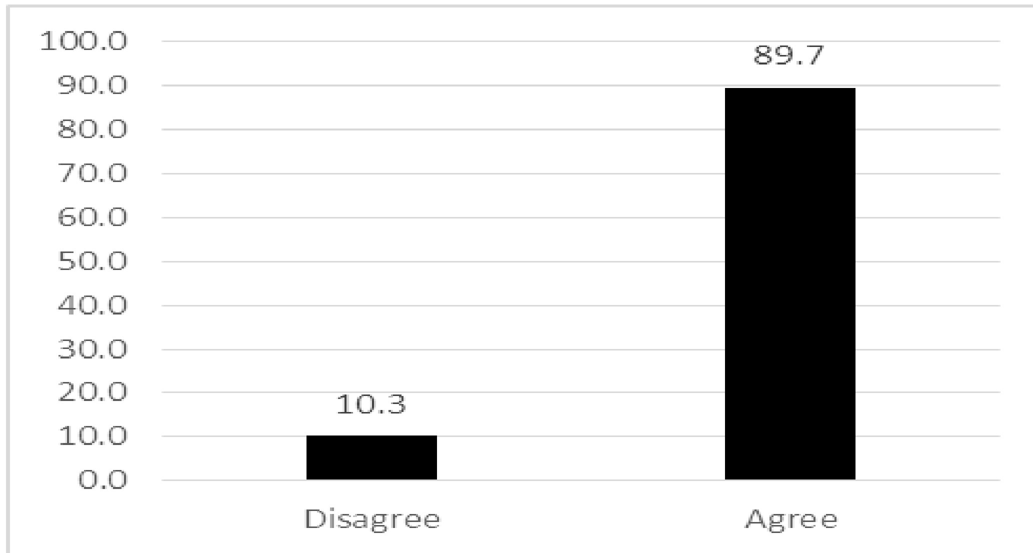

Figure 4.8: Increased Customer Confidence

4.3.12 Increased Staffing Costs

According to 73.1% of the respondents, the implementation and adoption of AML regulations had increased staffing costs of the bank. On the other hand, 26.9% of the respondents disagreed that AML regulations had led to an increase in the staffing costs in the bank.

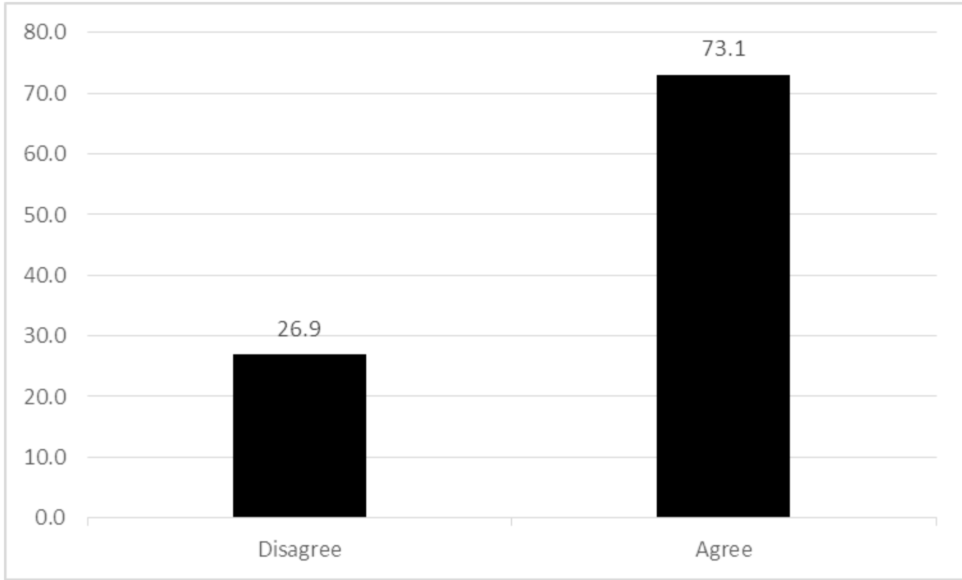

Figure 4.9: Increased Staffing Costs

4.3.13 Impact of AML on Bank Reporting

Fifty percent of the respondents to this study indicated that the implementation of AML regulations had affected bank reporting to a great extent. Forty four point nine percent of the respondents indicated that it impacted to a moderate extent and 5.1% indicated that it impacted to a little extent. The findings showed that AML regulation had an impact on bank's reporting.

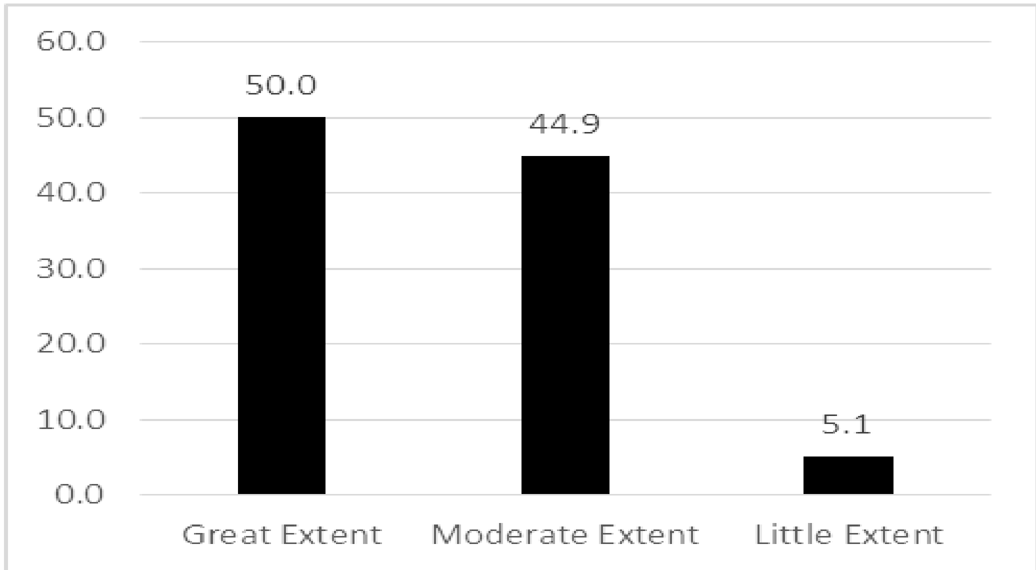

Figure 4.10: Impact of AML on Bank Reporting

4.4 Costs of Implementing Anti Money Laundering Regulations

4.4.1 Transaction Costs

Fifty seven point seven percent of the respondents to this study were neutral that AML regulations increased the transactions costs of the bank, 42.3% of the respondents agreed that AML regulations increased the transaction costs of the bank.

Table 4.6: Transaction Costs

	Frequency	Percent
Neutral	45	57.7
Agree	33	42.3
Total	78	100.0

4.4.2 Stringent and Increased Employee Costs

According to majority of the respondents in this study, AML regulations led to the application of strict employment procedures and rules that increased employee related costs. However, 47.4% of the respondents were neutral. This indicated that AML regulations led to an increase in the employee costs in the bank.

Table 4.7: Stringent and Increased Employee Costs

	Frequency	Percent
Neutral	37	47.4
Agree	41	52.6
Total	78	100.0

4.4.3 Increased Training Costs

Forty two point three percent of the respondents to this study were neutral that AML regulations led to the increase in staff training costs especially on the identification of suspicious transactions. However, majority of the respondents 57.7% agreed that AML regulations led to an increase in the training costs of employees.

Table 4.8: Increased Training Costs

	Frequency	Percent
Neutral	33	42.3
Agree	45	57.7
Total	78	100.0

4.4.4 Information Provision on Sanctioned Countries

Majority of the respondents, 47.4% agreed, 42.3% strongly agreed that all employees were informed of the countries that were sanctioned. On the other hand, 10.3% of the respondents were neutral. This showed that most staff members were provided with information on sanctioned countries and individuals.

Table 4.9: Information Provision on Sanctioned Countries

	Frequency	Percent
Neutral	8	10.3
Agree	37	47.4
Strongly Agree	33	42.3
Total	78	100.0

4.4.5 Reporting Costs

Employees in this study agreed that employees were encouraged to immediately report any fraudulent activities or transactions detected, suspected or actually observed. This is according to 47.4% (strongly agreed) and 52.6% (agreed) of the respondents respectively.

Table 4.10: Reporting Costs

	Frequency	Percent
Strongly agree	37	47.4
Agree	41	52.6
Total	78	100.0

4.4.6 Currency Fluctuations

Eighty nine point seven percent of the respondents were neutral that AML regulations led to currency fluctuations in the country. On the other hand, 10.3% of the respondents agreed that AML regulations led to currency fluctuations in the country.

Table 4.11: Currency Fluctuations

	Frequency	Percent
Neutral	70	89.7
Agree	8	10.3
Total	78	100.0

4.4.7 Adequate Staff for AML Monitoring

All the respondents to this study agreed (100%) that the bank had enough staff to monitor suspicious transactions in the bank. This finding showed that the bank had adequate staff to identify, detect and monitor suspicious transactions and activities in the bank.

4.4.8 Operational Costs and AML

Ten point three percent of the respondents indicated that AML regulations led to an increase in the operational costs of the bank to a great extent. Further, 32.1% of the respondents indicated that it led to an increase in the operational costs to a moderate extent and 57.7% indicated that it led to an increase in the operational costs to a little extent. This showed that the impact of Ten point three percent of the respondents indicated that AML regulations led to an increase in the operational costs to a small extent.

Table 4.12: Operational Costs and AML

	Frequency	**Percent**
Great Extent	8	10.3
Moderate Extent	25	32.1
Little Extent	45	57.7
Total	**78**	**100.0**

4.4.9 Monitoring Costs

Forty seven point four percent of the respondents were neutral that monitoring costs of the bank had increased the operational costs due to implementation of AML regulations. Further, the study found that 52.6% of the respondents agreed indicating that monitoring costs of the bank had increased due to the implementation of AML regulations.

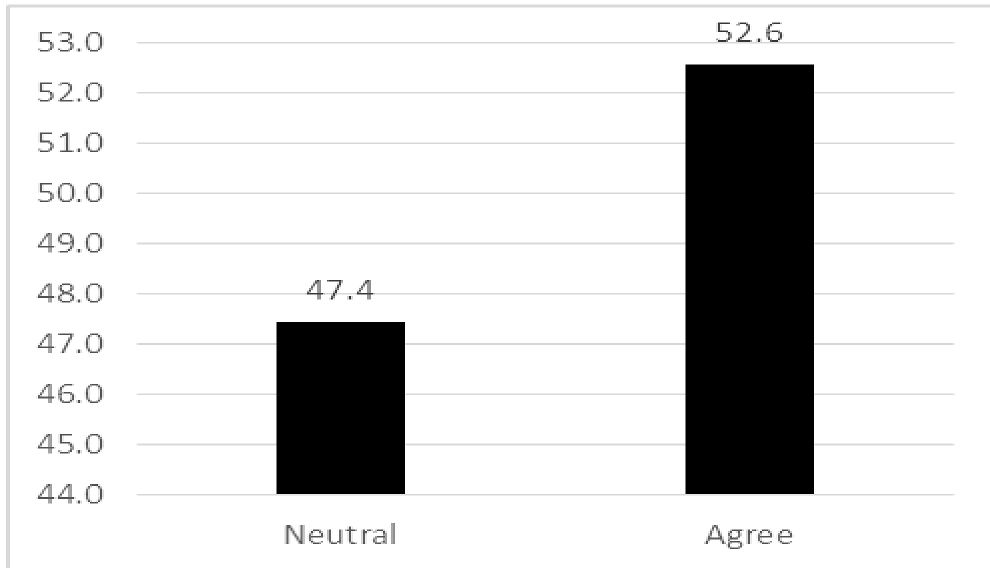

Figure 4.11: Monitoring Costs

4.4.10 Implementation Costs

Ten point three percent of the respondents strongly disagreed, 57.7% disagreed and 32.1% of the respondents agreed that the implementation of AML regulations had consumed high levels of capital in the bank. This showed that implementation of AML regulations was not a very cost intensive program as the level of capital injection was not very high.

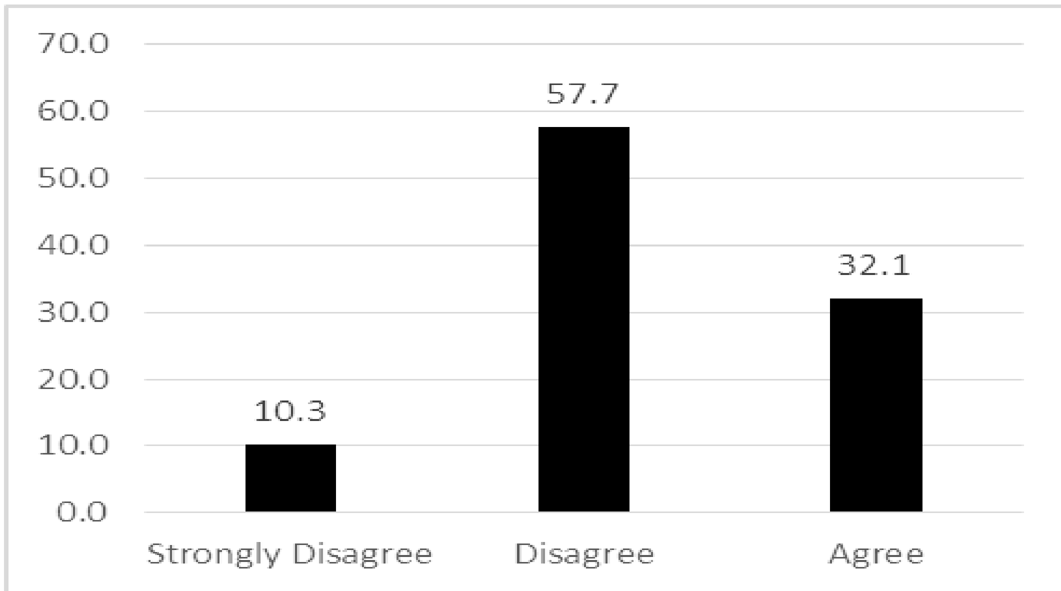

Figure 4.12: Implementation Costs

4.4.11 Reduced Business Opportunities

Thirty two point one percent of the respondents were neutral, 57.7% agreed and 10.3% strongly agreed that the implementation of AML regulations had reduced the business opportunities that were available to the bank. This showed that the investment opportunities for the bank had reduced as a result of AML regulations implementation.

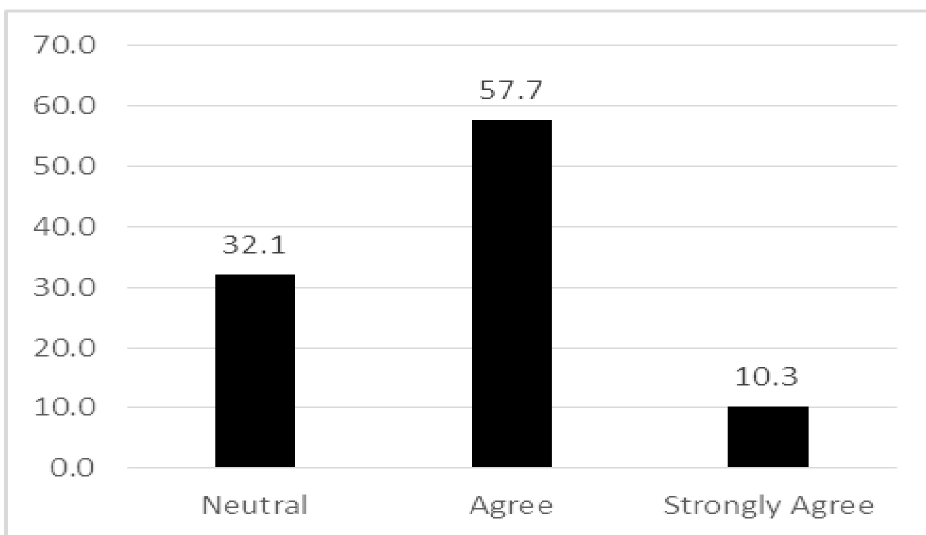

Figure 4.13: Reduced Business Opportunities

4.4.12 Increased Expenses

According to 20.5% (agreed) and 79.5% (strongly agreed) of the respondents, implementation of AML regulations had led to an increase in the expenses of the bank. According to this study therefore, the implementation of AML regulations had increased the expenses of the bank since the bank bore the full cost of implementation.

Table 4.13: Increased Expenses

	Frequency	Percent
Agree	16	20.5
Strongly Agree	62	79.5
Total	78	100.0

4.5 Benefits of Compliance on Financial Performance

4.5.1 Staff Training

Forty four point nine percent of the respondents agreed and 55.1% strongly agreed that AML regulations had led to increased staff training on Antimoney laundering issues which was a major benefit to the bank.

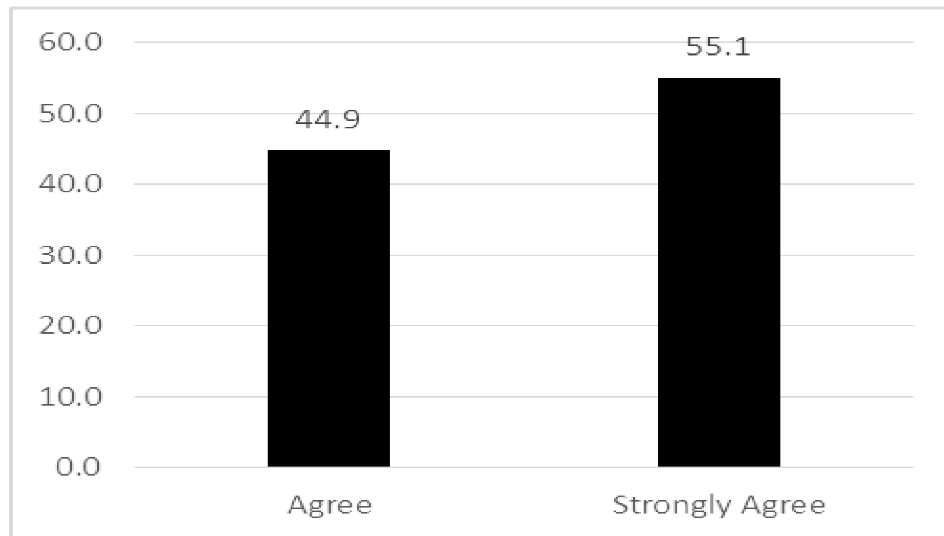

Figure 4.14: Staff Training

4.5.2 Centralized Account Opening and Monitoring Centre

Forty four point nine percent of the respondents and 55.1% of the respondents respectively agreed and strongly agreed that the implementation of AML regulations had led to a centralized customer account opening center which enhanced efficiency in the bank.

Table 4.14: Centralized Customer Account Opening Center

	Frequency	Percent
Agree	35	44.9
Strongly Agree	43	55.1
Total	78	100.0

4.5.3 Enhanced Customer Identification

Twenty point five and 79.5% of the respondents agreed and strongly agreed that implementation of AML regulations had led to enhanced identification of customers and screening as per know your customer policies and procedure requirements.

Table 4.15: Enhanced Customer Identification

	Frequency	Percent
Agree	16	20.5
Strongly Agree	62	79.5
Total	78	100.0

4.5.4 Documentation and Approval of AML Policy

Ten point three percent of the respondents were neutral, 79.5% agreed and 10.3% strongly agreed that the implementation of AML regulations had led to a well-documented and approved AML policy and procedures in the bank. This implies that one of the benefits of AML regulations was the development, documentation and approval of an AML policy that ensured compliance to the AML regulation.

Table 4.16: Documentation and Approval of AML Policy

	Frequency	Percent
Neutral	8	10.3
Agree	62	79.5
Strongly Agree	8	10.3
Total	78	100.0

4.5.5 Form Completion for enhanced due diligence

Thirty four point six percent of the respondents were neutral, 10.3% agreed and 55.1% strongly agreed that AML regulations had led to filling of enhanced due diligence forms on customers to report transactions on SAR. This implies that AML regulations had led to the creation of an audit trail for SAR transactions.

Table 4.17: Form Completion

	Frequency	Percent
Neutral	27	34.6
Agree	8	10.3
Strongly Agree	43	55.1
Total	78	100.0

4.5.6 Application of Customer Identification Programs

Majority of the respondents to this study agreed (65.4%) and strongly agreed (24.4%) that AML regulations had led to application of customer identification programs. However, 10.3% of the respondents were neutral.

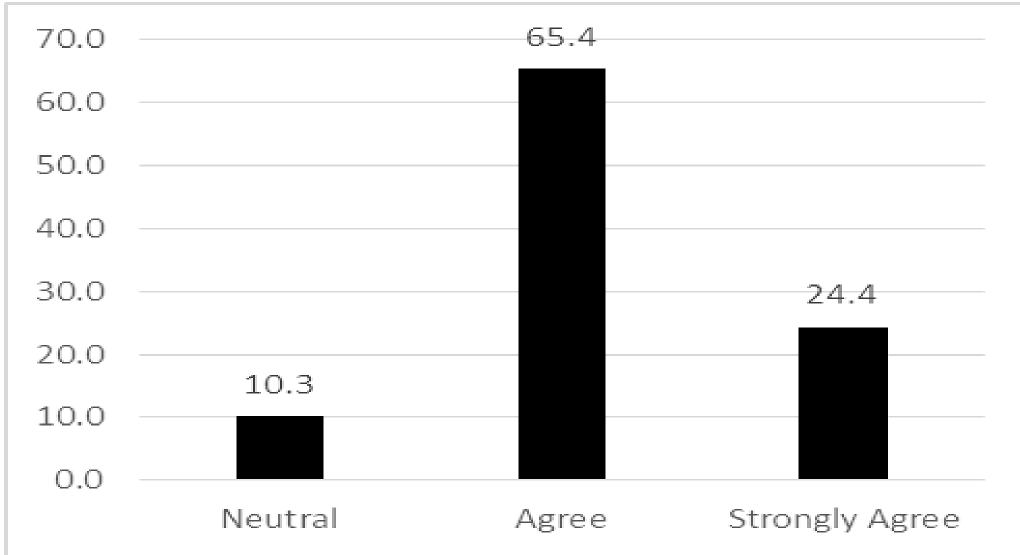

Figure 4.15: Application of Customer Identification Programs

4.5.7 Awareness Creation of SAR

Ten point three percent of the respondents agreed, 55.1% strongly agreed and 34.6% were neutral that AML regulations had led to creation of awareness on suspicious account reporting (SAR). This showed that to most respondents the implementation of AML regulations had led to SAR awareness.

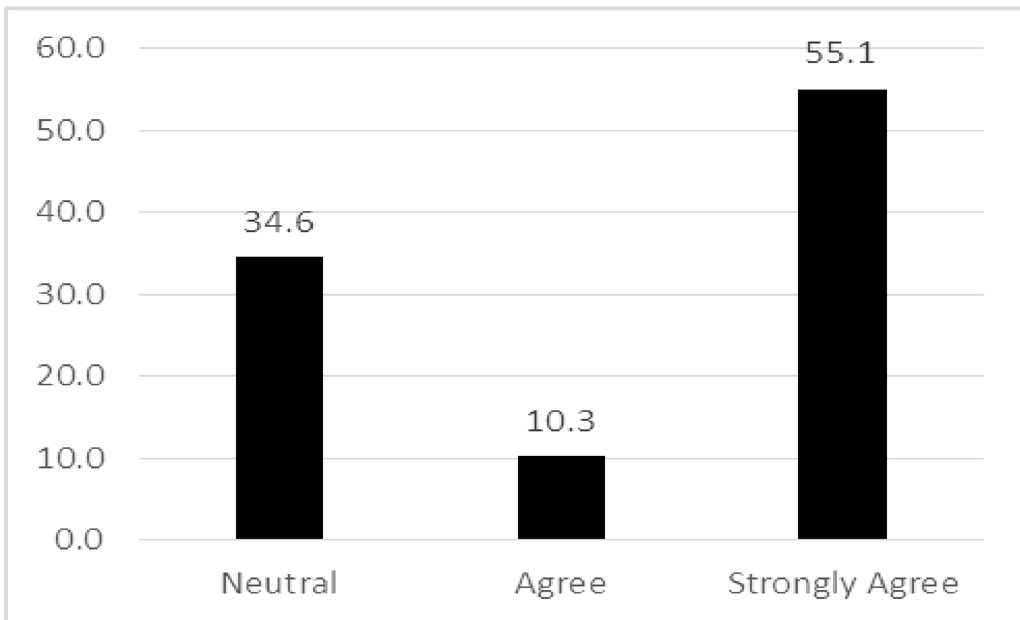

Figure 4.16: Awareness Creation of SAR

4.5.8 Allocation of Resources for Money Laundering prevention

Majority of the respondents in the study agreed that AML regulations had led to allocation of resources by the bank to fight money laundering. Further, the study found that 10.3% were neutral while 65.4% agreed and 24.4% strongly agreed that banks had allocated funds for anti-money laundering programs.

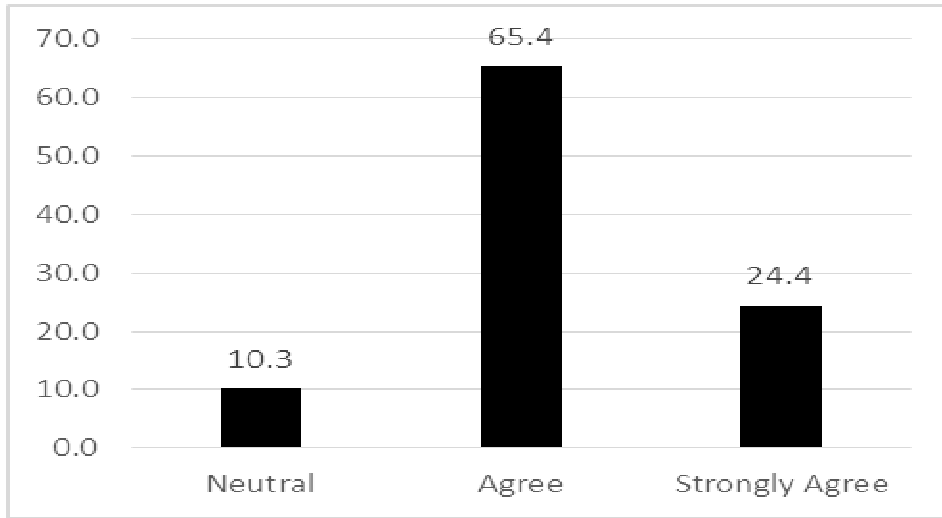

Figure 4.17: Allocation of Resources for AML

4.5.9 Pro-activeness in Identification and Prevention of Fraud

Ten point three percent of the respondents disagreed and were neutral respectively that AML regulations had led to pro-activeness in the bank in identifying and preventing potential cases of fraud. However, 79.5% of the respondents agreed that AML regulations had led to pro-activeness in the bank in the identification and prevention of fraud.

Table 4.18: Pro-activeness in Identification and Prevention of Fraud

	Frequency	Percent
Disagree	8	10.3
Neutral	8	10.3
Agree	62	79.5
Total	78	100.0

4.5.10 Reduction in Number of Fraud Cases

Eighty nine point seven percent of the respondents agreed that AML regulations had led to reduction in the number of fraud cases in the bank. On the other hand, 10.3% of the respondents strongly agreed.

Table 4.19: Reduction in Fraud Cases

	Frequency	Percent
Agree	70	89.7
Strongly Agree	8	10.3
Total	78	100.0

4.5.11 Reduction in Fine Expenses on Non Compliance

Fines expenses and penalties associated with non-compliance to AML regulations had reduced as a result of implementation of AML regulations. This is according to 20.5% of the respondents who agreed. Nonetheless, majority of the respondents were neutral that AML regulations had led to a reduction in the fines and penalties on non-compliance.

Table 4.20: Reduction in Fine Expenses on Non Compliance

	Frequency	Percent
Neutral	62	79.5
Agree	16	20.5
Total	78	100.0

4.5.12 Cost of Capital Reduction

Thirty four point six percent of the respondents were neutral, 55.1% agreed and 10.3% strongly agreed that the banks cost of capital had reduced as a result of AML regulations in the bank. This showed that to most respondents the cost of capital had reduced due to AML regulations implementation.

Table 4.21: Cost of Capital Reduction

	Frequency	Percent
Neutral	27	34.6
Agree	43	55.1
Strongly Agree	8	10.3
Total	78	100.0

4.5.13 Internal Information Management Efficiency

Eighty nine point seven percent of the respondents were neutral, 10.3% disagreed that the implementation of AML regulations had led to the application of an internal management information system that provided for money laundering information to management.

Table 4.22: Internal Information Management Efficiency

	Frequency	Percent
Disagree	8	10.3
Neutral	70	89.7
Total	78	100.0

4.5.14 Establishment of AML Champions

Twenty point five percent of the respondents agreed that AML regulations had led to the identification and designation of AML risk champions in departments where AML issues were reported. In addition, 79.5% of the respondents strongly agreed.

Table 4.23: Establishment of AML Champions

	Frequency	Percent
Agree	16	20.5
Strongly Agree	62	79.5
Total	78	100.0

4.5.15 Increase in the Number of Staff

According to 34.6% and 65.4% of the respondents to this study, AML regulations implementation had led to an increase in the number of staff members employed to ensure compliance with the provisions of the regulations.

Table 4.24: Increase in the Number of Staff

	Frequency	Percent
Agree	27	34.6
Strongly Agree	51	65.4
Total	78	100.0

4.5.16 Investor Confidence

Twenty four point four percent of the respondents were neutral, 20.5% agreed and 55.1% strongly agreed that the implementation of AML regulations had led to increased confidence in the bank. This showed that AML regulations implementation enhanced the levels of customer, employee and investor confidence in the bank.

Table 4.25: Investor Confidence

	Frequency	Percent
Neutral	19	24.4
Agree	16	20.5
Strongly Agree	43	55.1
Total	78	100.0

4.6 Chapter Summary

This chapter presents the findings and results of the study. The chapter found that AML regulations increased the screening of transactions in banks, reduced the number of fraud cases internally and externally, increased investor confidence in the bank, increased access to international markets by local banks, increased the frequency of reporting to the Financial Reporting Centre, increased the number and types of reports generated for regulatory review,

broadened the regulatory framework that guided banks, and increased customer confidence in the bank.

Secondly, the study found that the bank costs increased as a result of AML regulations since the bank bore the full cost of implementing the regulation. According to the study, there were higher transaction costs, training costs and employee related costs due to increased stringent employment procedure as a result of AML regulations. Other costs increasing included: monitoring costs, and opportunity costs for the bank.

Some of the benefits identified in this study include: increased awareness of the regulation due to improved training of staff on AML regulation, increased efficiency by the bank through centralized customer account opening, development and documentation of AML policies and procedures, enhanced customer identification programs, increased employee awareness on SAR, increased allocation of resources for anti-money laundering program, pro-activeness in identifying and preventing fraud, reduced non-compliance penalties and costs, reduced fraud and increased investor confidence.

CHAPTER FIVE

5.0 DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the study based on the major findings of this study, the discussion of the findings, conclusions of the study and recommendations of the study.

5.2 Summary of Study

The purpose of this study was to examine the impact of Antimoney laundering regulations on financial performance of Chase Bank. To achieve this, the study identified the research questions: What was the impact of Anti-Money laundering regulations on commercial banks? What were the costs of implementing the Anti-Money Laundering regulations? What were the benefits of compliance to the Anti-Money Laundering regulations on the bank's financial performance?

The study utilized a descriptive research design using Chase Bank as a case of the study. The population of the study was drawn from employees of Chase bank totaling 1,012 distributed across the branches and Head Office of the bank. Using a stratified random sampling technique, a sample size of 80 respondents was selected for inclusion in the study. Data collection was done in the months of October to December 2014 using a questionnaire that was self-administered by the researcher. Collected data was inspected, keyed and coded into SPSS vs. 20 for analysis using descriptive statistics and inferential statistic. The analyzed data was presented using tables and figures for easy interpretation.

The study found that AML regulations had an impact on the operations of Chase Bank. The positive impact of AML regulations were: reduced levels of internal and external fraud, broadened regulatory framework, increased customer and investor confidence in the bank, and improved efficiency in operations of the bank. However, there was increased reporting in the bank which increased the reporting costs as well as increase in the screening of transactions that increased staffing costs.

Secondly, the study found that AML regulations had an effect on the total costs of the bank. The cost of the bank increased due to increased investment on staff training to detect and prevent fraud, increased transaction costs, increased monitoring and reporting costs and increased opportunity costs due to forgone investment opportunities by the bank as a result of increased information provided on sanctioned countries.

However, Chase Bank enjoyed various benefits as a result of AML regulations. This included, enhanced and ongoing due diligence of potential and existing customers, enlarged potential investors' confidence especially from international markets , allocation of resources for anti-money laundering, pro-activeness in identifying and preventing fraud, reduced non-compliance penalties and costs and identification and assignment of AML champions.

5.3 Discussion of the Finding

5.3.1 Impact of Anti-Money Laundering Regulations on Commercial Banks

Anti-money laundering regulations and rules have a large impact on the operations and performance of commercial banks especially Chase bank which is the case of this study. According to the findings of this study, the anti-money laundering regulations have positive and negative impact on the performance of Chase Bank.

Positive impact on the performance of Chase bank was identified through the increase in the levels of customer and investor confidence in the bank. This is instrumental in the attraction and retention of customers as well as a good brand image for attracting potential investors from different parts of the globe for capital injection into the bank. Furthermore, implementation of AML regulations and rules reduced the number of fraud cases from internal and external threats facing the bank. Other positive impacts of AML regulations and rules included improved reporting in the bank and an increase in the regulatory framework.

Similar to the findings of this study Ricardo (2010) found that AML regulations and rules reduced the reputation risk associated with banks. This is similar to the findings of this study and those of Muriithi (2013). Reputation risks include the adverse perception of the bank by customers and investors as a result of engaging in money laundering. Muriithi (2013) in her

study noted that reputation risk is a major consequence of money laundering in the banking sector. According to the study, the integrity and reputation of the banking and financial services sector is heavily influenced by the legal framework, professional and ethical standards that the bank provides. However, cases or reports of money laundering had an effect on the reputation and brand image of a bank (Muriithi, 2013). This is similar to the findings and conclusions of the FATF report of 2006 which noted that funds from criminal and illegal activities that are legitimized in the banks or financial institutions provide a reputation risk to the financial institution, this was as a result of the funds were processed due to corruption activities or bribes in the banks or even cases of complicity (FATF, 2006).

Similar to the findings of this study, Muriithi (2013) further noted that the implementation of AML regulations and rules had increased the supervisory framework of the anti-money laundering process which increased the reporting cases and processes of the bank. While this increased the costs of reporting in the bank which could be a disadvantage as it also increased the total costs of compliance and transaction costs, the increased screening of transactions provided a better framework for early detection and prevention of money laundering and other fraud cases. This reduced the overall number of fraud cases whether as a resultant of internal or external threats.

On the other hand, the negative impact on performance of Chase Bank as a result of AML regulations and rules were in the form of increased regulatory framework which increased the compliance costs and expenses for the bank. Furthermore, the increase in the number and type of reports that were generated by the bank increased the reporting costs and staff cost associated with generating and verifying the reports. In addition, the study found that AML regulations and rules had an impact on the transaction costs of the bank by increasing them as a result of screening them and confirmation with customers for mitigating potential fraud or suspected money laundering activities.

Similar to the findings of this study, Ping (2010) noted that the implementation of AML regulations and rules increased the compliance costs for the bank and institutions. Though this investment was justified given the benefits associated with the implementation and

prevention of money laundering in the bank. Furthermore, Ricardo (2010) noted that while AML regulations and rules were well intended and its objectives provided benefits for the banks, the increased number of regulations subjected to the financial sector, an already over regulated sector increases the number of regulations and rules that govern the sector. This poses challenges to the banks due to increased compliance costs as well as the likelihood of conflict of the various laws and regulations in the sector.

5.3.2 Costs of Implementing Anti Money Laundering Regulations

Generally, the implementation of AML regulations and rules have led to a rise in the costs in the banks. According to the findings of this study AML regulations and rules had led to an increase in the number of transactions that are screened by the bank. This has led to an increase in monitoring costs that are incurred by the bank for detection and prevention of money laundering. Furthermore, the reporting costs have also increased as a result of increased no. of reports and frequency of reporting by the bank.

In addition, this study found that, the implementation of anti-money laundering regulations had increased the training costs associated with imparting knowledge in the banking staff to detect, report and prevent money laundering cases. Furthermore, anti-money laundering laws and regulations had increased the monitoring and compliance costs that the bank incurred to comply with the laws. Moreover, AML regulations and rules had increased the opportunity costs of the bank due to the forgone investment opportunities that the bank has to overlook due to restrictions contained in the AML regulations and rules prohibiting involvement in sanctioned countries or high risk businesses.

Similar to the findings of this study, Dan and Estrada (2011) in their study found that the introduction of anti-money laundering regulations had led to an increase in the compliance costs of banks which have to invest in additional resources and staff to comply with the requirements of the AML regulations and rules. Furthermore, Ping (2010) and Leong (2007) found that banks had incurred added expenses and costs that were necessary to comply with the AML regulations and rules. According to the scholars, there were three major classes of

costs that banks had to incur to comply with anti-money laundering regulations. This includes, staffing costs, training costs and compliance costs. These are similar to the findings of this study. Furthermore, similar to the findings of this study, Leong (2007) noted that banks implementing AML regulations and rules were obligated to set aside funds and resources for the implementation of anti-money laundering projects and programs.

Other costs that were identified in this study include monitoring and transactions which were also identified by Yeandle *et al.,* (2005) in their study. Furthermore, similar to the findings of this study, Yeandle *et al.,*(2005) in their study noted that, money laundering imposes high cost to commercial banks as it affects the level of performance and operational effectiveness in commercial banks. It has been established that AML affects bank reporting as it leads to increased transaction costs due to the frequency in reporting as well as screening. Some of the costs are felt to a very great extent due to not only the running of operations within banks but also due to the cost incurred to train staff on how to identify illegitimate and suspicious activities from the clients' transaction activities. This is similar to the findings of this study.

5.3.3 Benefits of Compliance on Financial Performance

There were various benefits associated with implementation of AML regulations and rules for banks. According to this study, the benefits of implementing AML regulations and rules were increased awareness of the regulation due to improved training of staff on AML regulation, increased efficiency by the bank through centralized customer account opening, development and documentation of AML policies and procedures, enhanced customer identification programs, increased employee awareness on SAR, increased allocation of resources for anti-money laundering program, pro-activeness in identifying and preventing fraud, reduced non-compliance penalties and costs, reduced fraud and increased investor confidence.

The benefits identified above are similar to those identified in the study by IBM Business Consulting Services (2011). According to IBM Business Consulting Services, the implementation of AML regulations and rules enhanced customer management, customer

identification and screening. According to the IBM Business Consulting Services, AML regulations and rules provided opportunities for the bank staff to monitor, analyze, and act enterprisewide on clients informaton in a timely and calculated manner (IBM Business Consulting Services, 2011). Some of the information required included the source of funds, how a client uses those funds, product preferences, as well as the basic account information gatherable from other areas of the bank. The above information coupled with information collected from customer contact as well as activity form & call centers from all bank branches and over the internet, provided commercial banks much of the data needed to meet AMLR requirements. Collecting such data enables commercial banks to create a smooth avenue for making clean money, which is the foundation for increased revenues that maximizes profits as well as shareholders wealth (IBM, 2011). Though this study did not seek to identify the motives for implementation of AML regulations and rules as was the study in the IBM study, the study presumes that the bank is driven by similar motives.

Other benefits of implementing AML regulations and rules identified by this study and those of other researchers include: promoting good governance identified by the International Monetary Fund (2009). According to the IMF, the AMLR framework promoted good governance as the policy guideline required the legal and regulatory requirements to promote financial transparency and encourage the rule of law.

The implementation of AML rules and regulations also boosted risk reduction in the business according to this study. This is similar to the findings of Mbwayo (2004) who noted that the adoption and implementation of antimoney laundering measures and regulations had the impact of enhancing risk identification, risk reduction and risk management in banks. Other benefits of implementation of AML rules and regulations included the reduction of internal and external fraud cases in the bank as well as increased level of confidence in the bank by investors and customers. This is similar to the findings of Mutheu (2008) and Isem and Porteours (2005).

5.4 Conclusions of the Study

5.4.1 Impact of Anti-Money Laundering Regulations on Commercial Banks

This study concluded that the implementation of money laundering regulations has a positive and negative impact on the performance of commercial banks. The positive impact included improved customer and investor confidence in the bank, reduction in the number of fraud cases and improved efficiency in the operations of the bank.

Negative impacts of anti-money laundering laws and regulations included increased cost of compliance due to additional laws and regulations, increased cost of transactions due to increased level of screening and scrutiny.

5.4.2 Costs of Implementing Anti Money Laundering Regulations

The implementation of AML rules and regulations increase the overall costs of the bank. This study concluded that the total operating costs of the bank increased as a result of implementation of AML rules and regulations.

The specific costs that increased the overall total costs were increased compliance costs, transaction costs, employee costs, training costs, investment in anti money laundering program and opportunity costs inccurred by the bank for the foregone business opportunities due to the various sanctions placed on some countries and businesses.

5.4.3 Benefits of Compliance on Financial Performance

Despite the increased costs incurred by banks, this study concludes that there were benefits of compliance to AML rules and regulations. The benefits incurred from compliance to AML rules and regulations were increased staff awareness and knowledge on detection and prevention of money laundering, increased customer and investor confidence in the bank and reduced penalties and costs related to non compliance to the regulation. These were critical to development of appropriate customer retention and management program.

Furthermore, implementation of AML rules and regulations lead to better governance in the banks, reporting and transparency as a result of increased monitoring and supervision. This has been instrumental in the reduction of fraud and money laundering cases.

5.5 Recommendations of the Study

5.5.1 Recommendations for Practice

5.5.1.1 Impact of Anti-Money Laundering Regulations on Commercial Banks

This study recommends that banks across the globe should implement and ensure full compliance to AML rules and regulations. This is due to the apparent benefits of compliance to the AML rules and regulations that not only benefit financial institution but also nations in the war against money laundering and terrorism financing. Furthermore given international trends and patterns in the financial sector, banks have no option but to comply.

5.5.1.2 Costs of Implementing Anti Money Laundering Regulations

The costs of compliance and initial implementation of an AML program is prohibitive and high. However, this should not be a hinderance to compliance to the AML rules and regulations. This study recommends that banks can leverage on modern information management technologies to reduce the costs of compliance and screening. Through the use of information management systems, the banks can analyse high risk clients and customers and report or flag down the high risk customers as opposed to a review of all customers which is cost intensive.

Furthermore, the use of information management systems could improve the identification, management and retention of customers through the use of customer information management systems which will enhance customer management.

5.5.1.3 Benefits of Compliance on Financial Performance

There are various benefits associated with the implementation of AML rules and regulations. This study therefore recommends that banks should invest in AML systems since the benefits

outweight the costs. Furthermore, lack of compliance will result to loss of customer and investor confidence, increased reputational risks as well as increased penalties and fines associated to non-compliance to the regulations.

5.5.2 Recommendations for Further Studies

This study recommends further studies on the impact of AML rules and regulations on the financial perfomance using other financial institutions in Kenya. This could include investment banks, insurance companies, microfinance institutions etc which would provide basis for comparison of the findings.

Secondly, this study makes recommendations on the analysis of AML rules and regulations on customer retention, satisfaction and attraction. This could be critical in informing how the implementation of AML rules and regulations has had an impact on customer satisfaction in the banks.

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APPENDIX I: INTRODUCTORY LETTER

Dear Sir/Madam,

RE: RESEARCH STUDY

I am pleased to inform you that I am a student at United States International University pursuing a degree of Masters in Business Administration (MBA). As partial fulfillment for my degree, I am conducting research on the impact of Antimoney Laundering regulations on the financial performance of Chase Bank Limited.

Kindly note that any information given by you will be confidential and will not be used for any other purpose other than this research project. Your contribution and assistance is really appreciated. I look forward to receiving your response.

Yours faithfully,

Michugu Tabitha Mugechi

Mobile Number: 070-161-7154

Email: tabzjayie@gmail.com

APPENDIX II: QUESTIONNAIRE

SECTION A: BACKGROUND INFORMATION

1) Name (Optional)………………………………………………………………………….
2) What position do you hold in the bank? ………......……………………………………...
3) Indicate to what extent you are responsible in the bank

Top Management ☐

Middle Management ☐

Lower Management ☐

SECTION B: IMPACT OF AML REGULATIONS ON COMMERCIAL BANKS.

BANK REPORTING

Below are some of the statements on the effects of AML on bank reporting in Kenya. Kindly indicate your level of agreement with each statement in your bank. On a scale of 1-5, where 1= strongly disagree and 5 = strongly agree. Please indicate the extent of your agreement with each statement as regards effects of Money laundering (Tick appropriately).

Describe	**Strongly Disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
It has increased screening of transactions	1	2	3	4	5
It has reduced the number of external fraud cases					
All application for employment are too stringent due to due diligence background checks					

It has increased potential investors confidence in local banks					
It has increased access to international markets by local banks					
It has increased the cost of capital					
It has increased the reporting frequency to Financial Reporting Centre					
It has broadened the types of reports prepared					
It has broadened regulatory framework					
It has reduced internal fraud cases					
It has increased customers' confidence					
It has increased staffing costs					

4) To what extent does the bank reporting affects AML in Kenya;

To a very great extent [ ]

To a great extent [ ]

To a moderate extent [ ]

To a little extent [ ]

To no extent [ ]

SECTION C: COSTS OF IMPLEMENTING AML REGULATIONS

Operational Costs

4) Below are some of the statements on the effects of AML on operational costs. Kindly indicate your level of agreement with each statement in your bank. On a scale of 1-5, indicate the extent to which you agree with the following statements by using a scale of 1 to 4 where 1= strongly disagree and 5 = strongly agree.

Describe	**Strongly Disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
Increased/high transaction costs					
All application for employment are subjected to stringent due diligence background checks					
All staff have been trained on identification of suspicious transactions					
All staff have been informed of the sanctioned countries					
Employees are encouraged to immediately report on fraudulent conduct of colleagues that is suspected, notices or actually observed or detected					
Increase in currency fluctuation					

5. To what extent does the operational costs affect AML in Kenya

To a very great extent [ ]

To a great extent [ ]

To a moderate extent [ ]

To a little extent [ ]

To no extent [ ]

Cost of Monitoring Transactions

6. Below are some of the statements on the effects of AML on operational costs. Kindly indicate your level of agreement with each statement in your bank. On a scale of 1-5, please indicate the extent of your agreement with each statement as regards effects of Money laundering (Tick appropriately).

Describe	**Strongly Disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
Cost of Monitoring Transactions					
There are enough staff to monitor suspicious transaction in the Bank					
Monitoring cost have increased business operational cost					
Implementation of AML has consumed high capital					
AML has reduced business opportunities for the bank					
The expenses in AML implementation have been fully borne by the Bank					

SECTION D: BENEFITS OF COMPLIANCE TO AML REGULATIONS ON BANK'S FINANCIAL PERFORMANCE.

AML Measures Taken By the Bank

7) Listed below are the AML measures taken by the bank, please indicate the extent the measures are applied in the anti-money laundering compliance program in your respective function. On a scale of 1-5, where 1= strongly disagree and 5 = strongly agree. Please indicate the extent of your agreement with each statement as regards effects of Money laundering (Tick appropriately).

Describe	**Strongly Disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly**
Staff training on anti-money laundering issues	1	2	3	4	5
A centralized customer account opening and monitoring centre					
KYC or customer identification screening program					
A documented and approved AML policy and procedures					
Filling forms to report transactions on SAR					
Application of Customer Identification Program (CIP)					
Creating awareness on suspicious account reporting (SAR)					
Increase in bank's allocation of resources to fight money laundering.					
The bank has become more proactive at identifying and preventing potential fraud.					
The level of fraud cases in the bank has reduced					
The level of fines associated with non-compliance to the regulation have reduced					
The bank's cost of capital has reduced					
Application of an internal management information system that provides Money laundering information to management.					

A designated AML Risk Champion where AML issues are reported					
The staffing level has increased as a result of implementing the regulation					
The confidence level by correspondence banks with the bank has increased					