YANGON UNIVERSITY OF ECONOMICS
DEPARTMENT OF COMMERCE
MASTER OF BANKING AND FINANCE PROGRAMME

FACTORS AFFECTING THE ANTI-MONEY LAUNDERING COMPLIANCE PRACTICES OF PRIVATE BANKS IN MYANMAR

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OCTOBER 2022

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A thesis submitted as a partial fulfillment of the requirements for the degree of Master of Banking and Finance (MBF)

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OCTOBER 2022

ABSTRACT

This study investigated the factors affecting the AML compliance practices of private banks in Myanmar. The objectives of this study are to identify the level of compliance of anti-money laundering (AML) practices of private banks in Myanmar and to examine the factors affecting the compliance of AML practices of private banks in Myanmar. To achieve these objectives, this study used both primary and secondary data. The primary data were collected by two-stages random sampling technique. A sample size is 150 respondents from 15 private banks; with 10 AML compliance staffs from each private banks. Secondary data was studied from mutual evaluation report from Asia Pacific Group (APG), and other reports from International Finance Corporation (IFC) and International Monetary Fund (IMF). Multiple linear regression model is used to analyze the factors affecting the AML compliance practices of private banks in Myanmar. In this study, the anti-money laundering compliance practice of private bank in Myanmar, is measured by four factors such as management principle on AML risk, AML knowledge of the workforce, technology support and regulatory enforcement. This study found out that most of the banks have strong opinion on all the factors and the banks' management principle is the strongest practice among the factors and knowledge of the workforce has slightly less strong than the other factors, meaning that banks need to focus more on providing relevant AML training. The overall AML practices of the banks are also good. Regarding with regression analysis, management principle, knowledge of the workforce and regulatory enforcement have significant value whereas the technology support factor is not significant.

ACKNOWLEDGEMENTS

I cannot accomplish this study without the help a number of individuals and organizations. Firstly, I would like to thank Prof. Dr Tin Tin Htwe, Rector of the Yangon University of Economics for her concern and encouragement to the participants of the Master of Banking and Finance (MBF) Program.

I hereby express my sincere gratitude to my supervisor, Prof. Dr. Tin Tin Htwe, Professor and Head of Department of Commerce, Yangon University of Economics, for her directives, guidance and excellent, critical suggestions to guide in writing thesis without which this thesis would not have been possible as well as for offering me various intellectual supports throughout the preparation of the thesis.

I also express my sincere gratitude to all lecturers in the Master of Banking and Finance Program. They actually imparted their time and valuable knowledge during the course of my study at the Yangon University of Economics. Many thanks go to the MBF students, who help me various ways to my thesis.

I am grateful to my colleagues and the compliance and front-line staffs of other private banks and appreciate them for their patience and understanding, during survey data collection. Without their help, would not be able to complete this thesis within the stipulated time.

TABLE OF CONTENTS

LIST OF TABLE

LIST OF FIGURES

LIST OF ABBREVIATIONS

AML	Anti-Money laundering
CBM	Central Bank of Myanmar
CCB	Central Control Board
CDD	Customer Due Diligence
CFT	Counter Financing of Terrorism
DICA	Directorate of Investment and Company Administration
ECDD	Enhance Customer Due Diligence
EU	European Union
FATF	Financial Action Task Force
FIs	Financial Institutions
IFC	International Finance Corporation
KRIs	Key Risk Indicators
KYC	Know Your Customer
KYE	Know Your Employee
MFIU	Myanmar Financial Intelligence unit
FIU	Financial Intelligence unit
ML	Money Laundering
MLRO	Money Laundering Regulatory Officer
OFAC	Office of Foreign Assets Control
PEPs	Political Exposure Persons
TF	Financing of Terrorist
UBO	Ultimate Beneficiary owner
UN	United Nation

CHAPTER I
INTRODUCTION

Money Laundering (ML) is the process intended to disguise the true origin and ownership of benefits derived from criminal conduct so that they appear to have originated from legitimate sources. There are two strategic forms of money laundering, through legitimate business entities and through financial institutions. In the first strategy, the illicit money is concealed in the legitimate business organizations and regenerated as the revenue from such entity, covering the original source of fund. For second strategy, the criminals used the global platform of the financial institutions to transfer the illegal money proceeds and launder the illicit money. In the second case, money launderer takes advantage of the banks' weak anti-money laundering (AML) systems and strategies and conducts the process of money laundering.

In addition, money laundering is a process that is accomplished in three basic stages. These stages can be in a single transaction at the same time, or in complex series of transactions that are difficult to separate. The three stages of money laundering are placement, layering and integration. In the first stage, in placement, proceeds of the crime are introduced into the financial system to relieve a criminal of the "dirty" assets, then it goes into layering where the illicit funds are separated from their source to conceal their illegal origin, usually via complex and cross-border transactions. After that, in integration stage, illicit funds are returned to the criminal for his use and benefit (Byrne, 2012).

The impact of money laundering does not get much awareness before the September Eleven terrorist incident. The incidence opened the eyes of financial institutions and the regulatory bodies especially in the USA because before the incident, there were many shell banks, which used to transact with huge amount of money without any source or origin of funds, and purpose of transactions which resulted in the disaster like that. After September 11 incident, there are definite rules and regulations which were established at international level like Money Laundering Act 1986 (USA), Criminal of Terrorism Act (UK), Money Laundering Regulations 1993 (UK), Money Laundering and Financial Crimes Strategy Act 1998 (USA) etc. (Ajmal, 2008).

Money laundering has led to several economic, security and social consequences such as increased crime and corruption, undermining the legitimate private sector, weakening financial institutions, loss of control of, or mistakes in, decisions regarding economic policy, risks to privatization efforts, reputation risk for the country and social costs (Byrne, 2012, ACAMS). Although money laundering has occurred in any country, the impacts can be more significant in countries with fragile financial system, developing countries and emerging markets and those countries can be more destructive from criminal and terrorism influences as they have less stable financial system, ineffective banking regulations and law enforcement.

There are many cases of money laundering around the world. For example, in April 2018, India's Financial Intelligence Unit (FIU) fined the Bank of Borado INR 90 million (USD 1.38 million) for a trade-based money laundering scheme (Ranina, 2018). In 2017, Deutsche Bank was fined nearly $700 million for allowing money laundering, by the German financial regulator BaFin. The fines stemmed from a scheme of artificial trades between Moscow, London and New York that authorities said were used to launder $10 billion out of Russia. (Tom, Patricia, & Hans, 2021). In December 2012, HSBC Holding Plc agreed to pay a record USD1.92 billion in fines to U.S authorities for allowing itself to be used to launder a river of drug money flowing out of Mexico and other banking lapses and poor money laundering control (Aruna & Brett, 2012).

Myanmar is one of the high risk countries regarding money laundering since there are several strategic deficiencies for counter money laundering and the country has committed to resolve the identified strategic deficiencies within agreed timeframes and is subject to increased monitoring and is still under FATF grey list. In order to address those deficiencies, Central Bank of Myanmar (CBM) issued The Control of Money Laundering Law in 2002, The Anti-Money Laundering Law and The Counter Terrorism Law in 2014 respectively and other relevant directives related to money laundering subsequently.

Therefore, as the banking industry in Myanmar is developing and in growth stage and the local banks perform the international banking transactions, they have to take precaution not to involve in the money laundering activities or being used as a channel for money laundering process. As some region of Myanmar is in golden triangle, which is famous for its drugs cases and the businesses in some regions is high risk like precious metals and gems, it has to take extra measures to prevent money laundering as the country's AML control systems and strategies are still in developing stage and the criminals can take advantage of that and the international organization put the country into watch list. Therefore, the study focuses on the factors affecting the AML practices of private banks in Myanmar.

1.1. Rationale of the Study

Anti-money laundering (AML) has become a global issue in recent years due to the rising cases of money laundering and international organizations and national governments has taken measure to perform enforcement to those who participate in money laundering (ML) activities. At international level, the Financial Action Task Force (FATF) set international standards of legal, regulatory and operational measures to bring their member countries' national system for combating money laundering and terrorist financing into compliance with the FATF 40 Recommendations (FATF, 2003) and monitors the progress of its member in implementing necessary measures in response to the recommendations.

At the same time, Asia Pacific Group on Money Laundering (APG) has observed the effective implementation and enforcement of internationally accepted money laundering and terrorist financing standards, especially the FATF forty recommendation and issued evaluation report for its member countries. For Myanmar, APG has already issued Mutual Evaluation Report in 2008 & 2018, and Follow-Up Report, Mutual Evaluation of Myanmar in 2019, 2020 & 2021. Myanmar was removed from the money laundering watch list of the Financial Action Task Force (FATF) in June 2016 based on the progress the country made in this respect (Charltons, 2020). This included introducing legislative measures to curb money laundering and new regulations for its cash-based remittance system.

Myanmar Financial Intelligence Unit (FIU) and Central Bank of Myanmar (CBM) has issued stricter guidelines and instructions such as Anti-Money Laundering Law (2014), The Counter Terrorism Law (2014), Foreign Exchange Management Law (2014), Directive for the Customer Due Diligence (CDD) Measures (2019), Criteria for Oversea Remittance Business License (2019), Guideline on Risk Management Practices of Banks (2020), Anti-Money Laundering and Terrorist Financing Risk Assessment Guideline (2020) etc. and expand the national scope of money laundering and terrorist financing and enforce the banks and financial institutions to comply with rules and regulations and close the gap as mentioned in APG mutual evaluation report to release from grey list (Central Bank of Myanmar).

However, in February 2020 the FATF decided to place Myanmar back on its "grey list" because of the failures in controlling money laundering. The financial activities of Myanmar are subjected to more monitoring as a result of being included in the "grey list". On 7 May 2020 the next challenge to Myanmar's economy and financial system was posed when the country was put on the EU's money laundering blacklist, which has to be submitted to the European Parliament and Council for approval (GIZ, 2020).

According to the APG anti-money laundering and counter-terrorist financing measures 2nd Follow-Up Report, Mutual Evaluation of Myanmar 2021 by APG, Myanmar is in "non-compliance" and "partially compliance" status in most of the recommendations. Hence, the status of Myanmar is on enhanced (expedited) follow-up and have to report back to APG on progress to strengthen the implementation. Therefore, FATF has address the Myanmar as jurisdictions with strategic deficiencies in AML control, which has economic consequences like decline in foreign investment opportunities, international trade transactions and payment settlements (APG, 2021).

In addition, as the criminals use banks and non-bank financial institutions from jurisdictions with strategic AML deficiencies or less regulated country to launder illegitimate money or facilitate the money laundering process, APG evaluation is based on banking and financial industry of Myanmar especially the AML practices of local banks and financial institutions and calculate the national risk rating. Therefore, it is necessary for Myanmar to conduct the research on the factors affecting the AML practices of banks and financial institutions and level of AML compliance implementation of the private banks and look for the ways of strategic improvement, which in turn enhance the national risk rating.

There are several theories that can be used in analyzing money laundering issues such as evolutionary game theory, system theory, crying wolf theory etc. Among them, the most relevant theory for this research is an evolutionary game theory perspective. The theory showed that the efficiency of anti-money laundering combat relies on the conjugation of factors such as the willingness of banks and employees, which is driven by the compliance costs compared to expected loss of not coping against money laundering, and design of optimal regulatory system made by the government which reflects its commitment to combat money laundering. In general, the theory showed that an efficient combat to money laundering depends on the joint effort of competent authorities, banks and employees (Araujo, 2010).

In addition, there are previous research related to the anti-money laundering risk management practices of specific private bank and specific country; there is no research that cover broader view of AML practices in Myanmar banking sector, which consist of several private banks and foreign banks. Moreover, the globalization has led to the more interconnectivity between financial institutions across the developed or developing nations or countries that boost the international banking transactions, trade and investment opportunities. In that case, it is necessary for the financial institutions to comply with the international regulations and standards in nationwide, up to the certain extent, to be able to access to the international financial system or market. Therefore, this research can contribute a lot for the improvement in AML compliance of private banks in Myanmar, which can lead to several economic and social benefits for the country.

1.2. Objectives of the study

The main objectives of this study are as follows:

- To identify the extent of the compliance of anti-money laundering (AML) practices of private banks in Myanmar
- To examine the factors affecting the compliance of anti-money laundering (AML) practices of private banks in Myanmar

1.3. Scope and Method of the Study

This study focuses on the four factors affecting the AML compliance practices of private banks in Myanmar that are management principle on the AML risk, AML knowledge of the workforce, technology support and regulatory enforcement.

Both primary and secondary data are used to identify the level of compliance of the AML practice of the private banks. In Myanmar, there are 4 state-owned banks, 8 semi-government banks and 19 private banks (Central Bank of Myanmar Website). For primary data collection, the two-stage random sampling method is used. The sampling data is on 80% of the 19 private banks, which provide full banking products and services and the data is collected from 50% of the compliance staffs from those banks with total probable sample size of 150 staffs. The survey questions is prepared by using 5 points Likert Scale and focus more on the management's awareness of the AML risk, AML knowledge of the staffs, technology support and degree of regulatory enforcement. For secondary data, the AML related report from Asia Pacific Group (APG), Financial Action Task Force (FATF), International Finance Corporation (IFC) and International Monetary Fund (IMF) are taken as reference. The descriptive statistic method and the multiple regression model is used for data analysis.

1.4. Organization of the Study

This thesis is organized with five chapters. The first chapter covered the introduction, which consists of rationale of the study, objectives of the study, scope and method of the study, and organization of the study. The second chapter included the theoretical background consisting of the concept and process of anti-money laundering, previous research and conceptual framework of the study. In the third chapter, overview of money laundering in Myanmar banking sector, impact of money laundering in banks in Myanmar, laws, regulations and international standard on anti-money laundering (AML), and the AML practices in Myanmar banking sectors are presented. The fourth chapter illustrated the analysis of the factors affecting the AML compliance practices of private banks in Myanmar. Chapter five described the conclusion, which includes findings and discussion, recommendation and suggestion as well as need for further study.

CHAPTER 2
THEORITICAL BACKGROUND

This chapter provides the key definitions, concepts and process of the Money Laundering, which cover stages of money laundering and how each stage worked. It also considered the components of anti-money laundering, previous studies and conceptual framework of the study.

2.1 Money Laundering

These days, money laundering has become an emerging issues in financial institutions all over the world, in both developed and developing countries. In developing countries, the issue is around the normal financial transaction whereas in developed countries, there are more concern for digital transactions and use of virtual currencies. Many years ago, money laundering was not familiar among the financial institutions, but in recent years, new forms of financial crime has emerged, which lead to more money laundering incidents (Thanasegaran and Shanmugam, 2007).

Money laundering is a process which involve flow of money from illegal sources into legitimate one so that the original source of money has become difficult to trace (Adekunle, 1999). International Monetary Fund (IMF) defines money laundering as “a process by which the illicit source of assets obtained or generated by criminal activity is concealed to obsecure the link between the funds and the original criminal activity”. It is also defined as the process by which large amount of illegally obtained money is given the appearance of having originated from a legitimate source (e.g the illigimate money from drug trafficking, terrorist activity, human trafficking and other crimes, is given the appearance of legitimate money through different ways like smurfing (a group of people spread over the world and transact with each other and ultimately deposit the amount in the desired account) or the illegal money is deposited in a account through different channels and then transfer to other accounts, which are inside or outside of the country through wire transfer and again come back in the same account from where it was transferred and so it become a legal money.

2.2 Process of Money Laundering

According to United Nations, Office of Drugs and Crime, money laundering often involves a complex series of transactions that are usually difficult to separate. However, these transactions are generally considered as three stages, which are as follows:

Placement

Placement refer to the initial point of entry for funds derived from criminal activities, which include inserting dirty money into financial system without anyone being suspicious through financial institutions, casinos, shops and other businesses, both domestic and international. This include transactions such as breaking up large amount of cash into smaller sums and depositing them directly into the bank account and transporting cash across borders to deposit in foreign financial institutions, purchase of financial instruments such as cheques, bank drafts, bonds, money orders, etc. or to buy high value goods such as artwork, antique, precious metals and stones that can then be resold for payment by check or bank transfer.

Layering

Layering involve creation of complex networks of transactions to disguise the audit trails, source and ownership of funds and attempt to obscure the link between the initial entry point, and the end of the laundering cycle. This involves transactions such as conducting wire transfers of funds from one account to another to or from other institutions or jurisdictions, converting deposited cash into monetary instruments, reselling high-value goods and prepaid access/stored value products, investing in real estate and legitimate businesses, investing money in stocks, bonds or life insurance, using shell companies whose intended business purpose is to obscure the ownership of assets.

Integration

Integration is the provision of apparent legitimacy to illicit wealth through the re-entry of laundered proceeds into the economy and financial system in such way appears to be normal business or personal transactions. The launderer, for instance, might choose to invest the funds in real estate, financial ventures or luxury assets. In integration stage, it is quite difficult to distinguish between legal and illegal wealth unless there are great disparities between a person's or company's legitimate employment, business or investment ventures and a person's wealth or a company's income or assets and this provides a launderer the opportunity to increase his wealth with the proceeds of crime.

2.3 Anti-Money Laundering

Anti-money laundering (AML) refers to the laws, regulations and procedures that control the financial institutions and other regulated entities to prevent, detect and report money laundering activities. AML legislation was a response to the growth of the financial industry, the lifting of international capital controls and the growing ease of conducting complex chains of financial transactions (Kenton, 2022). The first major piece of U.S. AML legislation was when Congress passed the Bank Secrecy Act, which requires that banks and many other financial institutions file currency reports with the United States and identify people engaged in financial transactions, dated back to 1970. The measure of anti-money laundering had its roots in 1980 by the Committee of Ministers of the Council of Europe and in 1988, money laundering was first recognized as a criminal offence by the United Nation (UN). In 1989, the G7 countries established an inter-government body called Financial Action Task Force (FATF) and as a result, anti-money laundering guidelines came into prominence globally. The main purpose of the formation was to specify and promote legal, regulatory and operational measures to combat money laundering and FATF issued 40 recommendations to prohibit the laundering of illicit money.

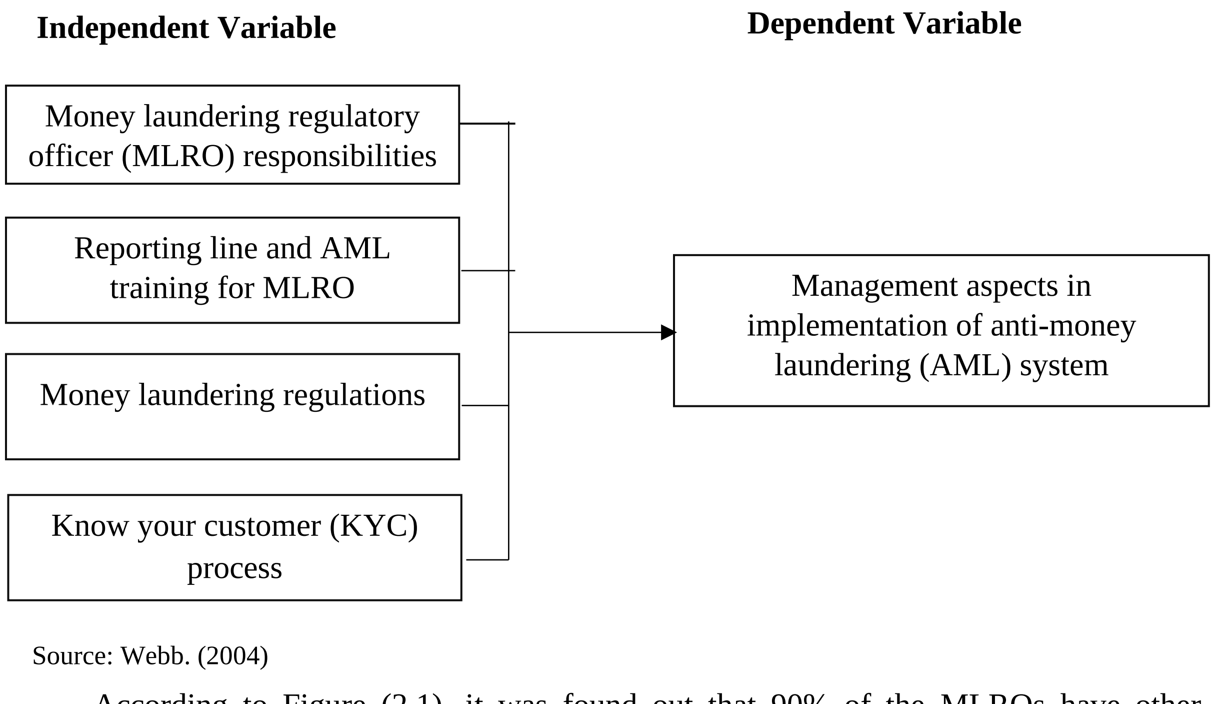
Apart from the AML guidelines issued by international organizations and associations, self-regulatory initiatives in the banking sector also played a significant role to respond to the evolution of money laundering regulation approaches and the emerging typologies of laundering money through financial sectors. Since criminals deposit their money into different bank accounts like savings, credit card account, term deposits, etc., financial institutions are the obvious target in order to make illegitimate fund legal. Banks are subject to reputational, operational, and legal risks including penalties or fines, and loss of public confidence due to the threat of terrorist and criminal activity as all intents and purpose of banks are merely concluding normal business transaction but the money is the proceeds of crime and banks are manipulated into accepting money that is the proceeds of crime and are affected by abuse of the system. In addition, bank employees are also affected by money laundering if they participate intentionally or negligently in money laundering.

Establishing legislation which can identify money laundering and safeguard compliance requirements is critical, and financial institutions must ensure the integrity of the financial system, support of the general economic policy of the government and sound monetary, credit and banking conditions, which contribute to the development of the national economy. The banks have a statutory obligations to know its customers and to understand the nature of the business that is being conducted with them, which constitutes identification of customer (Know Your Customer, KYC), monitoring and reporting of customer activity, and ensuring the accuracy and legitimacy of customer information (Customer Due Diligence, CDD), risk management function (Customer Risk Assessment, CRA), monitoring and analyzing transactions to trigger suspicious transactions (Transaction Monitoring, TM), maintenance and preservation of records (Record Keeping), and reporting of specific transactions to regulators (Regulatory Reporting), which are vital in combating money laundering.

2.4 Previous Studies

There are several research with a view to examine the management aspects of anti-money laundering risk in financial institutions, challenges for employee to understand about money laundering and employee attitudes towards implementation of AML/CFT programs, requirement for good AML solution and degree of regulatory enforcement for breaching of AML compliance requirements etc. Webb (2004) surveyed the management aspects in implementation of AML system. The research was conducted using personal interviews with the money laundering reporting officers (MLRO) from thirty small, medium and large sized London banks and the framework of the study is as follows in Figure (2.1).

Figure (2.1) Management Aspects in Implementation of Anti-Money Laundering (AML) System



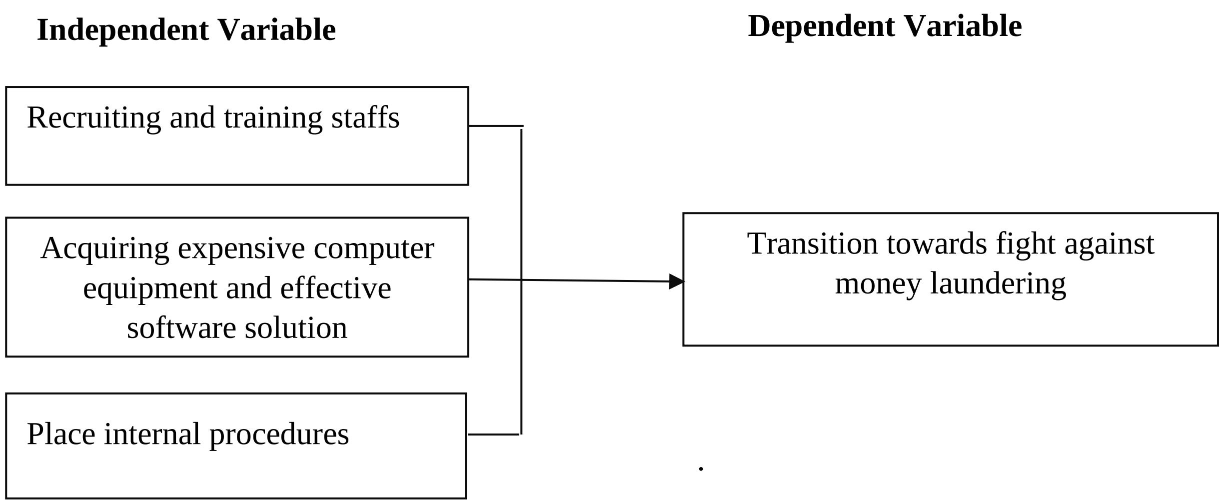
Source: Webb. (2004)

According to Figure (2.1), it was found out that 90% of the MLROs have other responsibilities apart from performing AML compliance function, majority of the MLROs report directly to the senior management of the bank and 17% of the MLROs did not receive training on AML function. Regarding with money laundering regulations, 27% of the respondents exhibited positive attitude towards money laundering regulation mentioning that

KYC regulation was good for both the society and banks as it reduces crime, build market confidence and improve bank's knowledge on its customers, 33% of the respondent stated that KYC was the most time consuming part of the money laundering compliance and 40% of the respondents cited neutral attitude towards money laundering regulation.

Favarel-Garrigues, Godefroy and Lascoumes (2007) studied conducted a survey with the help of interviews on the compliance officer and other participants from Banking commission who were involved in AML about the transition of French banks towards the responsibility of fight against money laundering from their existing tradition that calls for confidentiality. The framework of the study is as follows in Figure (2.2).

Figure (2.2) Transition of French Banks towards the Responsibility of fight against Money Laundering from their Existing Tradition

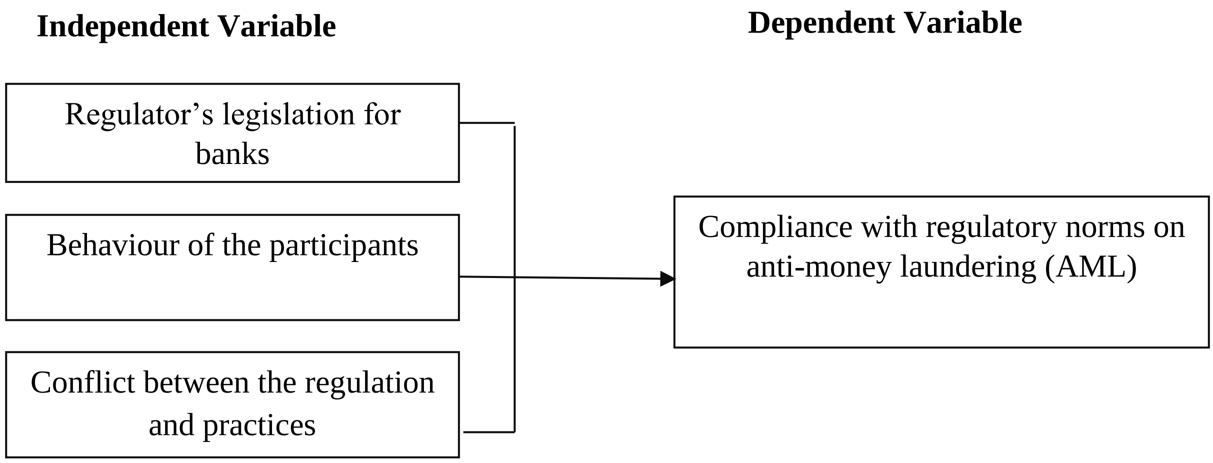


Source: Favarel-Garrigues, Godefroy and Lascoumes (2007)

The study reported that large sum of investments were made in recruiting and training staff, to acquire expensive computer equipment and effective software solution and to place internal procedures since the bankers were committed to fulfil their new obligations and to handle risks competently.

Sabbotina (2009) analyzed the Russian bank's compliance with the regulatory norms on AML based on the data collected from in-depth study of the regulator's legislation for banks, interviews with practitioners and observation of banking practices that focus on three main aspects of AML implementation such as regulator's legislation, behavior of the participants, and the conflicts between the regulation and practices. The framework of the study is as follows in Figure (2.3).

Figure (2.3) Russia Bank's Compliance with the Regulatory Norms on Anti-Money Laundering (AML)

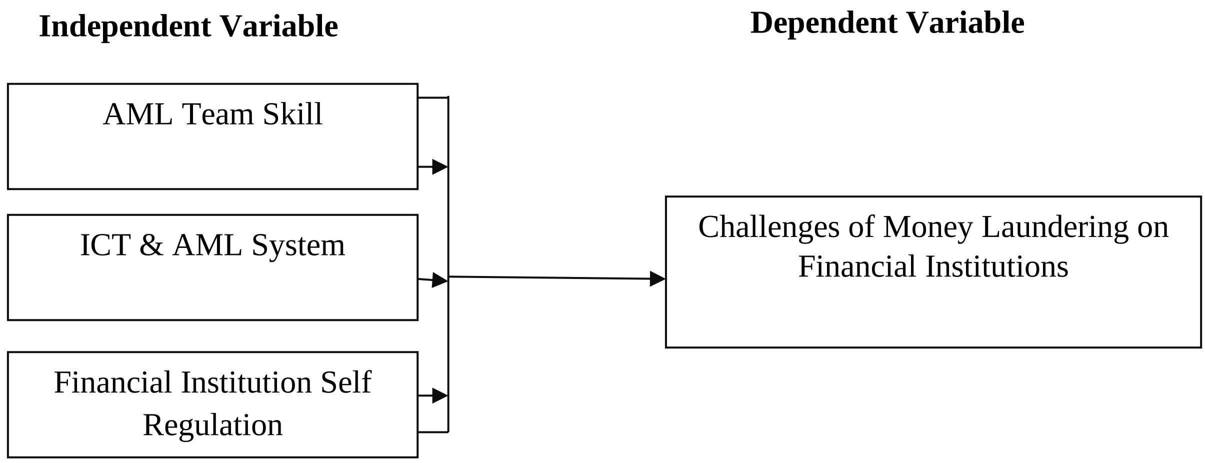


Source: Sabbotina. (2009)

At the end of the study, it is found out that the banks failed to comply with the AML regulation due to the facts that AML laws were too flexible which can be interpreted in different ways, lack of understanding of the international AML standards by the participants, lack of feedback on the effectiveness of the measures taken by the banks, AML compliance activities were driven by fear rather than desire to contribute to the combating of money laundering, reporting obligation were fully executed by banks but sometimes was accompanied by the disrespect of the deadline mostly due to the imperfection of the IT AML solutions which caused technical difficulties, and the attitude towards the AML measures of most representatives of top-management were positive while middle and lower level practitioner showed negative attitude.

Menezes, K. (2017) has evaluated the money laundering challenge in financial institutions and recommended the strategic approaches through which financial institutions can overcome the posed risks by using the variables such as the sources of money laundering scheme, the AML team skills, ICT and AML systems and self-regulation and investigated the existing loopholes. The framework of the study is as follows in Figure (2.4).

Figure (2.4) Framework for Challenges of money laundering on Financial Institutions

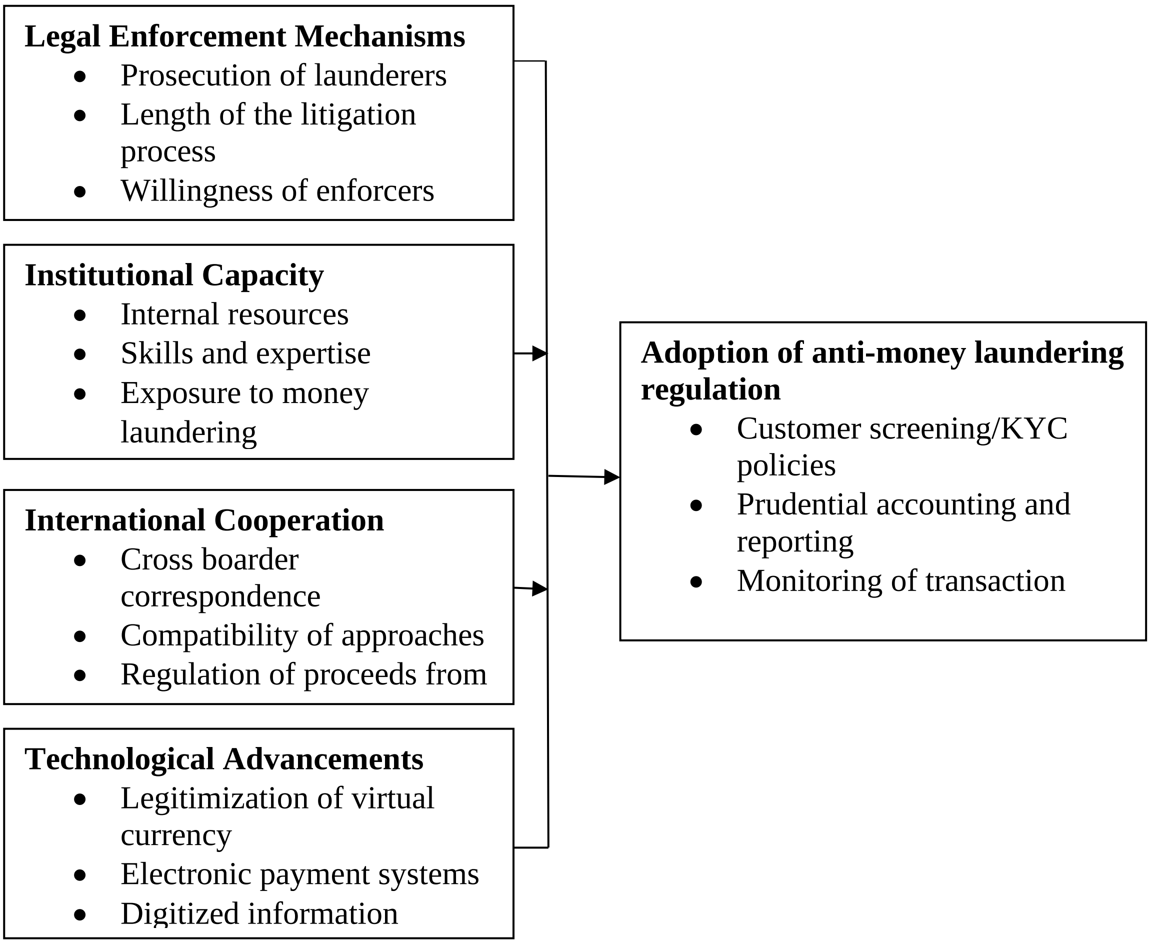


Source: Menezes, K. (2017)

This study found out that firstly, AML Systems are applied through ICT support systems with today dynamic market situation and it is quite important that the industry players have requisite ICT skills to be able to detect any money laundering schemes in advance. In addition, the staffs require research competencies to detect any suspicious money laundering potential cases as well as integrity and decisive culture to ensure human commitment required for the AML systems to succeed. Second, the development of a secure ICT system and the use of medium access controls are critical to ensure only the staffs with authorization can access the AML system and any interference and unauthorized access by a compromised employee would be detected to avoid the infiltrating the system to reduce the detection of suspicious transactions. Third, the study found out that there is a lack of proper self-regulation system, which can lead to a lack of proper critical evaluation of the applied AML systems and strategies and the financial institutions are required to use third party evaluation experts to establish proper role and process of self-regulation, and use effective corporate governance practices, since the handling and detecting money laundering cases proactively will only be increased through effective self-regulation process.

Mwirigi. (2018) investigated the factors influencing the adoption of Anti-Money Laundering regulations in commercial banks in Kenya to determine the influence of legal enforcement mechanism, institutional capacity, international cooperation and technology advancement on the adoption of anti-money laundering regulations by commercial banks in Kenya. The framework of the study is as follows in Figure (2.5).

Figure (2.5) Factors Influencing on Adoption of Anti Money Laundering Regulations by Commercial Banks



Source: Mwirigi, P.M.

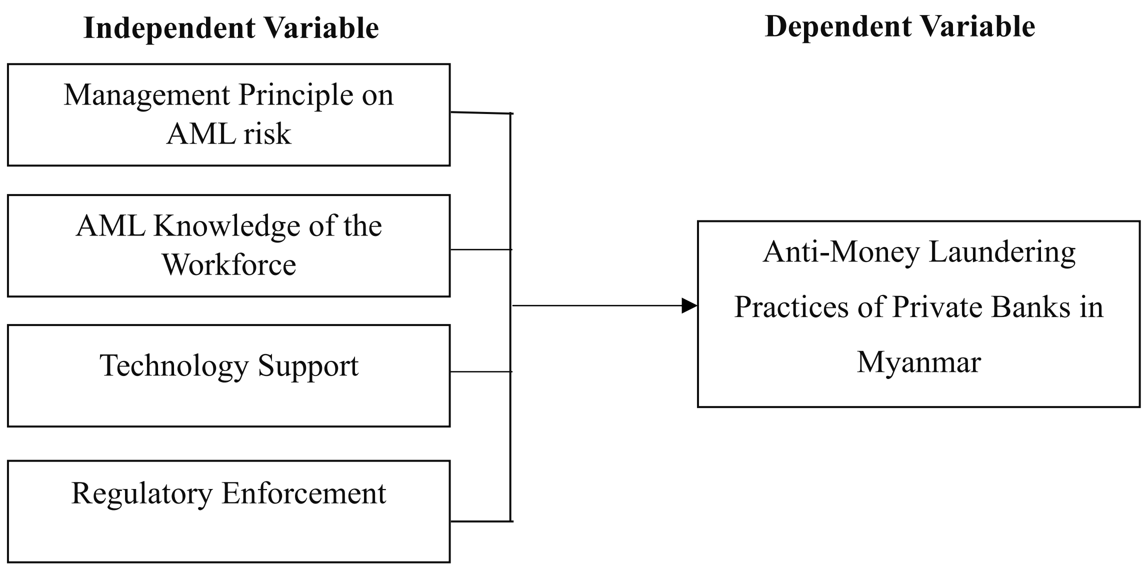
The study cited that legal enforcement mechanism which was measured by prosecution of launderers, length of the litigation process and willingness of enforcers affect the adoption of anti-money laundering regulations in commercial banks in Kenya to a great extent and it is recommended that it is necessary to strengthen the legal enforcement mechanisms on the adoption of money laundering regulations, ensure that there is enforcement of prudential accounting and reporting, monitoring of transactions and training of enforcing staffs on anti-money laundering issues which would strengthen sanctions available, clarify the government body responsible for their implementation in the fight of money laundering in the country, and the relevant policymakers ought to enact legislation that can capacitate the commercial banks to the other relevant institutions to fight against money laundering issues. According to his research, there are four independent variables, which affect the adoption of Anti-Money Laundering regulations, such as legal enforcement mechanism, institutional capacity, international cooperation and technological advancement as per Figure (2.5).

2.5. Conceptual Framework of the Study

There are previous studies about management aspects of anti-money laundering system implementation, the areas to focus for the transition of French bank from traditional banks into the responsible banks, which comply with the process to fight money laundering, compliance with the regulatory norms on anti-money laundering in Russia bank, challenges of money laundering on financial institutions including banks as well as study on adoption of anti-money laundering regulation. Based on the studies and results, the management aspects, skill of workforce, investment in advance technology, laws and regulations are the common factors influencing the AML compliance of the banks.

According to these studies, the conceptual framework was developed for the study of the anti-money laundering compliance practices of private banks as follow in figure (2.6), which consists of determinants such as management principle on AML risk, AML knowledge of the banks' staffs, technology support for the compliance activities, and effectiveness of banking regulations and law enforcement.

Figure (2.6) Conceptual Framework of the Study



Source: Own Compilation

According to the Figure (2.6), management principle on AML risk, AML knowledge of the workforce, technology support and enforcement of AML regulations for Banks are considered as independent variables and the AML Practices of Private Banks in Myanmar as dependent variable. It is important to measure the degree to which the private bank is considered for each independent variable and which variable has great impact on the level of compliance of the AML practices of the banks.

Working Definitions

Management principle on AML risk: measures how much the management is aware of the anti-money laundering risk and provide required support to establish good compliance culture and investment to improve the AML compliance function.

The AML knowledge of the workforce: means how much AML related knowledge the bank's staffs have, how frequently they attended the AML training, how many percent of the staffs passed the AML knowledge tests, whether the training cover all the mandatory AML topics that they need to know for day to day operation, and whether they can apply those knowledge in normal banking operations.

Technology support: involves how much the bank's core banking system can support the AML risk related functions, how long it takes to provide required support, and whether the core banking system has the capacity to record and generate high volume of customer information, their transactions and generate necessary regulatory reports.

The regulatory enforcement: measures whether the regulators take any corrective action if there is any breach of issued laws and regulations, whether the banks establish proper internal policy and procedures based on those laws and regulations, whether the bank compliance department strongly encourage and enforce the staffs to implement those procedures, and whether the bank take any action internally if the staffs are not comply with policies and procedures.

CHAPTER 3

OVERVIEW OF MONEY LAUNDERING IN MYANMAR BANKING SECTOR

This chapter provides overview of the Myanmar banking sector, the impact of Money Laundering on Banks in Myanmar, which include common types of money laundering offences in Myanmar, how money launderers use the financial institutions and banking system to undertake the money laundering incidents, what kinds of losses the banks incurred as a result of money laundering and how it can impact the county wide risk assessment, current laws, regulations and international standard on Anti-Money Laundering and what kind of Anti-Money Laundering practices the banks implement in Myanmar.

3.1 Overview of Myanmar Banking Sector

Myanmar's banking sector today consists of four state-owned banks, 27 domestic private banks, 13 foreign bank branches, and 46 representative offices of foreign banks. In 2020, 7 additional foreign banks were granted preliminary subsidiary or branch licenses. The total bank assets is amounted to MMK 72 trillion as of December 2019 and the asset growth rates since 2012 have been impressive but volatile. Currently, about 60% of total bank assets, 69% of total deposits and 81% of total loans, are controlled by private banks due to their strong growth in recent years and dominant market position.

Since 2010, the banking sector is one of the key reform areas of the Myanmar government and significant reforms have been made to align with international standards, including accounting systems, digital banking and financial inclusion for both, SMEs and unbanked people after 2015. The development of the banking system is considered a driving force for economic growth in Myanmar and Myanmar's banking sector has achieved fast growth during the past decade. However, compared to its neighboring countries and other ASEAN member states, the financial intermediation and inclusion in Myanmar is still underdeveloped.

Moreover, Myanmar banks face serious competitiveness challenges in term of the profitability and performance since foreign banks are gradually welcomed into the local market. Even if the performance of the local banks is compared only to other countries in the region and other lower middle-income countries in the world, it requires some improvements. Financial sector integration under the ASEAN Banking Integration Framework (ABIF) is scheduled to begin in 2020 and Myanmar has to implement various measures to accelerate its integration into the ASEAN banking environment. Although there are many potential benefits from integration, especially increasing trade and investment, the required reforms will bring several pain points for most Myanmar banks. An effective regulatory framework and the improvement of the financial sector infrastructure with robust efforts from all financial institutions are the crucial factors to reduce the gaps between the country's banking sector and its ASEAN counterparts.

The supporting infrastructure for Myanmar banks is developing at a fast pace that includes institutions like the Myanmar Banks Association, the Myanmar Payment Union and the emerging Myanmar Credit Bureau Limited, as well as numerous bank training and education providers. The fast growth of the banking sector leads to huge demand for finance education and bank training. Although several private training providers have been established to meet the demand for training, the current supply of training is still not sufficient to meet the future needs of the sector. Moreover, ensuring the quality of offered programs remains a challenge since there are no national quality standards set by the respective authorities.

In addition, like other countries in FY2019/20, the COVID-19 pandemic has severely affected the growth of Myanmar economy. Even though several relaxations in the banking regulations have been made to ease the impact of the pandemic on both businesses and bank, the low-income households and micro, small and medium enterprises (MSMEs) were still largely impacted by this pandemic.

3.2 Impact of Money Laundering in Banks in Myanmar

Money laundering damages financial institutions, which are critical for economic growth, promoting crime and corruption that slow economic growth, reducing efficiency in the real sector of the economy. Most global research focuses on two major money-laundering sectors which are drug trafficking and terrorist financing and the common economic effects of money laundering included undermining the legitimate private sector, undermining the integrity of financial markers, loss of control of economic policy, economic distortion and instability, loss of revenue, risks of privatization efforts and reputation risk. In addition to economic effects, money laundering also have significant social costs and risks associated with money laundering. Money laundering allows drug traffickers, smugglers, and other criminals to expand their operations, which drives up the cost of government due to the need for increased law enforcement and health care expenditures like treatment of drug addicts, to avoid severe consequences from those crimes. The other negative socioeconomic effects of money laundering is that it can transfer economic power from the market, government, and citizens to criminals. Not only the major financial markets in developed countries but also the emerging financial markets faces the serious consequences of money laundering. Emerging markets can be increasingly appropriate targets since they open up their economies and financial sectors, to bring investments and their anti-money laundering requirements can be less strict compared to that of developed markets.

Myanmar is one of the countries with emerging economy and such economy have some deficiencies in AML/CFT practices, which can be the target of the money launderers. Money laundering in Myanmar is closely linked to the drug trade. Organized crime in Myanmar generates huge sums of money by drug transactions and corruption. By its very nature, money laundering occurs outside the normal range of economic statistics, making the scale of the problem hard to estimate. Myanmar junta has never released any official figures and seems to deliberately ignore the problem. It has not yet criminalized money laundering for crimes other than drug trafficking. Other serious deficiencies concern the absence of a legal requirement to maintain records and to report suspicious or unusual transactions as well as significant obstacles to international cooperation by relevant regulatory authorities.

If banking were left free to develop in response to the demand for its services, it would produce better results. However, heavy state intervention is still common in Myanmar. Since the country's financial market is inefficient, criminal money lenders in Myanmar enjoy four distinct advantages over the 'legal' banking system. First, because their transaction costs are much lower, criminal lenders do not require reserve fund for non-performing loans which burden the banks. Second, criminal lenders can freely discriminate among borrowers by imposing different lending rates in order to extract the maximum amount of interest from each borrower. Third, criminal lenders can play borrowers off against each other in order to extract personal information on borrowers' creditworthiness. Fourth, criminal lenders can use violence to ensure repayment.

3.3 Laws, Regulations and International Standards on Anti-Money Laundering

Banking law is essential reference for banks and other financial institutions to carry out their businesses with the state's requirements and protect them from certain loss due to unregulated market. Since it is difficult to include all aspects of banking regulation in the primary legislation, government entities or banking regulators typically are given the authority to issue a variety of secondary legal instruments, such as regulations, by-laws, or directives to effectively implement the law. The contemporary legal framework for Myanmar's financial sector consists of laws and amendments passed by the Union Parliament, and regulations, directives and instructions issued by the Central Bank of Myanmar (CBM). The most formative laws for the contemporary banking sector are the Central Bank of Myanmar Law 2013, the Financial Institutions Law 2016, the Foreign Exchange Management Law 2015 and the Anti-Money Laundering Law 2014. The government of Myanmar is engaged in an on-going process of drafting and enacting new laws and regulations to further develop the financial sector of Myanmar.

3.3.1 Myanmar Laws and Regulations on Anti-Money Laundering

Regarding with the local regulations, Banks and Financial Institutions are required to comply with Anti-Money Laundering Law 2014, Anti-Money Laundering Rule 2015, AML Order 45-2019, Reporting Obligation Guideline (1/2019), Suspicious Transaction Report Guideline (2/2019), and Directive for the CDD Measures 2019. AML Law 2014 and AML Rule 2015. AML Law and AML Rule provide guideline on the nature of anti-money laundering, offences related to anti-money laundering and how to access AML risk of the each functional component of anti-money laundering practice of banks and how to detect, protect and monitor such kind of risks. Reporting Obligation Guideline mentioned what kinds of reports financial institution are required to provide to regulators, what kind of information they need to provide in reports and how to report them etc, and Suspicious Transaction Report Guideline provide details information on what are suspicious transactions, which patterns and activities financial institutions should aware of to be able to detect the suspicious transactions and how to investigate and report such suspicious transactions to regulators. Customer Due Diligence also plays important role in accessing AML risk of customers and Directive for the CDD Measures provide details requirements on how to perform customer due diligence in financial institutions to understand more about the customers.

3.3.2 International Standards on Anti-Money Laundering

In addition, The Financial Action Task Force (FATF), which is the global money laundering and terrorist financing watchdog and the inter-governmental body, sets international standards that aim to prevent these illegal activities which is harmful to the society. FATF has developed the FATF Recommendations, or FATF Standards, which ensure a coordinated global response to prevent organized crime, corruption and terrorism and help authorities go after the money of criminals dealing in illegal drugs, human trafficking and other crimes as well as to stop funding for weapons of mass destruction. Based on that recommendations, international organizations such as Asia Pacific Group (APG), International Monetary Fund (IMF) and US Department of State Money Laundering assessment (INCSR) conduct research on AML/CFT regime of Myanmar and access the national risk rating.

APG has conducted the on-site visit to Myanmar in 2018 to access AML/CFT measures in place in Myanmar and analysed the level of compliance with the FATF 40 Recommendations and the level of effectiveness of Myanmar's AML/CFT system, and recommended how the system could be strengthened. APG has issued mutual evaluation report and its Follow-Up Report in 2018, 2020, 2021 and 2022. According to the Asia Pacific Mutual Evaluation Report 2022, among the 40 Recommendations by FATF, Myanmar was Largely Compliant for 16 recommendations, Compliant for 7 recommendations, Partially Compliant for 14 recommendation and Non-Compliant Status on 3 Recommendations.

IMF Report (2011) mentioned that Myanmar financial sector is small and repressed with administrative controls on financial intermediation in which these controls and the exchange restrictions led to a reportedly large unregulated shadow financial system. The regulatory treatment of state banks and private banks is uneven, bank governance is poor, and banking supervision does not follow the Basel Core Principles. The report also pointed out that financial liberalization should be complemented with a stronger regulatory and supervisory framework. Among the broad requirement to update regulation and supervision, together with financial liberalization, it is necessary to prioritize the internationally accepted definitions for loan classification and provisioning, strengthening conflict-of-interest requirements, and introducing a net open foreign currency position limit. Efforts to strengthen the AML/CFT regime should be guided by the action plan agreed with the Financial Action Task Force (FATF).

According to INCSR Report, there are some deficiencies in AML practice of Myanmar and it was mainly pertain to logistical challenges, such as insufficient technologies and limited government capacity and coordination. Financial institutions rely on paper-based record keeping and, when computers are available, on manual data entry. The government, in cooperation with donors, is increasing automation and electronic processing of reports and is phasing out paper-based record keeping. The FIU relies on the cooperation of over 20 entities, including the customs agency, central bank, and law enforcement bodies, but these entities' comprehension of and familiarity with AML processes, best practices, and challenges is limited. Oversight of non-conventional financial services in Myanmar, such as money transfer services, microfinance institutions, and securities firms is only in the initial phases, and the central bank provides limited AML oversight of state-owned banks.

3.4 Anti-Money Laundering Practices in Myanmar Banking Sector

In June 2016, Myanmar was removed from the money laundering watch list of the Financial Action Task Force (FATF) due to the progress the country made in this respect, which include introducing legislative measures to reduce money laundering and new regulations for its cash-based remittance system. However, in February 2020, Myanmar was placed back into "grey list" by FATF since there are some failures in controlling money laundering. The financial activities of Myanmar are subjected to more monitoring as a result of being included in the "grey list". On 7 May 2020 the next challenge to Myanmar's economy and financial system was posed when the country was put on the EU's money laundering blacklist, which has to be submitted to the European Parliament and Council for approval.

The CBM issued regulatory guidelines and instructions to enforce the Control of Money Laundering Law, the directive on Customer Due Diligence related to anti-money laundering and counter financing of terrorism to the banks licensed and supervised by the CBM to curb the money laundering. According to the directive, banks are required to take precautions on customers with suspicious sources of income, collect and record the complete customer data and information on wire and digital transfers including cross-border transfers, in order to provide the data to Myanmar Financial Intelligence Unit or the recipient bank upon request. Moreover, the CBM instructed non-bank institutions such as licensed money changers and mobile service providers to follow the directive on Customer Due Diligence related to anti-money laundering and counter financing of terrorism as well as issued the Notification regarding cross-border remittances to reduce illegal money transfers.

Normally, most of the private banks in Myanmar intended to outline only the minimum requirements to prevent money laundering and terrorist financing activities and ensure compliance with relevant local laws and regulations as well as recommendations and minimum guidelines from international bodies. Most of the banks' AML practices cover areas such as Governance for AML, Know Your Customer/Employee, Risk Assessment, Suspicious and Large Value Transaction, Wire Transfer, Correspondent and Shell Banks, Account and Transaction Monitoring, Reporting related to AML/CFT, Provisions regarding restriction in transactions, Retention of Records, Confidentiality of Customer Information (Tipping-Off), and Policy Compliance.

CHAPTER 4

ANALYSIS OF THE FACTORS AFFECTING THE ANTI-MONEY LAUNDERING COMPLIANCE PRACTICES OF PRIVATE BANKS IN MYANMAR

In this chapter, finding from analysis of the data from survey are presented with four sections. The first section is concerned about research design for this study, and the second section mentioned demographic characteristics of respondents of bank staffs. The third one is the overview mean analysis of the factors affecting the anti-money laundering compliance practice of private banks in Myanmar. The last section presented the results of the reliability analysis, relationship analysis and regression analysis of the factors affecting the anti-money laundering compliance practice of private banks.

4.1 Research Design

The objectives of these study are to analyze the level of anti-money laundering (AML) compliance of private banks in Myanmar and to examine the factors affecting the AML practices of private banks in Myanmar. To achieve these objectives, this research used both primary and secondary data. For primary data, the main focus of the analysis is on 19 private banks. Normally, there are about 20 AML compliance staffs in fully operated private banks. For sampling, two-stage random sampling method is used and the sample size will be 80% of the banks (15 private banks), which provide full banking products and services, and 50% of the staffs proportionately from those banks with probable sample size of 150 staffs. Based on the data collection sample, 16% of the staffs are from Yoma bank, followed by the staffs from KBZ and CB bank (14% each), 12% from AYA bank, 8% and 6% respectively from AGD and MAB banks. The rest of the banks includes UAB bank, MOB bank, Shwe bank, MCB bank, FPB bank, A bank, GTB bank, CHIDB bank, and Myawaddy bank.

The survey questions are prepared by using 5 points Likert Scale and focus more on the AML knowledge of the staffs, the management's awareness of the AML risk, the challenges to obtain the detail KYC/CDD and transactions information, to detect the money laundering activities, to provide AML report on time with the support of technology and opinion on degree of regulatory enforcement from CBM and FIU.

If the respondents choose the first point scale 'To a very great extent', the score is 5. If the respondents choose the second point scale, 'great extent', score is 4. If the respondents choose the third point scale, ‘natural’, score is 3. If the respondents choose the fourth point scale, ‘little extent’, score is 2. If the respondents choose the fifth point scale, ‘no extent’, score is 1.

For secondary data, the AML related report from Asia Pacific Group (APG), Financial Action Task Force (FATF), International Finance Corporation (IFC) and International Monetary Fund (IMF) is used in order to compare the local and international standards, the areas in which the country need to improve on, to get close to international standard, the risk rating of the banks and countries etc. The reference to the thesis paper from the students from other countries will also be used in order to understand more about the AML procedures, issues, and solutions from different banks and countries and which methods can be applied in the AML system implementation of local banks in Myanmar.

For data analysis, the multiple regression model is used and determine the relationship between the factors affecting the AML compliance practices of private banks in Myanmar (dependent variables) and management principle or awareness on AML risk, AML knowledge of the workforce, technology support and enforcement of AML regulations for banks (independent variables).

4.2 Demographic Characteristics of Respondents

The survey includes excluding missing values of response and demographic characteristics of 146 respondents out of 150 respondents are classified based on gender, age, education level, current position, working experience and working department, as shown in Table (4.1). Since Anti-Money Laundering process was overseen by compliance department, which is second line of defense, most of the respondents are from compliance department (86% of the respondents). About 73% of the respondents are female and most of the respondents are in middle level management like Assistant Manager (32%) and Manager (22%) and Senior Manager (20%) positions respectively. Around 58% of the respondents have working experience of up to 5 years, 55% are university graduates and their age are mostly 31-40 years (39%) and 21 to 30 years (35%).

Table (4.1) Demographic Characteristics

Demographic Data	Particular	Respondent (N)	Percent (%)
Gender	Female	107	73
	Male	39	27
Age	21 to 30 years	51	35
	31 to 40 years	57	39
	41 to 50 years	34	23
	Above 50 years	4	3
Education Level	University graduate	81	55
	Post graduate diploma	11	8
	Master degree	54	37
Current Position	Operational employee	11	8
	Assistant Supervisor/ Supervisor	28	19
	Assistant Manager	46	32
	Manager	32	22
	Senior manager	29	20
Year(s) of working experience	Less than 1 year	33	23
	1 to 2 years	14	10
	3 to 5 years	15	10
	More than 5 years	84	58
Working Department	Compliance	126	86
	Financial Management	4	3
	International trade	4	3
	Remittance	5	3
	IT	7	5
	Total	146	100

Source: Survey Data, 2022

4.3 Reliability Analysis of the Variables

The Cronbach's alpha value is used to conduct the reliability analysis of the variables and it determine the dependability of constructed questions in each factor.

Table (4.2) Reliability Analysis of the Variables

Sr. No.	Particular	Cronbach's Alpha	No of Items
1	Management Principle on AML Risk	.879	7
2	AML Knowledge of the Workforce	.706	6
3	Technology Support	.894	7
4	Regulatory Enforcement	.847	6
5	AML Compliance Practice	.807	6
	Overall reliability	.826	32

Source: SPSS Output, 2022

Based on the results from Table (4.2), management principle factor consists of 7 items, AML knowledge of the workforce comprises of 6 factors, technology support includes 7 items, regulatory enforcement includes 6 items and the AML compliance practice of the bank consists of 6 items and there are total of 32 items. The overall Cronbach's Alpha value is 0.826 and most of the factors receive the coefficient Cronbach's alpha value of over 0.8, which shows that the survey questions constructed, have good consistency.

4.4 Descriptive Statistics for Variables

Based on the previous studies and conceptual framework, the factors affecting the AML compliance practices of the bank is studied based on management principle on AML risk, AML knowledge of the workforce, technology support, and regulatory enforcement. Each factor is measured by the mean value statistics model (Best, 1997). Based on the model, if mean value is greater than 3.40, respondents have high compliant on a given statement. If the mean value less than 2.61, respondents have low compliant on a given statement. If the mean value is between 2.61 to 3.40, the respondents cannot decide anything concerned with the statement given in questionnaires.

Rating Scale

Score	Opinion
1.00 - 1.80	Very Low
1.81 - 2.60	Low
2.61 - 3.40	Moderate
3.41 - 4.20	High
4.21 - 5.00	Very High

Management Principle on Anti-Money Laundering Risk

The management principle on AML risk is measured by seven factors such as the management's knowledge about AML, awareness on the money laundering risk, review of the compliance report, investment on AML program, money laundering incidents in bank and implementation of AML policies and procedures. The result of the management principle on AML risk are presented in Table (4.3).

Table (4.3) Management Principle on AML Risk

Sr. No.	Statements	Mean Value	Standard Deviation
1	Management knows great extent about Anti-Money Laundering (AML)	3.73	0.58
2	Management is very well aware of the money laundering risk	3.84	0.45
3	Management reviews the compliance report regularly	3.68	0.55
4	Management makes sure the Bank provide necessary reports to regulators correctly and on timely manner	3.75	0.57
5	Management invest in anti-money laundering program	3.69	0.56
6	The Bank experienced money laundering incidents or occurrences very often	3.71	0.57
7	The Bank implement AML policies & procedures to a great extent	3.73	0.52
	Average	**3.73**	

Source: Survey Data, 2022

According to the Table (4.3), management awareness of the AML risk has the highest mean score of 3.84 and small standard deviation and the frequency of money laundering incidents of the bank has the lowest mean score of 3.71. However, the overall mean score of management principle is 3.73, which mean that most of the banks has strong management principle on the money laundering risk and management set up principle around anti-money laundering compliance practice to a great extent.

Anti-Money Laundering Knowledge of the Workforce

AML Training is one of the important areas to measure the knowledge of the workforce. The main component of AML function at the banks includes customer due diligence, customer risk assessment, sanction screening and transaction monitoring and understanding of law and regulations. The result of the area of AML training is mentioned in Table (4.4).

Table (4.4) AML Knowledge of the Workforce

Sr. No.	Statements	Mean Value	Standard Deviation
1	Anti-money laundering training covers to make proper screening of Customer Due Diligence (CDD)	3.62	0.52
2	Anti-money laundering training covers the customer risk assessment.	3.56	0.67
3	Anti-money laundering training cover the name screening	3.57	0.65
4	Anti-money laundering training covers how to monitor doubtful AML Transactions	3.49	0.66
5	Management provides proactive training for AML/CFT issues reporting	3.43	0.62
6	Anti-money laundering training involves the Laws & Regulation relating to AML.	3.52	0.62
	Average	**3.53**	

Source: Survey Data, 2022

Based on the results from Table (4.4), most organization covers customer due diligence topic in their AML training with mean value of 3.62, followed by name screening, mean value of 3.57 and customer risk assessment topic, mean value of 3.56 with small standard deviation. The overall mean score is 3.56, which mean that most of the banks has strong opinion on required AML knowledge training and the staffs or workforce attended trainings which cover most of the mandatory AML related topics.

Technology Support

The technology support is measured by the functionality of the bank's core banking system, its efficiency, availability of customer information and degree of system support for compliance function.

Table (4.5) Technology Support

Sr. No.	Statements	Mean Value	Standard Deviation
1	Bank's core banking system support for compliance function	3.64	0.61
2	Bank's core banking system maintain all the mandatory customer information	3.77	0.50
3	Bank's core banking system generate the transactions information upon request	3.64	0.56
4	Bank legitimates policies to monitor AML in virtual currency	3.69	0.59
5	Bank monitors suspicious electronic payment transactions which may have connection to organized crime gangs.	3.63	0.58
6	The organization's AML/CFT department scrutinizes digitized information.	3.64	0.60
7	AML/CFT department use automatic system for monitoring customers information and transactions	3.66	0.54
	Average	**3.67**	

Source: Survey Data, 2022

According to Table (4.5), the ability to maintain all the mandatory customer information has the highest mean value of 3.77 and the mean of monitoring of suspicious electronic payment transactions, which may have connection to organized crime gangs has lowest value of 3.63. The overall mean score is 3.67, which proved that the respondents believe that they received the high technology support in their banks to perform their job functions well.

Enforcement of Anti-Money Laundering Regulations for Banks

The regulatory enforcement of AML regulations at banks depends on the bank's awareness of update laws and regulations, the managers' response to the update laws and regulations, the establishment of clear roles, responsibilities and risk appetite statements of the bank, which strengthens the compliance culture of the bank, and the bank's AML policies and procedures coverage.

Table (4.6) Regulatory Enforcement

Sr. No.	Statements	Mean Value	Standard Deviation
1	The Bank is aware of the update laws and regulations.	3.50	0.57
2	The managers response of the update laws and regulations.	3.36	0.62
3	Bank has clearly defined and demarcated clear roles and responsibilities to build strong compliance culture with AML.	3.50	0.72
4	Bank has clearly defined risk appetite statement to build strong compliance culture.	3.60	0.62
5	Bank has written AML policies and procedures for monitoring risks and performance.	3.81	0.49
6	Bank maintains adequate policies and procedures for suspicious activity findings in AML.	3.79	0.54
	Average	**3.67**	

Source: Survey Data, 2022

Table (4.6) mentioned that the bank's AML policies and procedures for monitoring risks and performance has the largest mean value of 3.81 and the managers' response of update AML laws and regulations has the lowest mean value of 3.36. The overall mean value is 3.67, which mentioned that the respondents believe that their banks have high regulatory enforcement on non-compliance of certain laws, regulations and policy requirements.

Anti-Money Laundering Compliance Practices

Anti-Money laundering compliance practice is measured by factors such as customer screening and know your customer (KYC) policy, prudential accounting and reporting system, monitoring of large value transactions, customized AML training, independent audit testing of

AML program and designation of AML compliance officer to manage compliance program as mentioned in Table (4.7).

Table (4.7) AML Compliance Practice

Sr. No.	Statements	Mean Value	Standard Deviation
1	Bank has issued customer screening/KYC policies	3.86	0.58
2	There are prudential accounting and reporting system in the bank.	3.90	0.44
3	Monitoring of transaction is made for the one who transact over the 100-million-kyat bank transaction.	3.87	0.53
4	Bank has customized regular AML training for different audiences within the institution.	3.87	0.52
5	Bank has independent audits and testing of AML program on a periodic basic.	3.75	0.59
6	Bank has designated AML compliance officer to manage the compliance program for the organization.	3.77	0.59
	Average	**3.84**	

Source: Survey Data, 2022

According to the figures in Table (4.7), the prudential accounting and reporting system in the bank has largest mean value of 3.90 and the independent audits and testing of AML program has the lowest mean value of 3.75. The overall mean value is 3.84, which is within the high range meaning that most of the private banks are comply with necessary AML compliance practices.

4.5 Analysis on Factors Affecting the Anti-Money Laundering Compliance Practices

Pearson Correlation analysis method is used to analyze the relationship between AML compliance practice of the bank and its contributing factors as mentioned in Table (4.8).

Table (4.8) Pearson Correlation Analysis

	Pearson Correlation	**Sig. (2-tailed)**
AML Compliance Practice	1	
Management Principle on AML Risk	.551**	.000
AML Knowledge of the Workforce	.351**	.000
Technology Support	.515**	.000
Regulatory Enforcement	.539**	.000

Source: SPSS Output, 2022

According to the Table (4.8), the management principle is the most significant and positive factor and it has moderate relationship with AML compliance practice of the bank (P<0.1, r=0.551), followed by regulatory enforcement (P<0.1, r=0.539), and technology support (P<0.1, r=0.539). For AML knowledge of the workforce (P<0.1, r=0.351), the factor has only fair relationship with AML compliance practice, which pointed out that providing training only is not enough to implement good AML compliance practice and it require contribution from other factors in addition to the training.

In addition, multiple regression analysis can explain the overall variation towards AML compliance practice of the private banks based on management principle, AML knowledge of the workforce, technology support and regulatory enforcement. The output generated from multiple linear regression model is shown in Table (4.9).

Table (4.9) Multiple Regression Analysis of the Variables

AML Compliance Practice	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.496	.182		13.734	.000
Management Principle on AML Risk	.264**	.124	.388	2.117	.036
AML Knowledge of the Workforce	.208***	.080	.292	-2.606	.010
Technology Support	.076	.102	.119	.747	.457
Regulatory Enforcement	.522***	.077	.348	2.903	.004
R	.720[a]				
R Square	.519				
Adjusted R Square	.509				
F	19.852**				
*p <= 0.10. **p < 0.05. ***p < 0.01.					

Source: SPSS Output, 2022

Based on the Table (4.9), the coefficient of determination (Adjusted R^2) is 0.509. It reveals that the 50.9% of the total variation of AML compliance practice is explained by the factors namely management principle, AML knowledge of the workforce, technology support and regulatory enforcement. The value of F-test, the overall significance of the models, came out moderately significant at 1% level. The F value is significant at 1% (P<1%, F = 19.852). This significant F value indicates the validity of the selected conceptual model used in this study of factors affecting the anti-money laundering compliance practices of the private banks.

The AML practice variable in terms of regulatory enforcement and AML knowledge of the workforce factors change are positively correlated, and its significant value is significant at 1% level (r = 0.522, p<0.01) and (r = 0.208, p<0.01) respectively. If the bank focus more on regulatory enforcement, the AML compliance practice will be improved by 52.2% whereas the increase in AML knowledge of the workforce can increase the AML practice by 20.8%. In addition, the significant value of management principle is significant at 5% level (r = 0.264, p<0.05), which means that the improvement in management principle can lead to 26.4%

increase in AML compliance practice of the bank. Technology support factor has poorly and positively correlated with AML compliance practice and its significant value is not significant.

The analysis can also explain the overall variation towards AML compliance practice of the private banks based on management principle, AML knowledge of the workforce, technology support and regulatory enforcement. Among the factors, the regulatory enforcement can impact most significantly on AML compliance practice of the banks.

CHAPTER 5

CONCLUSION

This chapter provides conclusion of the study areas of factors affecting the anti-money laundering compliance practices of private bank in Myanmar. This chapter comprises of findings, recommendations, and suggestions of the study and the last part is the need for the further study.

5.1. Findings and Discussion

In the analysis of the demographic profiles of respondents, gender composition, age range, education level, current job position and department, and working experience were covered. During the analysis, the 146 respondents are sampled by using two stage random sampling to get the required data. According to the results, most of the respondents are female, between the age of 31-40 years, assistant manager level, followed by manager and senior manager level respectively, which shows that their current position and age are consistent. In addition, most of the respondents have working experience of more than 5 years and most of the respondents are from compliance department and the education level of the majority of respondents are university graduates.

Concerning with the factors, the high overall mean value in management principle and AML knowledge of the workforce indicates the majority of respondents believe that their bank has strong management principle on AML risk, and the AML training cover all the mandatory AML topics and the training is provided to large number of staffs. Moreover, the technology support and regulatory enforcement also has high overall mean value, indicating that most of the respondents received good technology support regarding with their core banking system and most banks have high regulatory enforcement. The overall mean value of AML compliance practice of the bank indicates that most of the bank has high level of AML compliant based on the Myanmar laws and regulations.

In addition, factors such as management principle on AML risk, technology support and regulatory enforcement have positive and moderately significant correlation with anti-money laundering compliance practice of the bank. Among the independent variable, management principle on AML risk have most significant impact on AML compliance practice of the banks than other three variables. The correlation of the knowledge of the workforce also has positive correlation but the significant level is fair as the value is a bit less than the other factors since AML training alone cannot improve the level of AML compliance practice of the bank and it require combination of other factors. However, the significant value showed that regulatory enforcement has most significant value, followed by management principle and AML knowledge of the workforce. The technology support factor is not quite significant.

5.2. Recommendations and Suggestions

Based on the findings, regarding with management principle of AML risk, most of the banks' management already have awareness of the AML risk but management is required to invest more in AML program and review the compliance report more regularly, which can mitigate the AML risk and improve the AML practice of the bank.

Regarding with AML knowledge of the workforce, the banks are a bit weak in providing proactive training for AML/CFT issue reporting and the training is followed after the AML incidents has happened and the training content is required to focus more on monitoring doubtful AML transactions.

In addition, in term of technology support, even though most of the banks core banking system can maintain all the mandatory customer information and generate necessary report that can cover the minimum regulatory requirements, there are still some banks which does not have good core banking system and have some limitation in generating few other reports upon request. There are also limitations on customer information such as suspicious electronic payment transactions connected to organized crime gangs, and some digitalized information and inadequate system support for compliance function since only a handful of banks have AML software solutions.

The banks also have high regulatory enforcement for some minimum requirements instructed by regulators and internal policy but it still in progress to reach to international level. Most of the private banks has written AML policies and procedures for monitoring risk and performance but there are some weakness in mangers' response of the update laws and regulations and awareness of update laws and regulations since only the few of them are available on public database and only few banks has clearly defined the roles and responsibilities of the second and third line of defense which are vital to build strong compliance culture of anti-money laundering.

Moreover, the AML practice of most of the bank shows high compliance level based on the areas such as customer screening and KYC policies of the bank, the prudential accounting and reporting system, the monitoring of high value threshold transactions, the availability of customized regular AML training for different target audiences, independent audit and testing of AML program periodically and assignment of designated AML compliance officer, Furthermore, it is found out that three out of four factors have significant relationship with the AML compliance practice of the bank. Researcher could make suggestion that, in order to improve the AML compliance practice of the bank, it should focus on the regulatory enforcement, which can improve very high percentage to the AML compliance practice, followed by management principle and the knowledge of the workforce. The technology is not significant and it can be due to the fact that most banks in Myanmar are not quite aware of the great impact of technology support unlike those banks in other countries and most of the banks are still focus on manual process rather than automatic process and the banks should explore how much technology can improve the functionality of the bank in many areas in the future.

5.3 Needs for Further Studies

There are 19 private commercial banks in Myanmar. The research only focuses the answers of respondents from 15 private banks. There are other state-owned, semi-government, other private banks and foreign banks in Myanmar. The study limited only the 50% of the compliance staffs at 15 private banks, which provide full banking services and products. This study only focuses on limited number of banks, and operations and compliance staffs. For the further studies should be extended to larger numbers of bank operation staffs. There can be also many other factors that can impact the anti-money laundering practices of the bank.

Further studies should be extended into other factors such as governance, disciplinary action from regulators, the capacity of the compliance officer, the cooperation between different regulators, continuous improvement and testing, internal and external audit etc. and wider number of banks in Myanmar. The governance is the foundation to build the strong management principle since it includes establishment of good risk and compliance culture which mentions proper roles and responsibilities of each department and build a comprehensive organization chart. The disciplinary action and the cooperation between different regulators can contribute a lot to improve the level of AML compliance since the weak in cooperation leads to discrepancy of regulations and instructions from different regulatory institutions and the banks and financial institutions are not clear about the minimum regulatory requirements and there can be certain regulation loopholes. The capacity of the compliance officer and continuous improvement and testing of AML practices are also vital to find out the level of AML compliance and internal and external auditors, who are third line of defense of the bank to look for certain gaps in the AML practices of the banks.

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APPENDIX-1

SURVEY QUESTIONNAIRE

Factors Affecting the Anti-Money Laundering Compliance Practices of Private Banks in Myanmar

Dear Sir/ Madam,

I am conducting a study on the “Factors Affecting the Anti-Money Laundering Compliance Practices of Private Banks in Myanmar”. This research study aims at using for academic purposes in the Master of Banking and Finance program. All the answers will be kept confidential. I am very pleased with your kind participation.

Thank you for sharing the valuable time to fill out this questionnaire.

Ms. Hsu Thiri Tun

Roll No. 24

MBF Day 2nd Batch

Yangon University of Economics

Part (A) Demographic Profiles of respondents

1. **Gender of Respondents**
   - ☐ Male
   - ☐ Female
2. **Age of Respondents**
   - ☐ Below 20 years
   - ☐ 21~30 years
   - ☐ 31~40 years
   - ☐ 41~50 years
   - ☐ Above 50 years
3. **Education Level**
   - ☐ High School level
   - ☐ University student
   - ☐ University graduate
   - ☐ Post graduate diploma
   - ☐ Master degree
   - ☐ Doctorate

4. **Current Position**
   - ☐ Operational Employee
   - ☐ Assistant Supervisor/ Supervisor
   - ☐ Assistant Manager
   - ☐ Manager
   - ☐ Senior Manager
   - ☐ Deputy General Manager
   - ☐ General Manager
   - ☐ Bank Director
5. **How long have you been working in this bank?**
   - ☐ Less than 1 year
   - ☐ 1 ~ 2 years
   - ☐ 3 ~ 5 years
   - ☐ More than 5 years
6. **Please indicate the department you are working in**
   - ☐ Compliance
   - ☐ Saving and deposit
   - ☐ Remittance
   - ☐ Loan
   - ☐ Card department
   - ☐ International trade
   - ☐ Corporate finance
   - ☐ Risk management
   - ☐ IT
   - ☐ Others

Section (B) Anti-money Laundry (AML) Awareness of Bank Employees

7. **How many staffs are there in compliance department?**
   - ☐ 1 to 5
   - ☐ 6 to 10
   - ☐ 11 to 15
   - ☐ More than 15

8. Please answer the following general questions related to AML/CFT awareness.

	Yes	No
Does the Bank regularly provide anti-money laundering training?	☐	☐
Does the Bank have core banking system?	☐	☐
Does the Bank use Core Banking Software to monitor customer accounts?	☐	☐
Does the Bank receive the update laws and regulations upon issuance?	☐	☐
Does the Bank management review on anti-money laundering policy and procedures regularly?	☐	☐

9. How often the Bank provide anti-money laundering training?

- ☐ Weekly
- ☐ Monthly
- ☐ Quarterly
- ☐ Annually
- ☐ Other:

10. Does the anti-money laundering training provide to the following groups?

	Yes	No
Board and Senior Management	☐	☐
1st Line of Defense (Front Line Staffs)	☐	☐
2nd Line of Defense (Risk & Compliance Staffs)	☐	☐
3rd Line of Defense (Internal Audit Staffs)	☐	☐

11. How the Bank perform the customer risk assessment?

- ☐ Manual
- ☐ Automatic
- ☐ Combination method
- ☐ Other:

Section (C) Descriptive Analysis on Anti-money Laundry Practices of Bank

Please rate the most appropriate score on the factors affecting the anti-money laundering compliance practices.

No Extent	**Little Extent**	**Neutral**	**Great Extent**	**Very Great Extent**
1	2	3	4	5

Management Principle on AML Risk:

Sr. No.	**Management Principle on AML Risk**	**1**	**2**	**3**	**4**	**5**
1	Management know about Anti-Money Laundering (AML)	1	2	3	4	5
2	Management is very well aware of the money laundering risk	1	2	3	4	5
3	Management reviews the compliance report regularly	1	2	3	4	5
4	Management makes sure the Bank provide necessary reports to regulators correctly and on timely manner	1	2	3	4	5
5	Management invest in anti-money laundering program	1	2	3	4	5
6	The Bank experienced money laundering incidents or occurrences very often	1	2	3	4	5
7	The Bank implement AML policies & procedures to a great extent	1	2	3	4	5

AML Knowledge of the Workforce:

Sr. No.	Knowledge of the Workforce	1	2	3	4	5
1	Anti-money laundering training covers to make proper screening of Customer Due Diligence (CDD)	1	2	3	4	5
2	Anti-money laundering training covers the customer risk assessment.	1	2	3	4	5
3	Anti-money laundering training cover the name screening	1	2	3	4	5
4	Anti-money laundering training covers how to monitor doubtful AML Transactions	1	2	3	4	5
5	Management provides proactive training for AML/CFT issues reporting	1	2	3	4	5
6	Anti-money laundering training involves the Laws & Regulation relating to AML.	1	2	3	4	5

Technology Support:

Sr. No.	Technology Support	1	2	3	4	5
1	Bank’s core banking system support for compliance function	1	2	3	4	5
2	Bank’s core banking system maintain all the mandatory customer information	1	2	3	4	5
3	Bank’s core banking system generate the transactions information upon request	1	2	3	4	5
4	Bank legitimates policies to monitor AML in virtual currency	1	2	3	4	5
5	Bank monitors suspicious electronic payment transactions which may have connection to organized crime gangs.	1	2	3	4	5

6	The organization's AML/CFT department scrutinizes digitized information.	1	2	3	4	5
7	AML/CFT department use automatic system for monitoring customers information and transactions	1	2	3	4	5

Regulatory Enforcement:

Sr. No.	**Regulatory Enforcement**	**1**	**2**	**3**	**4**	**5**
1	The Bank is aware of the update laws and regulations.	1	2	3	4	5
2	The managers response of the update laws and regulations.	1	2	3	4	5
3	Bank has clearly defined and demarcated clear roles and responsibilities to build strong compliance culture with AML.	1	2	3	4	5
4	Bank has clearly defined risk appetite statement to build strong compliance culture.	1	2	3	4	5
5	Bank has written AML policies and procedures for monitoring risks and performance.	1	2	3	4	5
6	Bank maintains adequate policies and procedures for suspicious activity findings in AML.	1	2	3	4	5

AML Compliance Practices:

Sr. No.	AML Practices	1	2	3	4	5
1	Bank has issued customer screening/KYC policies	1	2	3	4	5
2	There are prudential accounting and reporting system in the bank.	1	2	3	4	5
3	Monitoring of transaction is made for the one who transact over the 100-million-kyat bank transaction.	1	2	3	4	5
4	Bank has customized regular AML training for different audiences within the institution.	1	2	3	4	5
5	Bank has independent audits and testing of AML programmes on a periodic basic.	1	2	3	4	5
6	Bank has designated AML compliance officer to manage the compliance program for the organization.	1	2	3	4	5

APPENDIX 2

SPSS OUTPUT 22

Reliability Statistics		
	Cronbach's Alpha	N of Items
Management Principle on AML Risk	.879	7
Reliability Statistics		
	Cronbach's Alpha	N of Items
Knowledge of the Workforce	.706	6
Reliability Statistics		
	Cronbach's Alpha	N of Items
Technology Support	.894	7
Reliability Statistics		
	Cronbach's Alpha	N of Items
Regulatory Enforcement	.847	6
Reliability Statistics		
	Cronbach's Alpha	N of Items
AML Compliance Practice	.807	6

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.720[a]	.519	.509	.2325	1.245
a. Predictors: (Constant), Enforcement, AML Knowledge of the Workforce, Technology Support, Management Principle on AML Risk					
b. Dependent Variable: Compliance					

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.293	4	1.073	19.852	.000[b]
	Residual	7.624	141	.054		
	Total	11.917	145			
a. Dependent Variable: AML Compliance Practice						
b. Predictors: (Constant), Regulatory Enforcement, AML Knowledge of the Workforce, Technology Support, Management Principle on AML Risk						

Descriptive Statistics			
	Mean	**Std. Deviation**	**N**
AML Compliance Practice	3.820	.2867	146
Management Principle on AML Risk	3.720	.4224	146
Knowledge of the Workforce	3.531	.4016	146
Technology Support	3.668	.4483	146
Regulatory Enforcement	3.594	.4481	146

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.496	.182		13.734	.000
	Management Principle on AML Risk	.264	.124	.388	2.117	.036
	Knowledge of the Workforce	.208	.080	-.292	-2.606	.010
	Technology Support	.076	.102	.119	.747	.457
	Regulatory Enforcement	.522	.077	.348	2.903	.004
a. Dependent Variable: AML Compliance Practice						

Coefficients[a]					
AML Compliance Practice	**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
	B	**Std. Error**	**Beta**		
(Constant)	2.496	.182		13.734	.000
Management Principle on AML Risk	.264**	.124	.388	2.117	.036
AML Knowledge of the Workforce	.208***	.080	.292	-2.606	.010
Technology Support	.076	.102	.119	.747	.457
Regulatory Enforcement	.522***	.077	.348	2.903	.004
R	.720[a]				
R Square	.519				
Adjusted R Square	.509				
F	19.852**				

Correlations						
		AML Compliance Practice	Management Principle on AML Risk	Knowledge of the Workforce	Technology Support	Regulatory Enforcement
AML Compliance Practice	Pearson Correlation	1	.551**	.351**	.515**	.539**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	146	146	146	146	146
Management Principle	Pearson Correlation	.551**	1	.777**	.904**	.812**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	146	146	146	146	146
Knowledge of the Workforce	Pearson Correlation	.351**	.777**	1	.740**	.729**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	146	146	146	146	146
Technology Support	Pearson Correlation	.515**	.904**	.740**	1	.752**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	146	146	146	146	146
Regulatory Enforcement	Pearson Correlation	.539**	.812**	.729**	.752**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	146	146	146	146	146

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