FACTORS INFLUENCING ADOPTION OF ANTI MONEY LAUNDERING REGULATIONS BY COMMERCIAL BANKS IN KENYA

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Reg. No: 16/03445

A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTERS OF SCIENCE IN COMMERCE IN THE SCHOOL OF BUSINESS AND PUBLIC MANAGEMENT AT KCA UNIVERSITY

SEPTEMBER 2018

DECLARATION

I declare that this dissertation is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due reference is made and author duly acknowledged.

Peter Mwirigi Reg. No. …………………………………..

Signature…………………… Date…..........................

I do hereby confirm that I have examined the master's dissertation of

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ABSTRACT

FACTORS INFLUENCING ADOPTION OF ANTI MONEY LAUNDERING REGULATIONS BY COMMERCIAL BANKS IN KENYA

The objective of this study is to investigate the factors influencing adoption of anti-money laundering regulations by commercial banks in Kenya. The specific objectives of the study were: To determine the influence of legal enforcement mechanisms, institutional capacity, international cooperation and technological advancements on the adoption of anti-money laundering regulations by commercial banks in Kenya. The study adopted descriptive design and the target population was 42 commercial banks in Kenya. A sample of 84 respondents (two managers from each bank) was used in this study. Self-administered questionnaires were used to collect primary data which was later analyzed using descriptive statistics and multiple regression analysis. The study found that commercial banks are faced with money laundering problems. However, the banks have implemented the anti-money laundering policies to a great extent. Legal enforcement mechanisms, institutional capacity, international cooperation and technological advancements affect the adoption of AML regulations in their banks to great extents. The study concludes that legal enforcement mechanisms contributes more to the increase of adoption of AML regulations in commercial banks followed by technological advancements, then international cooperation while institutional capacity contributes the least to the adoption of AML regulations in commercial banks. The study recommends that there is need to strengthen the legal enforcement mechanisms on the adoption money laundering regulations. The banks management should offer staff training on anti-money laundering issues. There is need to monitor keenly the online services and exercise of oversight by jurisdictions chartering internet banking. There is need to develop and adopt use of advanced technologies to enhance adoption of AML regulations.

Keywords: Legal enforcement mechanisms, institutional capacity, international cooperation, technological advancements, anti-money laundering regulation

ACKNOWLEDGEMENT

I am sincerely grateful to Almighty God for taking me through this research dissertation journey. I would like to express my heartfelt gratitude to my supervisor, Dr Michael Njogo for support, excellent feedback, meticulous editing and encouragement on this journey.

Thank you so much, God bless you.

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DEDICATION

I would like to dedicate this Research Project to my spouse; Bilha Wanjiru who has given me unwavering support to ensure that my learning is smooth.

Special dedication goes to my lovely daughter Levana Njeri for giving me company as I worked on my dissertation on my weekends and understanding my absence as I pursued course work.

I pay glowing gratitude and tribute to my late father Moses Mwirigi and to my Mom Mary Njeri for their great encouragement and always being proud to see me pursue higher education.

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ACRONYMS AND ABBREVIATIONS

AML	Anti-Money Laundering
BIS	Bank of International Settlements
CBK	Commercial Bank of Kenya
DoS	Department of State
FATF	Financial Action Task Force
FCA	Financial Conduct Authority
FICA	Financial Intelligence Centre Act
FIU	Financial Intelligence Unit
FSF	Financial Stability Forum
GDP	Gross Domestic Product
HKD	Hong Kong Dollars
IMF	International Monetary Fund
KBA	Kenya Bankers Association
KYC	Know Your Customer
ML	Money Laundering
NCCTs	Non Cooperative Countries and Territories
SPSS	Statistical Package for Social Sciences
US	United States
USD	United States Dollar

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Money launderers are employing increasingly sophisticated techniques, through a variety of transactions and firms in order to legitimize the benefits of crime (Viritha, Mariappan & Venkatachalapathy, 2015). To combat money laundering activities, commercial banks have been given a greater role by Anti- Money Laundering legislations (Dan, 2009). The financial services industry provides an important means through which ‘dirty money’ can be laundered. New technologies such as the internet offer speed and anonymity, potentially providing distance between launderer and law enforcement. A dramatic increase in the use of offshore financial centers and less well-regulated jurisdictions highlights the alternative channels that can facilitate the laundering process (Sullivan, 2015).

Usman (2014) noted that financial institutions and more specifically banks are the preferred channel for criminals to launder their money. This is mainly because banks provide a variety of services and instruments such as bank drafts, fund transfers (domestic and international), foreign correspondent accounts, etc. which can be used to relocate funds with the appearance of legitimacy. In addition, the spread of banks worldwide and the advancement in technology has provided a safer, faster and easier way to transfer money across the globe, thereby making the origins of money difficult to be traced back (Subbotina, 2009). Further, the banks offer their services at a relatively low cost. Thus banks are often victims of this crime and consequently lose their reputation in the market.

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 (Mugarura, 2016). The threat of money laundering is politically, economically, and socially constructed (Duyne, 2014). International efforts to combat money laundering have gained momentum in the past decade. One United Nations Convention and another planned convention, along with numerous multilateral governmental initiatives and bilateral agreements, have contributed to the development of a broad set of national and international legal standards (Ping, 2010).

1.1.1 Anti- Money Laundering Regulation

Van Schoor (2012) defines money laundering as the conversion of assets generated from criminal activity into assets that cannot be traced back to the underlying crime. According to Michael (2010), money laundering is generally associated with criminal activity or corruption, with the intention of disguising the money’s origin of income so that the money generated can be used '"legitimately”. Ohanyere (2013) view money laundering as the procedure by which the proceeds of illegal acts are converted into apparently legal activities, thus concealing their criminal origin. This means that the source of this fund (illegal money) is obscured through a succession transfers and deals that those same funds can eventually be made to appear as good money. Money laundering is done so that criminals can use their illicit profits in the open economy (Kern, 2011).

Money laundering is traditionally separated into three stages: Placement is the process of transferring the proceeds from illegal activities into the financial system in a way that financial institutions and government authorities are not able to detect (Lilley, 2016).

Layering is the process of generating a series or layers of transactions to distance the proceeds from their illegal source and to obscure the audit trail. Common layering techniques include outbound electronic funds transfers, usually directly or subsequently into a “bank secrecy haven” or a jurisdiction with lax record-keeping and reporting requirements, and withdrawals of already placed deposits in the form of highly liquid monetary instruments, such as money orders or travelers checks (Hopton, 2016) and Integration, the final money-laundering stage, is the unnoticed reinsertion of successfully laundered, untraceable funds into an economy. This is accomplished by spending, investing and lending, along with cross-border, legitimate-appearing transactions (Amali, 2016).

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 surface legal activities such as international trade and illegal activities such as underground banks and shell companies as well. Goredama (2014) indicated that 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 (David, 2011). The International Monetary Fund (IMF, 2015) estimated money laundering at 2-5% of world GDP but few others have made an attempt to quantify global money laundering.

According to Financial Action Task Force - FATF (2016), Anti-Money Laundering (AML) can be defined as an activity which prevents, or aims to prevent 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 (BCBS, 2016). 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. As it rewards corruption and crime, successful money laundering damages the integrity of the entire society and undermines democracy and the rule of the law (Lilley, 2016).

Okogbule (2017) indicated that 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. Unsound banking systems are clearly exposed to money laundering activities. When the banking sector is not transparent, regulations are not well established, and government monitoring is lax, the opportunities to launder money flourish (Amali, 2016). The main global body in the fight against money laundering is the Financial Action Task Force (FATF), which the Group of Seven set up at the 1989 Economic Summit in Paris (BCBS, 2016).

In Kenya, the Central Bank has placed greater emphasis in development of the national payment system focusing primarily on the need to achieve an efficient, safe and reliable payments infrastructure (Mugarura, 2017). Since commercial banks and other financial institutions are the first port of call for money launderers, the Central Bank developed its ability to strengthen defenses against those who seek to abuse the financial system for illegal activities (FATF, 2011). Appropriate legislation and institutional infrastructure was developed alongside the adoption of the necessary technology to achieve real time gross settlement by modernizing and bringing the country's national payments systems to international standard and best practice (Turner, 2011).

1.1.2 Factors influencing adoption of Anti money Laundering Regulations

Anti-money laundering law is necessary because money laundering tends to corrupt even the most professional players in the market (Qorchi, Munzele & Wilson, 2013). In the wake of high-profile corporate scandals as well as new regulations, commercial banks are increasingly aware of the need to create company-specific AML and Anti-fraud measures to address internal corporate fraud and misconduct (Viritha *et al.*, 2015). For a variety of reasons including the increasing number of lawsuits, organisations are focusing a great deal of attention to policies that minimize risk, avoid liabilities and ensure safety of organisation and employees (David, 2011). Once policies and procedures are strictly followed, the organisation is able to free itself from any arising operational issues, be they legal or otherwise and avoid incurring unnecessary costs.

Irwin *et al.*, (2011) pointed that potential negative macroeconomic consequences of unchecked money laundering, one can cite inexplicable changes in money demand, prudential risks to bank soundness, contamination effects on legal financial transactions, and increased volatility of international capital flows and exchange rates due to unanticipated cross-border asset transfers (Dan, 2009). The international effort to develop and implement effective anti-money laundering controls has been marked by the persistent, ever present need to balance, on the one hand, the interests of government in access to financial records and even affirmative disclosure of suspicious activity, against, on the other hand, the interests of financial institutions in being free from unduly burdensome regulation, along with the interests of their customers in maintaining an appropriate degree of financial privacy (Viritha *et al.*, 2015).

According to Hopton (2016), most countries have established a Financial Intelligence Unit (FIU) or have taken other measures to avoid ending up on the list of Non cooperative countries and territories (NCCT's) issued by FATF, originally established by the G7 in 1989 and currently comprising 31 countries (who aim to make the international financial system hostile to money laundering. Money laundering has become a growth industry, involving a large number of non-governmental, multilateral, intergovernmental and supranational organizations. The Bank of International Settlements (BIS), the OECD, the G- 8, G-20, EU members' finance and justice ministers, several departments in the United Nations, the World Bank, the International Monetary Fund (IMF), and the Financial Stability Forum (FSF) are all involved in regulatory efforts designed to assess and reduce money laundering. This has led to a plethora of bilateral and multilateral rules and agreements that have made effective regulation a challenge for all FIUs today (Turner, 2011).

According to Johnson (2012) there is lack of legal enforcement mechanisms in the implementation of AML regulations. Despite robust laws that criminalize money laundering and terrorist financing activities and empower authorities to confiscate assets, prosecutions and convictions have been few, and the rate of confiscation is low (Tupman, 2015). The weaknesses or shortcomings in the general framework, significantly impair the implementation of an effective AML framework (Usman, 2014). Lack of skills, training, and resources often hinders the capacity to establish and maintain FIUs and prevents competent supervisory authorities from conducting adequate oversight of

AML/CFT matters. According to Subbotina (2014) the lack of understanding on the international AML norms by the participants is one of the reasons for failure of financial institutions in Russia in complying with AML regulation.

The current system for global funds transfers is based on old and outdated technology, employed primarily by a shrinking network of correspondent banks (Mugarura, 2016). The foregoing studies (Johnson, 2012; Hopton, 2016; Turner, 2011; Usman, 2014; Subbotina, 2014; Mugarura, 2016) show that there exist a number of factors that affect the adoption of anti money laundering regulations by commercial banks. In this study, the focus will be on legal enforcement mechanisms, staff competence, legal enforcement mechanisms, institutional capacity, international cooperation as well as use of technology in combating money laundering activities.

1.1.3 Commercial Banks in Kenya

A commercial bank is an institution that provides services such as accepting deposits, providing business loans, and offering basic investment products (BCBS, 2016). In Kenya, banking business is regulated by the Banking Act, Cap 488. The banks in Kenya have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banks' interests and addresses issues affecting its members (Central Bank of Kenya, 2015). There are 42 commercial banks in Kenya (CBK, 2017). According to Mwithi and Kamau (2015), banks are however expected to explore new opportunities locally and regionally to maintain growth momentum. The industry has over the past few years enjoyed exponential growth in deposits, assets, profitability and product offering, mainly attributed to automation of services and branch network both locally and regionally. In wake of stiff competition, banks are now focusing on the diverse customer needs and focusing on new markets rather than traditional banking products such as over the counter deposits and withdrawals (CBK, 2017).

Mwithi and Kamau (2015) state that some of the major strategic alliance adopted by most commercial banks in Kenya includes licensing agreement with telecommunications companies to enable clients to make payments directly into any bank accounts using the mobile money transfer platform. Banks are more prone to corporate governance risks than other firms due to the following reasons: heterogeneity of exposures, complexity of their business, high level dependence on technology and the judgment driven nature of their business that increases the scope of managerial entrenchment. Less than two decades (between 2000 and 2015) Central Bank of Kenya has issued major guidelines on corporate governance to commercial banks (CBK, 2017).

Commercial banks are required to 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. They also need to keep pace with the amendments that the Government is implementing on ML through its different agencies. Kenya as a country has put in significant efforts in addressing the phenomenon of money laundering through legislation to protect the integrity and reputation of its banking sector from the effects of criminal activities. The Country has had several amendments since the year 2009 to help improve the management of anti-money laundering risk. However, compliance has not been easy as the costs involved are also high at a time when the level of profitability in the industry is on a decline following introduction of interest rate capping (Alexander, 2016).

1.2 Statement of the Problem

According to the IMF (2015), money laundering averages between $725 billion (Ksh 56.5 trillion) and $1.8 trillion (Kshl40.4 trillion) worldwide. Basel Committee on Banking Supervision – BCBS (2016), noted that money laundering control system enlists the financial services industry as one of the key partners in the combating of money laundering and the suppression of financing of terrorism. The U.S Department of State-DoS (2014) revealed that Kenya does not have an effective AML regime and refers to a major money laundering case in Kenya between 2007 and 2009 where Charterhouse Bank Management committed account irregularities, and evaded taxes, import duties and audit to launder funds to the tune of $500 million (Ksh.40 billion) from 1999 to 2006. Despite the measures adopted by CBK, the government and other stakeholders, the Country has continued being a center of money laundering and claims of unexplained money in the economy.

Michugu, (2016) conducted a study on the impact of anti-money laundering regulations on financial performance of Chase Bank. Mwithi and Kamau (2015) assessed how performance of commercial banks was affected by the implementation of AML regulations in Kenya. Sainah (2015) examined how anti-money laundering risk assessment affected the performance results of commercial banks in Kenya. Njagi (2009) investigated the effectiveness of Know Your Customer (KYC) polices adopted by commercial banks in Kenya in reducing money laundering and fraud incidences. Toroitch (2010) studied the challenges faced by the Central Bank of Kenya in combating money laundering Muriithi (2013) carried out a study on the effect of Anti-Money laundering regulation implementation on the financial performance of commercial banks in Kenya.

These studies did not consider the factors influencing the adoption of AML regulation by commercial banks in Kenya. Although the adoption of anti-money laundering regulation are evident in combating money laundering, it is clear from available studies that the adoption of anti- money laundering regulations has been hampered by some factors which damages the financial institutions, reduces productivity in the economy's real sector and encourages crime and corruption. In spite of this problem, there has been a knowledge gap to establish these factors. It is against this background that this study seeks to fill the existing research gap by studying the factors influencing adoption of anti money laundering regulations by commercial banks in Kenya.

1.3 Research Objectives

1.3.1 General Objective

To investigate the factors influencing adoption of anti money laundering regulations by commercial banks in Kenya

1.3.2 Specific Objectives

i. To determine the influence of legal enforcement mechanisms on the adoption of anti money laundering regulations by commercial banks in Kenya

ii. To explore the influence of institutional capacity on the adoption of anti money laundering regulations by commercial banks in Kenya

iii. To assess the influence of international cooperation on the adoption of anti money laundering regulations by commercial banks in Kenya

iv. To establish the influence of technological advancements on the adoption of anti money laundering regulations by commercial banks in Kenya

1.4 Research Questions

i. What is the influence of legal enforcement mechanisms on the adoption of anti money laundering regulations by commercial banks in Kenya?

ii. What is the influence of institutional capacity on the adoption of anti money laundering regulations by commercial banks in Kenya?

iii. What is the influence of international cooperation on the adoption of anti money laundering regulations by commercial banks in Kenya?

iv. What is the influence of technological advancements on the adoption of anti money laundering regulations by commercial banks in Kenya?

1.5 Significance of the Study

Commercial banks operating in Kenya: The identification of the factors influencing adoption of money laundering regulation in commercial banks will give an insight to the management of banks on what elements are important for their success.

Government Agencies and Policy Makers: Moreover, government agencies and policy makers may use the results to formulate positive national policies on a framework that is relevant and sensitive to the forces influencing adoption of AML regulations the banking industry in Kenya.

Researchers, Scholars and Academicians: The study will provide information to researchers, scholars and academicians on the factors influencing adoption of money laundering regulation in commercial banks and the overall operations of commercial banks. This will expand their knowledge in the banking industry and also identify areas of further study.

1.6 Scope of the Study

This study seeks to investigate the factors influencing adoption of money laundering regulation in commercial banks. In conceptual terms, this study will be limited to determine the influence of legal enforcement mechanisms, institutional capacity, international cooperation and technological advancements on adoption of anti-money laundering in commercial banks. Contextually, the scope of this study will be focused on commercial banks in Kenya. As such the 42 commercial banks will be involved in the study where the management staffs in the Head offices in Nairobi will be sampled. The respondents in the study will include Senior Managers in charge of the banks' affairs at headquarters in the administration department, human resource department, finance department and other departments that participate in anti-money laundering in the banks. Data will be collected using questionnaires. This study will be undertaken between the months of May and September 2018.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This review will focus on the factors influencing adoption of anti money laundering regulations by commercial banks in Kenya. The study research objectives are to establish the process of money laundering in commercial banks and to determine the influence of legal enforcement mechanisms, institutional capacity, international cooperation and technological advancements on adoption of anti-money laundering in commercial banks in Kenya. The other sections covered in this chapter include conceptual framework and operationalization of variables.

2.2 Theoretical Review

A theory is a way of making sense of a disturbing situation; it is a generalization about a phenomenon, an explanation of how or why something occurs. This study is based on systems theory, Walker-The Gravity Model, Transparency-stability theory and Economic Theory.

2.2.1 Systems Theory

Systems theory was proposed in the 1930's by the biologist Ludwig von Bertalanffy and furthered by Ross Ashby in 1964. According to Bertalanffy (1968), systems theory states that a system is composed of complex interacting elements that are open to, and interact with their environments. In addition, they can acquire qualitatively new properties through emergence, thus they are in a continual evolution (Bertalanffy, 1968). When referring to systems, it also generally means that they are self-regulating (they self-correct through feedback). The theory holds that the operations in any functioning entity work jointly as a complete system. The systems theory argues that for any system to fully function, the different sub-systems must function jointly and toward a shared common goal of achieving a set of objectives and set visions respectively. This is the same scenario in the money laundering process. In order for the process to succeed, the different systems should function jointly. One of the core pillars of the system is the stakeholders (Mei & Zhou, 2015).

In money laundering there are two sets of stakeholders critical for any transaction to sail through, the external stakeholders, who are the actual money launders, must take the first initiative and the internal stakeholders who often support the complacency help in concealing the systems (Mei & Zhou, 2015). In this regard, although a few of the systems face challenges in identifying money laundering transactions, a majority of the transactions are detected and concealed by internal personnel and systems (Levi, Halliday & Reuter, 2014). On the other hand, the systems theory application is used in the determination of the different stages of money laundering. Overall, money laundering is actualized in three different stages, namely the placement, the layering, and the integration stages respectively. First, the placement stage includes the placing the illegal money proceeds into the system. This is the stage at which the illegal proceeds from the underground and the shadow economies are enjoined into the financial systems. This is followed by the second stage, named layering. The layering stage includes the concealing of the proceeds in the financial system (Levi, Halliday & Reuter, 2014).

The most common approaches under this concealing strategy is the use of cash conversion strategy, where the existing paper trail is concealed through multiple layers of the cash (Bertalanffy, 1968). In most of the instances, the launders split their cash into different instruments, thus reducing the risks of large transactions being flagged by the financial institutions. The final stage in money laundering is the integration stage. This stage is the final stage that allows for the transfer of the dirty money into the mainstream economy. The integration process is either through the financial institutions support, through faked loans or through their unaware means where the launders use false invoices for export and import proceeds (Murithi, 2013). A critical analysis of the systems theory indicated that a money laundering process could either be affected through the financial institution's unawareness or their complacency. Additionally, it demonstrated that such a process evolves over three fundamental stages. Thus, the theory findings form a strategic basis through which the different stages presence in the Kenya's financial institutions.

2.2.2 The Walker-The Gravity Model

Walker model was first developed by Walker (1994) and was aimed at evaluating money-laundering trends in the Australian market. The theory was strongly built on the Isaac Newton Gravity model. The theory held that money-laundering rates were based on the crime rates in a nation, the level of crime sophistication, and the GDP rates in the nation (Unger & Linde, 2013). In this case, it underscored that in developed nations, such as Australia, there was more sophisticated crime and as such more proceeds under money laundering (Irwin *et al.*, 2011). Nevertheless, it noted that not all laundered money are transferred internationally as domestic institutions at times provide enough cover for such laundered cash.

Unger and Linde (2013) this theory application was further adjusted in evaluating money laundering in Netherlands. In its adjustments, the Walker models definition and scope for money laundering case were expanded. In this regard, it expanded to form the traditional underground economic activities such as drug dealings and crime, to proceeds from the shadow economy such as tax evasion among others (Amali, 2016). The use of the model in the study helps to set the scope for which money-laundering instances in the Kenyan financial industry would be evaluated. As such, the scope includes both the underground economy proceeds as well as the shadow economy proceeds that are laundered through the financial industry institutions.

2.2.3 Transparency Theory

Transparency theory was proposed by Amartya Shrivastav (2015) and assumes Transparency can only be a part of democracies and a democracy can only exist with democracy in place. The theory suggests that greater disclosure and greater transparency facilitates efficient resource allocation by reducing informational asymmetry. But with political advancement and sociological awareness ascendance, it is observed that many non-democratic regimes too have accepted transparency to administer better governance. Assuming accounting information as a public good (Amartya, 2015) and central banks are funded by conscripted taxpayers and investors, then central banks could reasonably produce extensive disclosures to satisfy the informational needs of the public. This notion flies in the face of transparency-fragility theory, which states that greater disclosure may indicate widespread problems in the banking system. Consequently, this situation could create negative externalities, such as runs on money and concerns regarding the financial system‘s vulnerability (Acquaah-Gaisie, 2015).

Based on transparency theory, regulation has now gone beyond the dichotomous language of public authority versus private interests (Michel, 2010). Transparency theory has become apparent that differences between national regulatory requirements have led to distorted consequences. This has prompted regulation across the globe using multi-level governance through a specialized discourse involving specialist epistemic communities, broad financial policy and advocacy networks. Indeed, regulatory action brings about discursive practices by building upon participants shared understandings of problems and solutions (Lilley, 2016). Banking crises are less likely to occur in countries with greater regulated disclosures and transparency. If accounting information is viewed as public good central banks are funded by the public's conscripted taxpayers (and thus conscripted investors) then it is not unreasonable for central banks to produce extensive disclosures to satisfy the information needs of that public. This, of course, flies in the face of transparency-fragility theory which avers that greater disclosure may indicate widespread problems in the banking system which in turn creates negative externalities such as runs on money and concern about the financial system's vulnerability.

As Michel (2010) explains, there is now a global acceptance that the struggle against organized crime cannot be won unless some kind of enforcement is put in place. Such enforcement should be found in the contribution of central banks' extensive disclosure practices (Olasanmi, 2010). The emergence of electronic money, internet bank, internet casino offer criminals wider space to commit money laundering. 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. The basic purpose of any underlying criminal activity concerning money laundering is to eliminate the risks of seizure and forfeiture so that the ultimate goal of enjoying the profits could be realized (Mugo, 2015).

2.2.4 Economic Theory

The economic classical theory proposed by Adam Smith in 1846 identifies two fundamental factors that determine the behavior of individuals (Ekelund & Hebert, 2007). On one hand, every person acts rationally and aims to maximize his personal utility, a principle which is considered for most decision making performed by the individual. Correspondingly, this principle also governs unlawful undertakings aimed at acquiring personal wealth (Yeandle, Mainelli, Berendt& Healy, 2015). While on the other hand, the personal utility of an economic venture is mainly determined by anticipated costs and revenues, which are ruled by demand and supply laws. In this classical realm of Smith, the state of a country does not lie in the hands of the individual or a firm.

According to Goredama (2014), the individual neither plans to promote public interest nor is he even aware of how much he is promoting, as the intention is for his corresponding security. In other cases, individuals or firms are led by an unseen hand toward a goal that was not the original intention, and thus, the government should protect people from violence and injustice. Ekelund and Hebert, R. (2007) proposed the observable and unpretentious system of natural liberty. In such system, an individual can be left alone to follow his interests according to his ways, provided that he does not violate the laws of justice, and to utilize his industry and capital to engage in competition with any other individual. ML is a practice damaging to citizens because of the unlawful procurement of capital (Kern, 2011).

However, these principles only work if actions are done within the legal framework. Rules of AML do not result in eliminating competition as economic laws and implementation differ in various countries (Goredama, 2014). Moreover, AML rules and other regulations affect economies differently. However, the assumption of economic classical theory is questionable. State regulations actively set competitive incentives, which promote particular institutional structures (Ampratwum, 2008). Such condition is dangerous, as it could impede instead of accelerate the progress of society toward real wealth and greatness; moreover, it reduces the real value of the annual produce of the land and its labor (Gathii, 2010). This theory will therefore be relevant in this study in informing the role of legal capacity in the adoption of AML regulation.

2.3 Empirical Review

Oluwadayisi and Mimiko (2016) carried out a study on effects of money laundering on the economy. The study adopted the doctrinal approach of methodology in researching available primary and mostly secondary sources of data in the analysis of various effects such as manufacturing of domestic products, socioeconomic, financial effects, political effects, oil and gas sector. The study found that money laundering has great effect on the Nigerian economy. Despite the laws and policies put in place in the country, money laundering and other financial and economic crimes still flourish in the country because of corrupt practices of government officers who are expected to protect and fight for the interest of the common people. They concluded that money laundering is a deliberate, complicated and sophisticated process by which the proceeds of crime are camouflaged, organized or made to appear as if they were earned by legitimate means. In effect, laundering is the practice of integrating the proceeds of criminal enterprises into the legitimate mainstream of the financial community.

Kisoso (2012) evaluated the impact of local legislation on money laundering among Commercial Banks in Kenya. The target population comprised 47 commercial banks where simple random sampling technique was used to select 35 banks. Primary data was obtained through a semi-structured questionnaire, while secondary data included analysis and review of published books, journals, papers, periodicals and published works. Qualitative data was used for description of the situation of the study and its variations; while quantitative analysis used data to examine how many people and why they hold particular attitudes. The study found that the local legislation had a significant impact on money laundering in Kenya. The local legislation has raised public awareness of the problem of money laundering; the provisions under the money laundering act have discouraged money laundering while the Act has impacted positively on combating money laundering activities to a great extent as indicated by harnessing or attracting resources for economic development and how much it has led to a better society with strong values. The Local legislation has further instilled public confidence in financial institutions thereby enhancing their stability. The Act has also strengthened sound banking practices that reduce financial risks to their operations. The amendment to the Banking Act, had the impact of empowering the countries' monetary authorities as well as commercial banks and other financial institutions to disclose information on 'suspicious transactions' by their clients as well as seize property or any economic advantage derived from money laundering activities.

Toroitich (2010) investigated the challenges faced by Central Bank of Kenya in combating money laundering. The study targeted Central Bank of Kenya where the respondents were senior bank managers and officers of Bank Supervision Department and Bank Fraud Investigation Unit who were required to respond to questions in an interview guide. The study established that Kenya is faced with the challenge of the porous borders especially the war tom neighboring States which aid in human and drug trafficking and piracy combined with the extensive unsecured borders along these states. The AML act empowers the Financial Reporting Centre to ensure compliance. The study identified the money laundering challenges as; lack of adequate laws, delay in implementation of the recently enacted AML Act, lack of laws to deal with money laundering in neighboring countries, difficulty in monitoring the movements of people including terrorists, presence of cash couriers, ease of smuggling, corruption at the porous borders, unreported cash flows and legal and regulatory challenges. The study further found out that the big challenge for reporting institutions is to strike a proper balance between implementing the Act and maintaining client confidentiality for the case o f the commercial banks and this will affect how CBK can effectively monitor and supervise them in combating the vice.

Omari (2009) studied the use of regulatory policies in the fight against money laundering in Kenya. The study focused on the nine (9) Banks listed on the Nairobi Stock Exchange. The study respondents were the Compliance Heads of the listed banks. In addition, the study has also included two telecommunication service providers (Safaricom and Airtel-formerly known as Zain) that were licensed to undertake money transfer services. The study utilized a qualitative technique in the collection of secondary and primary data. A semi-structured questionnaire was used in collecting data. The findings of the study indicated that majority of the Financial Institutions have adopted the main core principles of the FATF 40 recommendations. The factors influencing adoption of money laundering practices in Kenya was identified mainly as the respective organisations corporate governance policies (Ethical practices). The results further suggested that the challenges faced in implementation of money laundering regulatory policies among financial institutions in Kenya include structural displacement factors (i.e. cash based economy, lack of cooperation by countries due to different legal systems, Inadequate resources to control porous borders and corruption); Legal and institutional framework challenges and to some extent the perceived cost of implementing an AML regime.

The empirical review is aligned with the objectives as follows: To determine the influence of legal enforcement mechanisms on the adoption of anti money laundering regulations by commercial banks in Kenya; to explore the influence of institutional capacity on the adoption of anti money laundering regulations by commercial banks in Kenya; to assess the influence of international cooperation on the adoption of anti money laundering regulations by commercial banks in Kenya and to establish the influence of technological advancements on the adoption of anti money laundering regulations by commercial banks in Kenya.

2.3.1 Legal Enforcement Mechanisms and adoption of AML Regulations

According to Johnson (2012), a significant factor in adoption of AML regulation is a lack of enforcement. AML laws are a necessary but insufficient condition for the establishment of a truly effective AML regime. In some jurisdictions, the enforcement of AML/CFT legal measures is often inconsistent. Despite robust laws that criminalize money laundering and terrorist financing activities and empower authorities to confiscate assets, prosecutions and convictions have been few, and the rate of confiscation is low (Toroitich, 2010). Prosecutions tend to stop at the predicate offense level without further investigation or identification of any money laundering offenses. Furthermore, in those jurisdictions where regulators have taken public enforcement action in recent years, the penalties applied have been relatively small by U.S. standards (Qorchi, Munzele & Wilson, 2013).

While regulators in China have fined a relatively large number of financial institutions for suspicious transaction reporting deficiencies, a survey indicated that the size of the fines imposed has been less than USD 100,000 in each instance (Lilley, 2016). At the root of the problem of ML are governments' attitudes towards ML, which dictate its level of acceptance and the extent of the involvement of the banking sector in this activity (Johnson, 2012). 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 (Sullivan, 2015).

According to Fleming (2015), 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.

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 (Lilley, 2016). Irwin *et al.,* (2011) 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 Irwin *et al.,* (2011), money laundering can damage national financial systems and have serious consequences on the economic growth and expansion of economic development in the country.

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 (Gathii, 2010). 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.

Most of the studies reviewed indicate that the implementation of the laws not only creates significant compliance problems for banks, but also has the potential to adversely affect the operations of the banks. It appears that failure to comply with the laws prevents banks from functioning properly. Levi *et al.,* (2014) indicated that KYC do not have any effect in preventing money laundering since it is easy to obtain false identification papers if required. In addition, Harvey (2014) noted that little benefit is seen in the reporting requirements of AML as there were no greater numbers of prosecutions for money laundering. Compliance activity was only driven out of fear of criminal sanctions rather than by benefits to the firm (Lilley, 2016). Thus, the AML regulation would not be effective in reducing money laundering.

2.3.2 Institutional Capacity and adoption of Anti-Money Laundering Regulations

Institutional capacity in AML agencies to effectively implement AML laws is equally important in the enforcement of AML regulations. Sullivan (2015) argued that the institutional quality is an indicator that measures the ability of governments to formulate and implement sound policies and regulations that permit and promote private sector development. Institutions provide the context in which policy changes are defined. There are limits to institutional explanations, of course. Institutions may accommodate, constrain, or refract policies but can never function as the sole "cause" of policy change. An effective domestic AML regime requires that certain structural elements be in place, such as a good regulatory framework, appropriate measures to prevent corruption, rule of law, and government effectiveness, culture of compliance, an effective judicial system (Turner, 2011).

According to Yeandle *et al.,* (2015), the lack of such elements, or significant weaknesses or shortcomings in the general framework, may significantly impair the implementation of an effective AML/CFT framework. However, in many economies this remains inadequate. Lack of skills, training, and resources often hinders the capacity to establish and maintain FIUs and prevents competent supervisory authorities from conducting adequate oversight of AML/CFT matters (Mugo, 2015). The challenge is compounded by the complexities of FATF requirements, particularly in the areas where economies are required to apply qualitative judgment, such as in the application of the risk-based approach and the analysis of suspicious or unusual transactions. Usman (2014) found that there is an impact of employee training on anti-ML towards the banking system. Okogbule (2017) review the actions in some countries, and also addressed the fact that the instability in the political system will increase crimes. Hamin *et al.* (2016) who focused on financing terrorism in Malaysia also pointed that the ML crime related to terrorism should be taken seriously in formal intuitions.

The lack of resources to provide the officers with the appropriate training is a great handicap (Turner, 2011). Often, the international criminal element has more resources in terms of money and communications equipment, and is more sophisticated in its procedures and techniques than the police who are attempting to control their criminal activities. Lack of training is major factor inhibiting police success. Specifically, the need is for training and skills that can be employed at the operational level. The cooperation between all of the institutions is effective in combating ML (Kern, 2011). Dan (2009) concluded that governments must intensify their efforts to remove any detrimental rules and practices that obstruct international co-operation against ML. Countries are reluctant to compromise financial confidentiality Amali (2016) noted that the main source of complacency in banks is through the AML teams. In this context, the review noted that the two main areas of complacency by the staff department included in the layering stage where the cash conversion was effected. In this case, this is one of the main stages at which the flagging off such suspicious transactions subjected to unjustified splitting to actualize layering could be actualized. This is the stage at which complacency leads to overlooking the issue.

Hopton (2016) sought to establish the extent to which staff collision; especially the compliance and the AML staff played a role in perpetuating money-laundering cases. The study concluded that, indeed, the staff collusion aspect was a key player in the market. In this regard, the review concluded that a significant portion of the laundering transactions was visible and that the existing Australian financial anti-money laundering systems had the capabilities of detecting such transactions. Therefore, the study offered a preliminary finding that although some of the transactions were concealed and the existing systems could not detect them, a majority would be identified. Consequently, the review noted that a failure to flag and report over 20% of the transactions was directly related to the staff collision trends. This was a strategic challenge that the Mei and Zhou (2015) study sought to resolve. The review sought to investigate avenues through which the staff collusion risks could be resolved. In this regard, the study concluded that one of the strategic approaches through which to resolve the challenge was through creating the employee's required personality. In this regard, the review noted that through ensuring the employees under the AML department were honest and of integrity.

According to CBK (2015), 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. Murithi (2013) pointed out that the operational costs affect the performance of commercial banks in Kenya to a significant extent due to the increased/high transaction costs that the bank incurs, including training employees to detect suspicious activities. They also recommended that the bank management should offer employees training on anti-ML measures. Money launders like most organized criminals seek out jurisdictions, which are unlikely to detect their activities (IMF, 2015). Kenya like most of the developing countries has unique factors that are conducive to money laundering, some of these factors are: liberalized and cash based economy; different legal system; porous borders; parallel banking and alternative remittance avenues (corruption).

Fleming (2015) concur that there exist a negative relationship between institutional capacity and adoption of AML regulations. They pointed that money laundering has a notorious tendency to discourage or frustrate legitimate business enterprise, corrupt the financial systems and ultimately collapse the economy. Accordingly, institutional capacity affects AML, however it leads to increased transactional costs due to screening and the reporting frequency that the banks have instituted as well broadened types of reports prepared. Fleming (2015), Goredama (2014) and Amali (2016) indicated that institutional capacity is responsible for successful implementation of anti-money regulations which makes the banks more credible and attract more clients and in return substantial profits.

2.3.3 International Cooperation and Adoption of AML Regulations

Johnson (2012) indicated that due to the fluid nature of money laundering and terrorist financing, international cooperation is imperative for the global AML regime to be fully effective. However, coordination across world economies is a challenge due in part to institutional traditions. Relationships between economies in the region, such through COMESA, are based on mutual noninterference in one other's domestic affairs (Mugarura, 2017). This approach can render international cooperation and mutual assistance arrangements in the adoption of AML regulations more challenging and time consuming (Fleming, 2015).

Mwithi and Kamau (2015) indicated that the reporting entities in developed countries are well aware of the AML legislation. Subbotina (2014) cited that the lack of understanding on the international AML norms by the participants as one of the reasons for failure of financial institutions in Russia in complying with AML regulation. According to Ping (2010), there is a mandatory legal requirement on individuals in most jurisdictions for international passengers to declare the exact cash sum amounts passengers are carrying before boarding any means of transport. This process forces launderers to develop inventive ways of circumventing the system. Eddie Antar carried millions of dollars strapped to his body and in his suit case during his money laundering scheme. In September 2001, Hong Kong police tracked down the biggest cross border money laundering crime, which extended to Canada, Hong Kong, Yunnan province and the Guangdong province of china mainland, involving more than 50 Billion Hong Kong Dollars (HKD). In this case, the criminal groups hired carriers to conduct day by day cash smuggling from Shenzhen Luolu customs to Hong Kong over a period of six years. That dirty money, gained by tax evasion and embezzlement in China's mainland was transferred to various bank accounts after being smuggled into Hong Kong (David, 2011).

Sullivan (2015) argued that cash smuggling does not necessarily fall into the category of placement as far as money laundering is concerned, because a successful smuggle of cash across borders does not necessarily place the cash into the financial system (which is the main purport of the launderer at this stage). Smuggling of cash across borders alone is not sufficient for the launderer because the physical cash must still be immersed into the financial system (Turner, 2011). Thus taking advantage of laxity or complicity in banking and financial institutions (or more actively working to corrupt bank officials) offers other avenues for money laundering (Hopton, 2016).

Fleming (2015) observed that the 2006 case of Wachovia bank was a classic case of bank complicity. The authorities in the United States of America uncovered billions of dollars in wire transfers, traveller‘s cheques and cash shipments through Mexican exchanges into Wachovia accounts. Between 2004 and 2007, illegal proceeds totalling $378.4 Billion was transferred into the bank by the Mexican based Casa Cambios. The bank had ignored the red flags raised by its senior Anti-Money laundering officer as regards dealing with the Mexicans. Recently in the year 2012, HSBC bank was found to have regularly laundered money for Iranian terrorists and for Al Qaeda (Fleming, 2015).

According to Usman (2014), a high level of awareness on AML measures was found in less than fifty percent of the bank employees. Anti-money laundering regulations prohibit 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, 2015).

According to Ping (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. According to FATF (2015) 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, 2015).

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). Yeandle *et al.*, (2015) 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 (Mugarura, 2017).

According to Irwin *et al.*, (2011), while globalization has brought with it significant benefits in terms of world trade it has also brought an increase in international fraud and related criminal opportunities. With the instant nature and global destinations of ‘e’ transactions, it is difficult for individual nations to successfully tackle money laundering activities alone. Therefore, lack of international cooperation has a negative relationship with the adoption of anti-money laundering regulations and coordinated action between nations is essential.

2.3.4 Technological Advancements and Adoption of AML Regulations

Money laundering is often a secondary process – preceded by an illegal activity, such as drug trafficking or an online scam. Amali (2016) indicated that the Anti-Money Laundering System becomes structurally coupled with the system of technology with which it co-evolves. While algorithmic optimizations remain important and technology is central to Anti-Money Laundering efforts, a richer nexus of intertwined human- and technology- generated decisions supports the identification of ML-behaviour. The case for implementing AML technology is strong today and will be stronger still tomorrow (Levi *et al.*, 2014). One reason technology makes sense in this context is that the ability to look at transactions together as opposed to one transaction in a vacuum - is critical. This is one of the immediate benefits of moving from a manual process to an automated one, though many institutions continue to grapple with these systems in order to minimize false positives and realize operational efficiencies. Nevertheless, the challenges for AML technology do not appear to be dimming the institutional view of vendors in this market (Mugarura, 2017).

According to Viritha *et al.,* (2015), a key element of the process is maintaining anonymity and avoiding transparency throughout the process. Where money launderers were once limited to physical currency, the advent of digital currency has compounded the complexity of the global fight against this activity. The Financial Action Task Force (FATF, 2015), estimates money laundering at 2 to 5 percent of global annual GDP or gross world product, which amounts to an estimated $1.38 trillion to $3.45 trillion. The current system for global funds transfers is based on old and outdated technology, employed primarily by a shrinking network of correspondent banks. Mugarura (2016) contends that payments moving through the correspondent banking system are handled by multiple intermediaries, most of which are unaware of the identity of the others.

Since the problem of intermediaries is so widespread, the FATF notes that there is no way to estimate how much money is actually laundered through the world's legal and illegal financial systems. Hopton (2016) contends that e-Bullion allowed individuals engaging in fraud to move money around the world while remaining virtually anonymous and avoiding many global banking reporting requirements. According to the DoS (2014), organized criminal groups were using an online role-playing game to facilitate money laundering by purchasing virtual game currency with the proceeds of criminal activity.

The virtual game currency was used to purchase in-game virtual items that were then sold to other players for clean money.

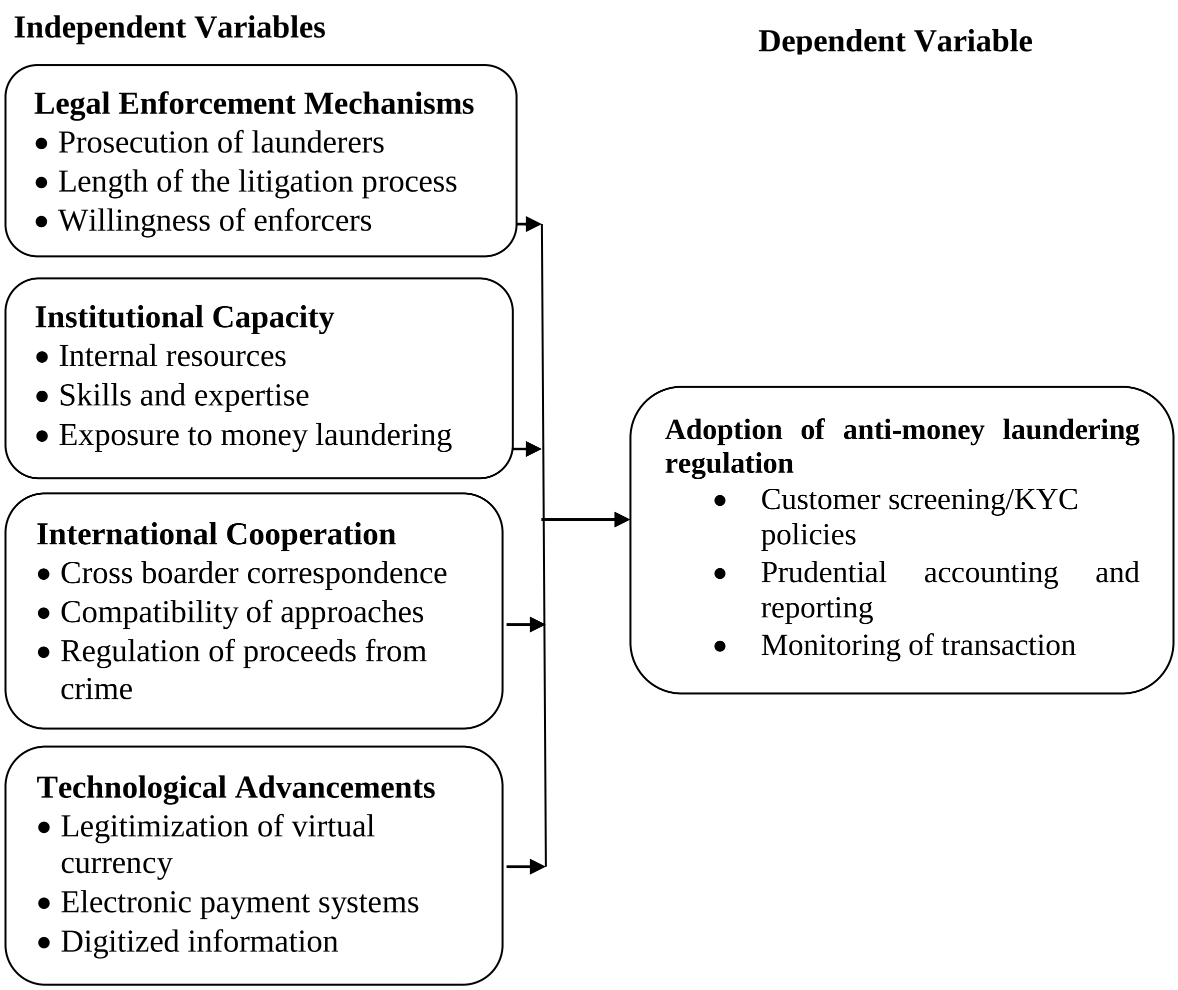
Turner (2011) in a study on the contemporary tendencies in money laundering methods and measures for its suppression using descriptive analysis found that traditional financial instruments are increasingly repressed by the use of the new technological systems and replaced by new electronic payment systems. However, the utilization of the new electronic payment systems introduces a variety of risks associated to numerous opportunities of abuse due to money laundering. Dependence on technology has increased considerably, and it is becoming evident that a technology that fails to function no longer comes to a halt, but triggers unanticipated effects of possibly catastrophic dimensions. Such catastrophic dimensions not only permeate problem domains like AML, but also, and even worse, they often go unnoticed or they become masked as an operative success by the systems that employ the technological function and all that this implies.

According to Muriithi (2013) there exists a negative relationship between technological advancements and adoption of anti-money laundering regulations. This is because, money launderers are usually well versed with technological advancements and new technologies such as the internet offer speed and anonymity, potentially providing distance between launderer and law enforcement.

2.4 Conceptual Framework

A conceptual framework has been defined by Mugenda and Mugenda (2012) as a hypothesized model identifying the concepts under the study and their relationships. The purpose of conceptual frame work is to help the readers quickly see the proposed relationship between the variables in the study. In this study, the independent variables are legal enforcement mechanisms, institutional capacity, international cooperation and technological advancements while the dependent variable is adoption of anti-money laundering regulation. These aspects form the undernoted diagram.

Figure 2.1: Conceptual Framework



2.5 Operationalization of Variables

Legal Enforcement Mechanisms: This study will measure legal enforcement mechanisms in terms of prosecution of launderers, length of the litigation process and willingness of enforcers.

Institutional Capacity: In this study institutional capacity is measured in terms of internal resources, skills and expertise and exposure to money laundering

International Cooperation: International cooperation is measured in terms of cross boarder correspondence, compatibility of approaches and regulation of proceeds from crime

Technological advancements: The influence of technological advancements will be measured in terms of legitimization of virtual currency, electronic payment systems and digitized information.

Adoption of anti-money laundering regulation: The adoption of anti-money laundering regulation will be measured in terms of customer screening/KYC policies, prudential reporting, and monitoring of transaction.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the methods used to gather information on the area of the study. It discusses and describes the data collection instruments, data collection procedures, sampling, data gathering and analysis of the limitation of the method proposed. The research methodology gives the direction to follow to get answers to issues that are of concern. Research is usually designed to handle a problem, something that needs describing, explaining or improving, or about which information is needed so that future occurrences can be predicted and policy decided.

3.2 Research Design

According to Mugenda and Mugenda (2012), research design is the plan and structure of investigation so conceived as to obtain answers to research questions. It is an understanding of conditions for collection and analysis of data in a way that combines their relationships with the research to the economy of procedures. Research design answers questions such as: What techniques are used to gather data? What kind of sampling is used? How will time and cost constraints be dealt with? The study design therefore includes an outline of what the investigator will do from formulating research questions and their implications to the final analysis of data. A research design expresses both the structure of the research problem and the plan of investigation used to obtain empirical evidence on the relations of the problem (Cooper & Schindler, 2011).

Descriptive research design was used in this study. This design is appropriate for this research because it is concerned with clearly defined problems with definite objectives. Descriptive research design is appropriate to describe and portray characteristics of an event, situation of a group of people, community or a population. This study integrated both qualitative and quantitative methods. A qualitative methodology deals with non-numerical data, whereas a quantitative methodology treats numerical data relevant for this study.

Through interaction between the investigator and informants via a questionnaire the study will strive to get accurate information. The study adopted descriptive design which aimed at investigating the factors influencing adoption of anti money laundering regulations by commercial banks in Kenya. A descriptive design involves planning, organizing, collection and analysis of data so as to provide information being sought. This design provides in-depth responses which result in better and elaborate understanding of the phenomena under study.

3.3 Target Population

Population is a large group of individuals or people, or items under consideration for statistical purposes. It is the mass of individuals, cases, events to which the statements of the study will refer and which has to be delimited unambiguously beforehand with regard to the research question. Target population is a group of individuals to which the researcher would like to generalize their results from (Mugenda & Mugenda, 2012). The target population of this study was the 42 commercial banks in Kenya where the senior management staff were involved. The 42 commercial banks in Kenya formed the units of analysis. The units of observation were the top level management staff at each bank headquarters.

3.4 Sampling Size and Sampling Technique

According to Cooper and Schindler (2011), a sampling design refers to the part of the research plan that indicates how cases are to be selected for observation. From the population frame the required number of subjects, respondents, elements, firms are selected in order to make a sample. Collins and Hussey (2006), defines sampling as the technique of selecting elements from the population that will represent the population. A sampling technique refers to the approach used by the researcher in drawing a sample from the population.

The list for the sampling frame was made up of two management staffs at top level management levels of commercial banks in Nairobi. This research used simple random sampling. In this technique, the respondents were drawn randomly from the study population. As such, two senior management staff from each bank was drawn from population to form the study sample. This generated a sample of 84 respondents for the purpose of this study. The cases were the representative sample studied. This made it easier to get adequate and accurate information necessary for the research.

3.5 Instrumentation

Data collection instrument is a device that specifies and objectifies the data collecting process, instruments are usually written and may be given directly to the subject to collect data or may provide objective description of the collection of certain types of data. According to Mugenda and Mugenda (2012), a researcher needs to develop instruments with which to collect data. The most commonly used instruments are: questionnaires, interview schedules, observational forms and standardized tests.

The researcher used questionnaires as data collection instruments for the research. 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. The main purpose of the questionnaire is to communicate to the respondents what is intended and to elicit desired responses in order to achieve the research objectives. Questionnaires are preferred in this study because they have several advantages including, information can be collected from a large sample and diverse regions, confidentiality is upheld through questionnaires, they save time, since they were presented in paper format there is no opportunity for interviewer bias, convenience for respondents, no interviewer variability and absence of interviewer effects.

3.6 Data Collection

The study administered the questionnaire individually to all respondents of the study. The study exercised care and control to ensure all questionnaires issued to the respondents were received and achieve this, the study maintained a register of questionnaires, which were sent, and which will be received. The questionnaire was administered using a drop and pick later method. The researcher started by explaining to all participants in the study the role they were expected to play and the importance of providing honest information through a cover letter forwarding the questionnaire. The researcher also assured the participants that the information they gave would be treated with strict confidence. An envelope marked "questionnaire" and thesis topic was provided so that once the employee completed the questionnaire, they sealed it to ensure confidentiality is maintained within the organization and guarded against potential victimization by the human resource division or the person designated by the commercial banks to co-ordinate the process.

3.7 Reliability and Validity Tests

Prior to the actual study, pilot testing was carried out. Cooper and Schindler (2011) indicate that a pilot study is conducted to detect weaknesses in design and instrumentation and to provide proxy data for selection of a probability sample. The pilot study was conducted using 10 respondents. It is only during pre-testing that the researcher would be able to assess the ease of use of the instrument. Any sensitive, confusing or biased items would be identified and modified or omitted. Pretesting permits refinement before the final test. This is the researcher's best opportunity to revise scripts, look for control measures and scan the environment for factors that confound the results. This involved checking whether the questions are clear and revoking any positive or negative response. It also helped to find out whether the questions are measuring what is expected.

3.7.1 Validity of Research Instrument

Validity is the degree by which the sample of test items represents the content the test is designed to measure. Content validity which was employed by this study is a measure of the degree to which data collected using a particular instrument represents a specific domain or content of a particular concept. Mugenda and Mugenda (2012) contend that the usual procedure in assessing the content validity of a measure is to use a professional or expert in a particular field. To establish the validity of the research instrument the researcher sought opinions of scholars and experts including the supervisor. This allowed modification of the instrument thereby enhancing validity. Furthermore, the study assessed the responses and non-responses per question to determine if there was any technical dexterity with the questions asked.

3.7.2 Reliability of Research Instrument

Reliability will also be confirmed by pre-testing the questionnaire with a selected sample from one of the projects. It is an indication of the stability and consistency with which the instrument measures the concept and helps to assess the “goodness” of measure. Reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials. A researcher should consider the sources of error likely to be present in the study while choosing measure of reliability. In this study reliability was attained by pre-testing the questionnaire with a selected sample. The pre-test exercise took place at the convenient of both the researcher and the respondents. The pretest was conducted by both the principle researcher and the research assistants to enhance clarity of the questionnaire.

Mugenda and Mugenda (2012) noted that the accuracy of the data collected largely depends on the data collection instrument in terms of validity and reliability. This instrument was reviewed based on the pre-test experience. Internal consistency method will be tested using Cronbach’s Alpha. Cronbach's alpha is a measure of internal consistency, that is, how closely related a set of items are as a group. A "high" value of alpha is often used as evidence that the items measure an underlying (or latent) construct. Reliability with a predetermined threshold of 0.7 is considered acceptable. That is, values above 0.75 indicated presence of reliability while values below signified lack of reliability of the research instrument.

3.8 Data Analysis

Data analysis involved assessing and evaluating the questionnaires. The data collected from the field was assessed and comparison made so as to select the most accurate and quality information from the feedback given by various respondents. Once coded, the data was then cleaned to ensure accuracy and completeness of the information obtained. Data collected was purely quantitative and it was analyzed using descriptive techniques, correlation analysis and multiple regression analysis with the help of Statistical Package for Social Sciences (SPSS) and MS Excel software. The regression equation was specified as follows: $\mathbf{Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon}$ where;

Y = adoption of anti-money laundering regulation, X_1 = legal enforcement mechanisms, X_2 = institutional capacity, X_3 = international cooperation, X_4 = technological advancements, β_0 = the regression intercept, β_1, β_2, β_3 & β_4 = Regression Coefficients and ε = Error term. The multiple R square (R squared) was used to measure the goodness of fit of the overall model. The model measured the amount of variation in the dependent variable explained by the overall model. The results of the analysis were presented using tables and figures.

3.9 Diagnostic Tests

The nature and strength of the relationship between the dependent and independent variables was measured through various diagnostic tests. These included Multicollinearity test, Normality test, and Heteroscedasticity test.

3.9.1 Multicollinearity Test

Multicollinearity refers to a situation in which two or more explanatory variables in a multiple regression model are highly linearly related. In order to check multicollinearity in the five factors, the study checked on the interconnection among these factors. Multicollinearity occurs when these factors are highly correlated with the value of r being less than 0.9. This test was carried out under Pearson correlation. Correlation coefficient of greater than 0.9 for the various variables was deemed to be indicator multicollinearity and appropriate adjustments were made.

3.9.2 Normality Test

Normality tests were conducted to determine whether the data collected from the respondents is normally distributed. If the data is normally distributed then the study would employ parametric tests. The researcher used Shapiro-Wilk Test to test for normality. The Shapiro-Wilk Test is grounded on the relationship between the data and the corresponding normal scores. The test was conducted using SPSS. The p-value of the Shapiro-Wilk Test was used to test for normality. When the p-value of a variable is less than 0.05 then the null hypothesis- the data fits a normal distribution was rejected.

3.9.3 Heteroscedasticity Test

To test for heteroscedasticity the study ran a diagnostic test on the regression equation. The classical linear regression model (CLRM) assumes that the variance of the errors (error term) is constant or what is referred to as homoskedasticity. If the errors do not have a constant variance, they are said to be heteroskedastic. The assumption of homoscedasticity is central to linear regression models in that if the OLS model is still used in the presence of heteroskedasticity instead of homoscedasticity, the standard errors could be wrong since the OLS regression seeks to minimize the residuals and in time possible standard errors. To avoid the F-statistic overstating the true significance level, disturbances was checked for the absence of heteroscedasticity. In this test, when the results show probability values that are greater than 0.05, then the estimated parameters are constant. The study used white tests of squared residuals such that:

$H0$: There is homoscedasticity.

If p-value < 0.05 fail to reject $H0$, i.e. there is homoscedasticity.

If p-value> 0.05 reject $H0$, i.e. there is heteroscedasticity.

CHAPTER FOUR

FINDINGS AND DISCUSSION

4.1 Introduction

This chapter contains details of presentation of data analysis, results and findings. The study findings are presented on the factors influencing adoption of anti-money laundering regulations by commercial banks in Kenya. The presentation of results is organized based on the specific objectives of the study. Descriptive analysis was employed which includes; frequencies, percentages and mean scores. Inferential statistics involving multiple regression analysis was also used to test for the relationship of the variables. The organized data was interpreted on account of concurrence to objectives using assistance of computer packages especially SPSS (Version 23) to communicate the research findings. The objectives of the study were to determine the influence of legal enforcement mechanisms, institutional capacity, international cooperation and technological advancements on the adoption of anti-money laundering regulations by commercial banks in Kenya.

4.2 Response Rate

Response rate is the extent to which the final data set includes all sample members and is calculated from the number of people with whom interviews were completed divided by total number of people in the entire sample. This includes those who declined to participate and the unavailable. From the target population, a sample of 84 top level management staffs was selected from the 42 commercial banks in Kenya.

Table 4.1: Response Rate

Category	Frequency	Percentage (%)
Responded	74	88.1
Did not respond	10	11.9
Total	**84**	**100.0**

From the study, the researcher successfully received responses from 74 respondents. The response rate achieved from the questionnaires distributed was 88.1%. This was a dependable representation of the targeted population thus adequate for the study analysis. According to Mugenda and Mugenda (2012), 50% response rate is adequate, 60% is good, while 70% and above is rated to be very good. This implies that the response rate of 88.1% is satisfactory and good for analysis, drawing conclusions and making recommendations. However 10 respondents (11.9%) were reluctant to respond to questionnaires citing demanding work schedules and stringent bank disclosure policies.

4.3 Demographics Characteristics of the Respondents

This section concerns itself with outlining and presenting the findings obtained from the questionnaires distributed to the respondents. Prior to the objectives guiding the study, it was of great essence to find out the background information of the participants. The analysis relied on this information of the respondents so as to classify the different results according to their knowledge and responses.

The research sought to find out the gender of the respondents. The subject of gender is considered fundamental in this study largely because it could help the researcher get a balanced view from both genders. The findings indicated that 56.8% of the respondents that participated in the study were male while 43.2% were female. These findings were desirable for the survey since gender is a key consideration for investigating the factors influencing adoption of anti-money laundering regulations by commercial banks in Kenya.

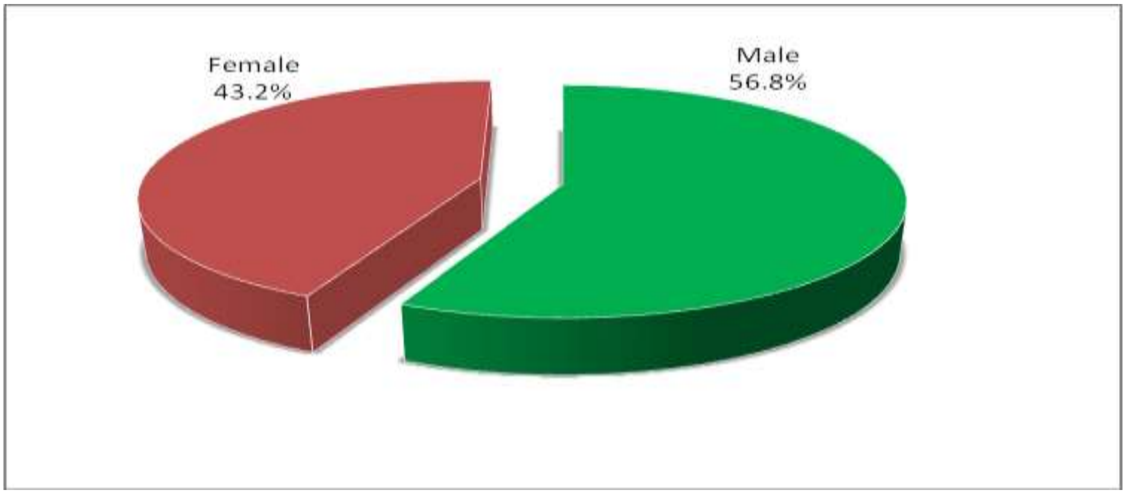


Figure 4.1: Gender of the Respondents

This study sought to investigate the composition of the respondents in terms of age brackets. This aimed at understanding how the respondents were distributed across the various age brackets and consequently their opinions on the topic of study. From the study, the respondents with ages falling between 41 and 45years formed the largest proportion of population studied with 27.0%, followed by 24.3% of the respondents whose ages fell between 36 and 40years, then 21.6% of the respondents who indicated that they were aged between 31 and 35 years. 9.5% of them were aged between 26 and 30 years while, 5.4% of the respondents indicated that they were aged 51 years and above. These results imply that the commercial banks in Kenya have employed staff of different age brackets hence the results depicted in this study are likely to be representative of the situation as investigated by the study. Figure 4.2 shows the results.

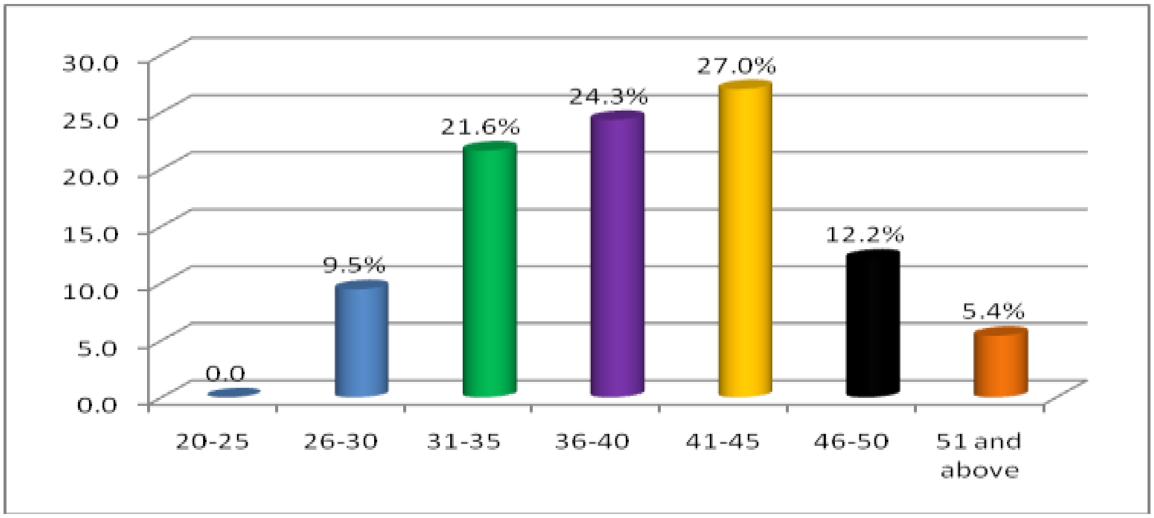


Figure 4.2: Age Brackets of the Respondents

The study targeted to collect data from the staffs comprising of finance, internal audit, strategic management, administration, human resource, IT departments as well as the senior management offices of each of the commercial banks. The structures of these banks classify these staffs across top, middle and senior management levels. According to Figure 4.3, 59.3% of the respondents were working as middle level management team, 33.3% of them were in support services team while 7.4% of the respondents indicated that they were in senior management.

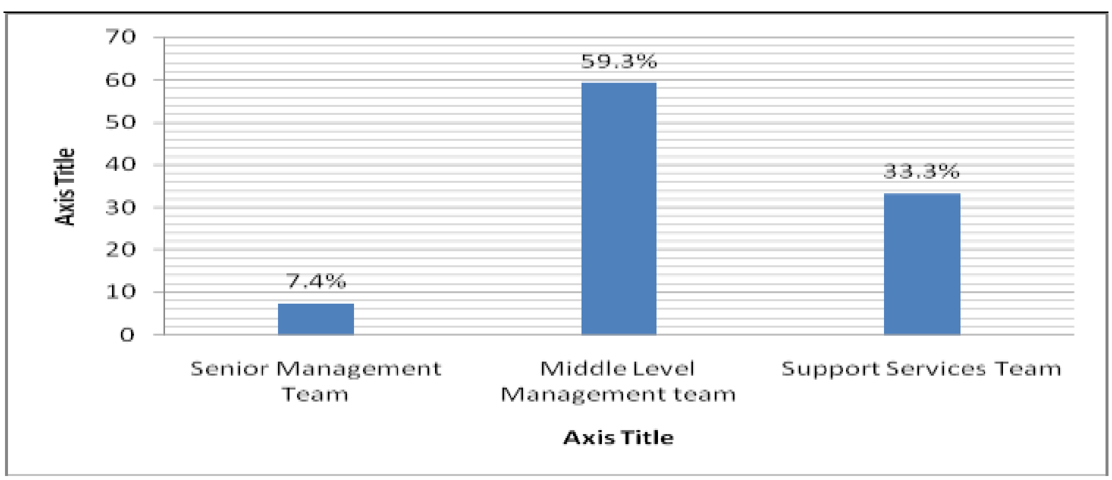


Figure 4.3: Distribution of Staffs across the Management Levels

The researcher was also interested in establishing the years of experience of the respondents in the commercial banks in Kenya. This is critical since it reviews understanding of key indicators of adoption of anti-money laundering regulations in commercial banks in Kenya and the ability of the institutions to build and harness their performance. The data from the study showed that an overwhelming majority (comprising 40.5%) of the respondents had a working experience of between 4 and 6years in the banks, 25.7% of them had been working in the banks for a period of 1 to 3years. Eighteen percent (18.9%) of the respondents had continuously worked in the commercial banks for 7 to 10 years, 10.8% of them had a working experience spanning 7 to 10 years, while 4.1% of them had been working in the banks for more than 10 years. These results show that there is retention of management staff in the banks which serves as an employee development plan to effectively understand the factors influencing adoption of anti money laundering regulations in their area of operations.

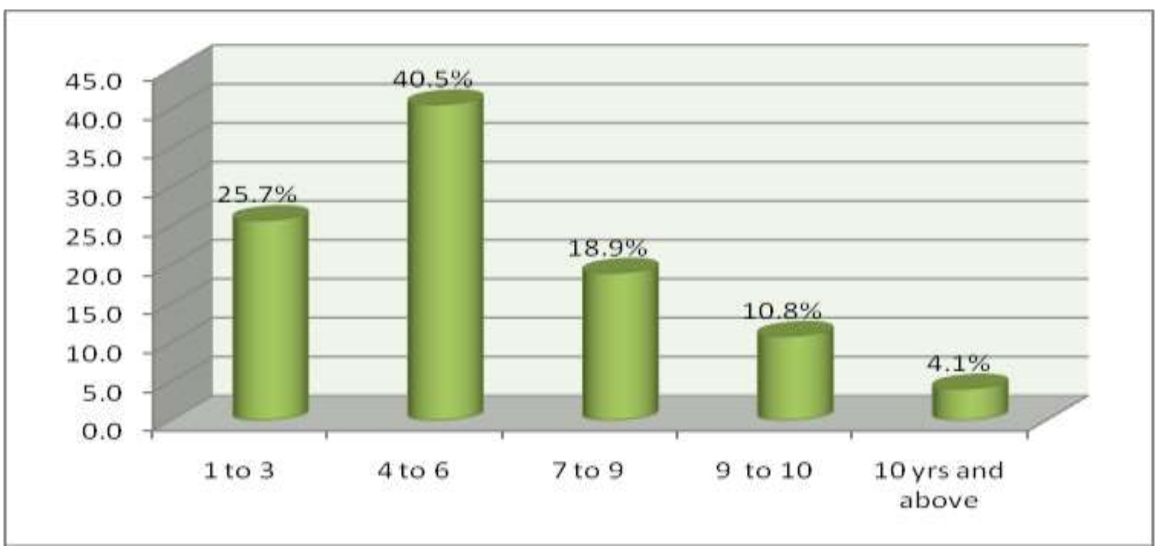


Figure 4.4: Years of Experience of the Respondents

Like all other financial institutions in Kenya, commercial banks employs staffs in different work stations hence different academic qualifications. The study thus sought to establish the highest academic qualifications attained by the respondents. Majority (57.1%) of the respondents indicated that they had acquired a Bachelor's Degrees, 19.0% of them indicated that they had acquired Masters Degrees, another 19.0% of the respondents had acquired college diplomas while 4.8% of the respondents indicated that they had acquired PhDs. These outcomes mean that majority of the respondents had at least a college level of education and hence understood the information sought by this study.

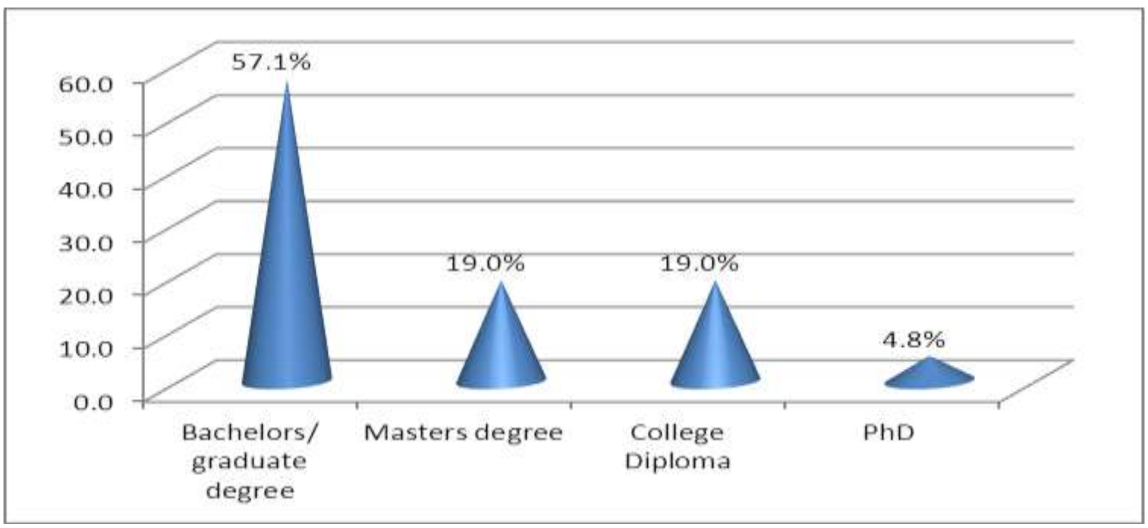


Figure 4.5: Level of Education

4.4 Adoption of Anti-Money Laundering Regulations

The purpose of this study was to investigate the factors influencing adoption of anti-money laundering regulations by commercial banks in Kenya. Accordingly, the respondents were required to indicate the extent to which the commercial banks are faced with money laundering problems. According to the results depicted in Figure 4.6, 54.1% of the respondents reiterated that the commercial banks are faced with money laundering problems to a great extent, 25.7% of them opined that the commercial banks are faced with money laundering problems to a very great extent, 17.6% of the respondents reported that the commercial banks are faced with money laundering problems to a moderate extent and 2.7% indicated that the commercial banks are faced with money laundering problems to a little extent. These results imply that the commercial banks are significantly faced with money laundering problems.

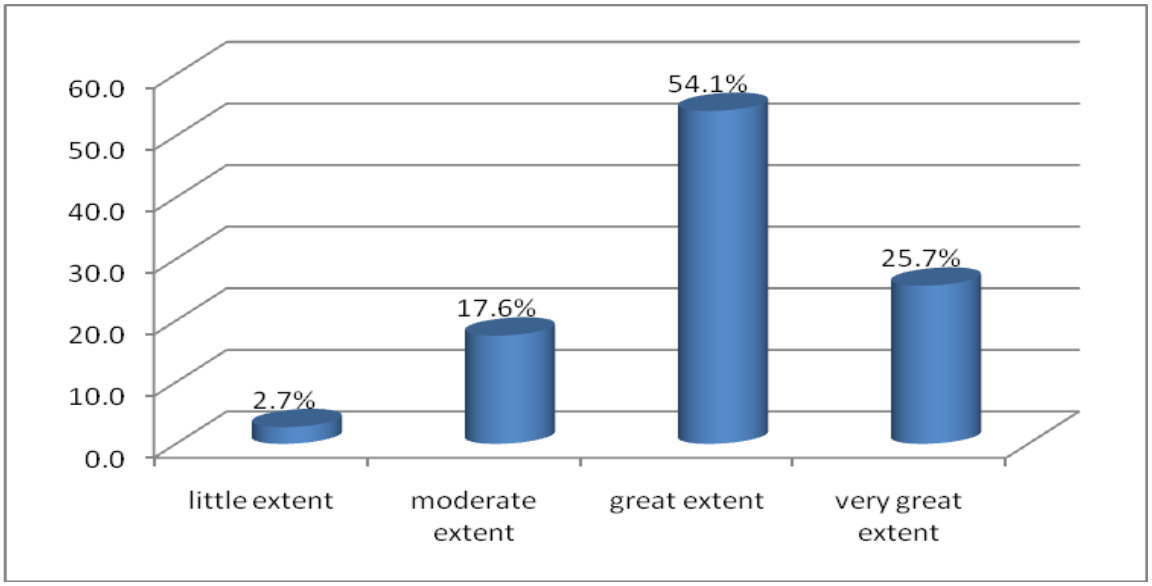


Figure 4.6: Extent to which Commercial Banks Face Money Laundering Problems

The respondents were further required to list some of the money laundering occurrences that have ever been experienced in the banks. They reported issues like criminal income, income from organized criminal gang activities, finances from drug smuggling, money obtained from illegal off-shore companies and business, large financial transfers from corrupt deals and sums generated from pervasive abuse of office.

The respondents were required to indicate the extent to which their banks implemented the anti-money laundering policies. The results are as depicted in table 4.2.

Table 4.2: Extent to which Banks Implemented Anti-Money Laundering Policies

Extent	Frequency	Percent
Moderate extent	21	28.4
Great extent	42	56.8
very great extent	11	14.9
Total	**74**	**100.0**

From the study, 56.8% of the respondents reiterated that their banks implemented the anti-money laundering policies to a great extent, 28.4% of them recapped that they implemented the anti-money laundering policies to a moderate extent, while 14.9% of them recapitulated that the banks implemented the anti-money laundering policies to a very great extent. These results are an indication that the banks in Kenya have implemented the anti-money laundering policies to a relatively great extent.

The study further sought to ascertain the extent to which commercial banks focused on the various aspects of AML regulations/Policies. The responses obtained are as shown in Table 4.3.

Table 4.3: Extent to which Banks Focused on Aspects of AML Regulations/Policies

Aspects of AML Regulations /Policies	Mean	Std. Dev
Customer screening/KYC policies	3.4459	0.77886
Prudential accounting and reporting	3.8649	0.64795
Monitoring of transaction	3.5541	0.6853
A centralized customer account opening and monitoring Centre	3.6351	0.75079
Staff training on anti-money laundering issues	3.8919	0.56296
KYC or customer identification screening program	3.3649	0.78643
A documented and approved AML policy and procedures	3.8784	0.75766
Filling forms to report transactions on SAR	3.5811	0.77648
Application of Customer Identification Program (CIP)	3.3649	0.85327
Creating awareness on suspicious account reporting (SAR)	3.2838	0.81963

The results depicted in Table 4.3 were interpreted according to the weighted mean scores in a descending order. The interpretation was done in relation to the key provided where the means checked up in the scale to reveal the corresponding measure in the scale. From these results, most of the respondents reiterated that their banks focused on staff training on anti-money laundering issues to a great extent as shown by a mean score of 3.8919, the banks adopted a documented and approved AML policy and procedures to a great extent as shown by a mean score of 3.8784, they focused on prudential accounting and reporting to a great extent as shown by a mean score of 3.8649, they have concerned themselves with centralized customer account opening and monitoring centres to a great extent as shown by a mean score of 3.6351, they focus on filling forms to report transactions on SAR to a great extent as shown by a mean score of 3.5811 and they concentrate on monitoring of transaction to a great extent as shown by a mean score of 3.5541.

In addition, the respondents recapped that their banks focused on customer screening/KYC policies, KYC or customer identification screening program, application of Customer Identification Program (CIP) and creating awareness on suspicious account reporting (SAR) to moderate extents as shown by mean scores of 3.4459, 3.3649, 3.3649 and 3.2838 respectively. These results imply that the commercial banks have focused on various aspects of the AML policy provisions. These results show that the banks have been steadfast in implementing the AML policies touching on various areas of their operations.

The respondents were asked to indicate the extent to which the anti-money laundering policies affected various aspects of money laundering in the commercial banks in Kenya. The results are presented in Table 4.4.

Table 4.4: Extent to which AML Policies affect aspects of Money Laundering

Aspects of Money Laundering	Mean	Std. Dev
Prohibited Business	3.1892	0.82222
Reputational Risk	3.3784	0.91715
Termination of Banking Business	3.5541	0.76107
Monetary Penalties	3.4595	0.72507

The results tabulated above show that majority of the respondents felt that anti-money laundering policies affected termination of banking business with customers to a great extent as shown by a mean score of 3.5541. Further, most of the respondents indicated that implementation of anti-money laundering policies led to monetary penalties on banks, reputational risk and prohibition from doing businesses to moderate extents as shown by mean scores of 3.4595, 3.3784 and 3.1892 in that order. These results proof that the adoption of AML regulations are likely to negatively affect some aspects of bank’s operations. The hall mark of any financial institution is its reputation for integrity which can be seriously undermined if funds from criminal activity can be easily processed through that particular institution thus creating a perception of active complicity criminal networks.

4.5 Legal Enforcement Mechanisms

The first objective of the study was to determine the influence of legal enforcement mechanisms on the adoption of anti-money laundering regulations by commercial banks in Kenya. Accordingly, the respondents were required to indicate the extent to which legal enforcement mechanisms affect the adoption of anti-money laundering regulations in their banks. Based on the results in Figure 4.7, 54.1% of the respondents unanimously indicated that legal enforcement mechanisms affect the adoption of anti-money laundering regulations in commercial banks in Kenya to a great extent. In addition, 29.7% of them indicated to a moderate extent, 14.9% of the responses showed a very great extent while 1.4% of them indicated that legal enforcement mechanisms affect the adoption of anti-money laundering regulations in commercial banks in Kenya to a little extent. The results are an indication that legal enforcement mechanisms are crucial in the adoption of anti-money laundering regulations in commercial banks in Kenya.

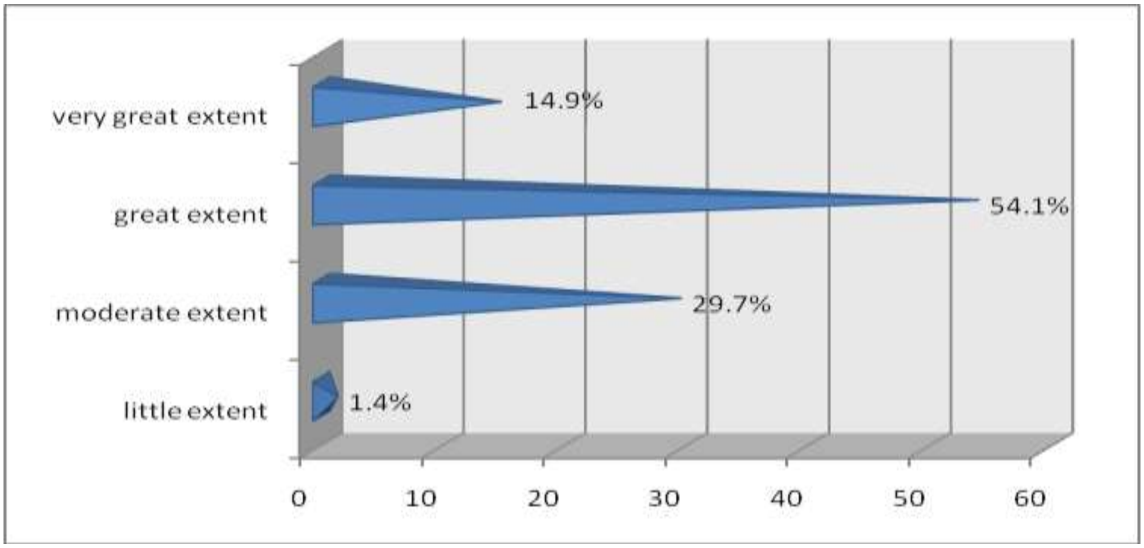


Figure 4.7: Extent to which Legal Enforcement Mechanisms Affect Adoption of AML

The study also sought to establish the extent to which various aspects of legal enforcement mechanisms affect the adoption of anti-money laundering regulations in commercial banks. The results are shown in Table 4.5.

Table 4.5: Aspects of Legal Enforcement Mechanisms affecting adoption of AML

Aspects of legal enforcement mechanisms	Mean	Std. Dev
Prosecution of launderers	3.3243	0.86179
Length of the litigation process	3.3649	0.85327
Willingness of enforcers	3.4595	0.81407

From the study, willingness of enforcers, length of the litigation process and prosecution of launderers affect the adoption of anti-money laundering regulations in commercial banks to moderate extents as shown by a mean score of 3.4595, 3.3649 and 3.3243 respectively. These results confirm that legal mechanisms and jurisdictions are considerably relevant in the implementation of regulations aimed at curbing money laundering activities in the commercial banks.

The respondents were asked to outline the possible approaches that can enhance legal enforcement mechanisms for the adoption of anti-money laundering regulations. The respondents opined that the policymakers should enact legislation that can capacitate the commercial banks to and other relevant institutions to fight against money laundering issues. They also added that there is need to strengthen the legal requirement for banks to provide information not only on the founders of the organizations, but also the identity of the person(s) who own, control or direct the activities of the entity, including senior officers, board members and trustees.

4.6 Institutional Capacity

In its second objective the study sought to explore the influence of institutional capacity on the adoption of anti-money laundering regulations by commercial banks in Kenya. In this regard the respondents were required to indicate extent to which institutional capacity affect the adoption of anti-money laundering regulations in commercial banks. The results depicted in Figure 4.8 reveal that an overwhelming majority (51.4%) of the respondents indicated that institutional capacity affect the adoption of anti-money laundering regulations in commercial banks to a great extent. In addition, 35.1% of the respondents pointed that institutional capacity affect the adoption of anti-money laundering regulations in commercial banks to a very great extent, while 13.5% of them cited that institutional capacity affect the adoption of anti-money laundering regulations in commercial banks to a moderate extent. These views imply that institutional capacity plays an integral role in the adoption of anti-money laundering regulations in commercial banks.

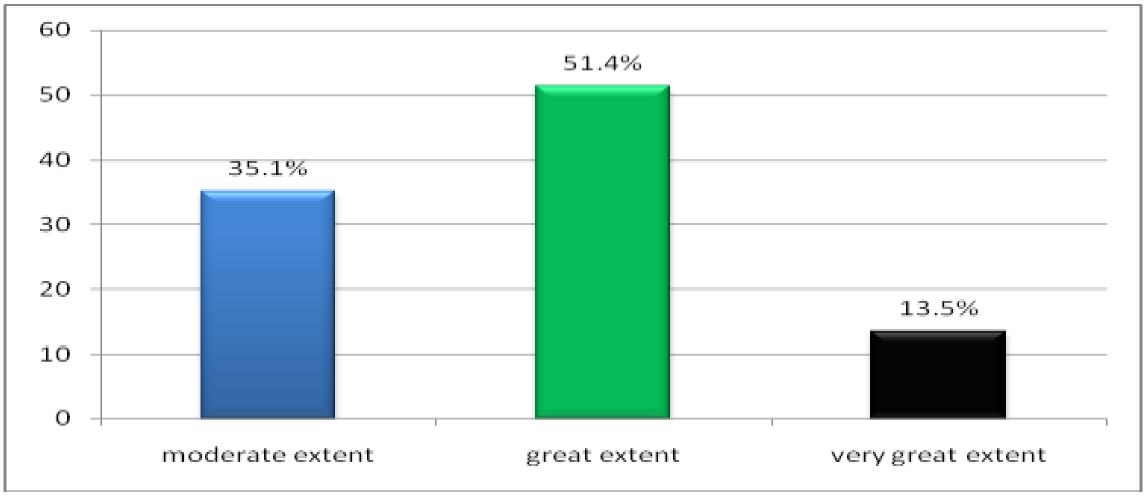


Figure 4.8: Extent to which Institutional Capacity affects AML Regulations

The study was inquisitive of the extent to which various aspects of institutional capacity affect the adoption of anti-money laundering regulations in the banks in Kenya. In this section, the calculated weighted mean is rounded off to the nearest whole and the result counter-checked against the matching number in the key provided.

Table 4.6: Institutional Capacity Aspects affecting Adoption of AML Regulations

Aspects of institutional capacity	Mean	Std. Dev
Internal resources	3.8649	0.78206
Skills and expertise	3.3784	0.78866
Exposure to money laundering	3.5676	0.74173

From the study, majority of the respondents reported that internal resources affect the adoption of anti-money laundering regulations in the banks in Kenya to a great extent as shown by a mean score of 3.8649 as well as exposure to money laundering to a great extent as shown by a mean score of 3.5676. On the other hand, skills and expertise affect the adoption of anti-money laundering regulations in the banks in Kenya to a moderate extent as shown by a mean score of 3.3784. From these results, it is clear that these aspects of institutional capacity of banks are equally important in the implementation of AML regulations.

The respondents were also requested to indicate their views on what should be done on institutional capacity to enhance the adoption of anti-money laundering regulations in Kenyan banks. They indicated that the banks management should offer staff training on anti-money laundering issues, there is need for provision of resources for implementation of AML regulations and that there is need to emphasize on the need for honest and of integrity among the banking employees.

4.7 International Cooperation

The third objective of the study sought to assess the influence of international cooperation on the adoption of anti-money laundering regulations by commercial banks in Kenya. Accordingly, the respondents were requested to indicate the extent to which international cooperation affect the adoption of anti-money laundering regulations in commercial banks. From the study, 43.2% of the respondents reiterated that the international cooperation affect the adoption of anti-money laundering regulations in commercial banks to a moderate extent, 39.2% indicated to a great extent, 14.9% of them showed to a very great extent, while 2.7% of the respondents indicated that international cooperation affect the adoption of anti-money laundering regulations in commercial banks to a little extent. From these insights, it is evident that the international cooperation plays a moderate role in the adoption of anti-money laundering regulations in commercial banks. The results are as depicted in Figure 4.9.

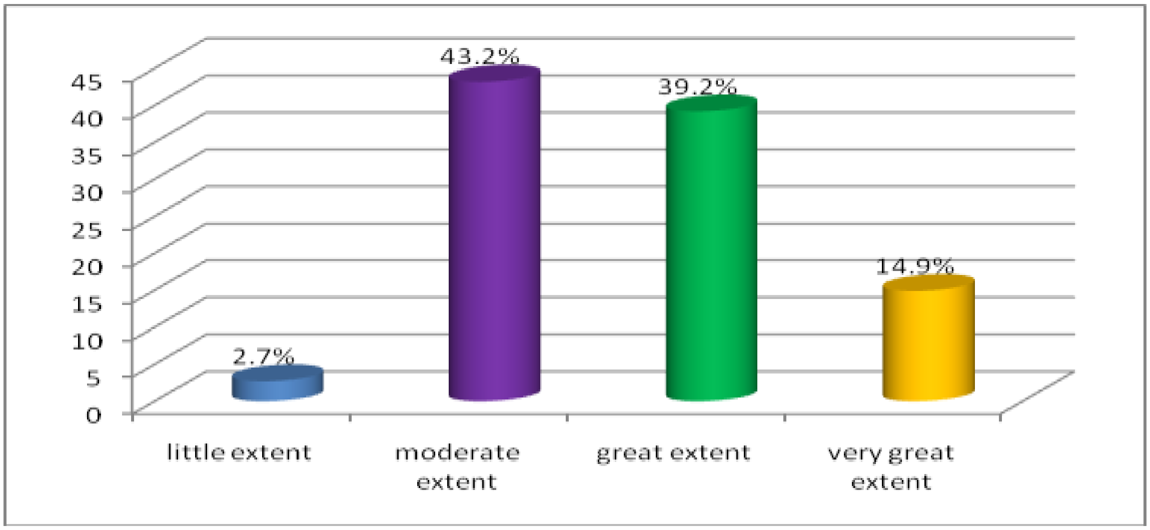


Figure 4.9: International Cooperation affect Adoption of AML Regulations

The study asked the respondents to rate the effects of various aspects of international cooperation on the adoption of anti-money laundering regulations in banks. A scale of 1 to 5 was provided where 1= no extent, 2= little extent, 3= moderate extent, 4= great extent and 5 is to a very great extent.

Table 4.7: International Cooperation Aspects affecting adoption of AML Regulations

Aspects of international cooperation	Mean	Std. Dev
Cross boarder correspondence	3.6622	0.7635
Compatibility of approaches	3.4595	0.84706
Regulation of proceeds from crime	3.5541	0.82995

From the results shown in Table 4.7, majority of the respondents indicated that cross boarder correspondence and regulation of proceeds from crime affect adoption of AML regulations to great extents as shown by mean scores of 3.6622 and 3.5541 respectively. The respondents further recapped that compatibility of approaches affects adoption of AML regulations to a moderate extent as shown by a mean score of 3.4595. These results reveal that the aspects of international cooperation on the adoption of anti-money laundering regulations in banks.

4.8 Technological Advancements

To establish the influence of technological advancements on the adoption of anti-money laundering regulations by commercial banks in Kenya, the respondents were asked their views on the extent to which technological advancements affect the adoption of AML regulations in their banks. According to Figure 4.10, half of the population studied (50%) indicated that technological advancements affect the adoption of AML regulations in their banks to a great extent, 31.1% of them indicated to a moderate extent, 12.2% of the responses showed to a very great extent whereas .68% of them indicated that technological advancements affect the adoption of AML regulations in their banks to a little extent. These results divulge that technological advancements are essential in the adoption of AML regulations in commercial banks especially in the modern era where most operations and transactions are carried out on technologically supported platforms.

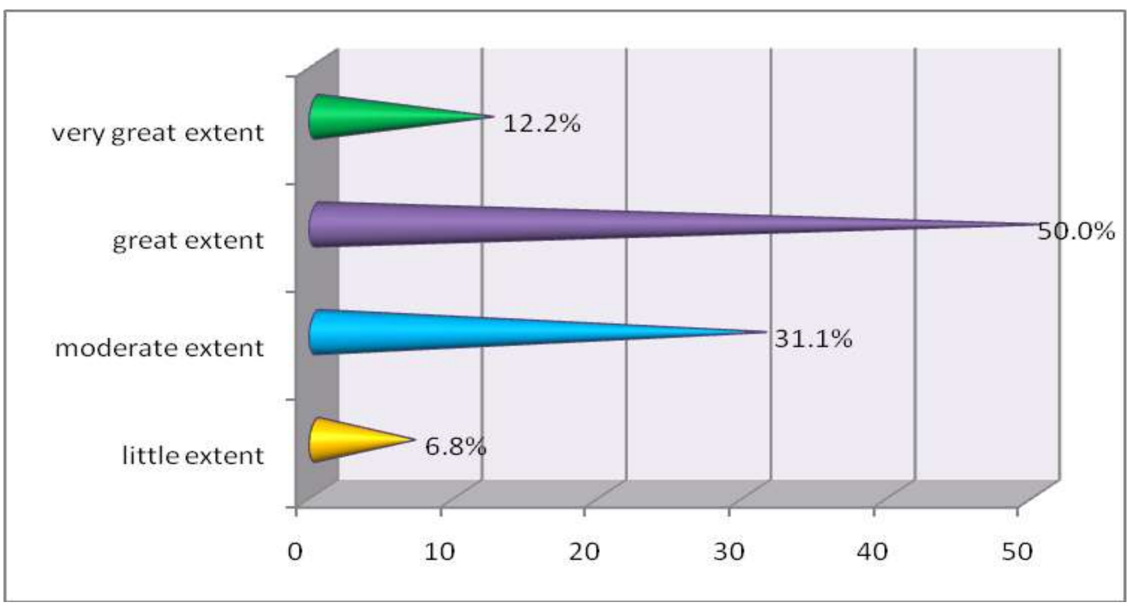


Figure 4.10: Extent to which Technological Advancements affect AML regulations

The study sought to establish the extent to which various aspects of technological advancements affect the adoption of anti-money laundering regulations in commercial banks in Kenya. The results are as depicted in Table 4.8.

Table 4.8: Aspects of Technological Advancements affecting Adoption of AML

Aspects of Technological Advancements	Mean	Std. Dev
Legitimization of virtual currency	3.6216	0.73471
Electronic payment systems	3.4054	0.84268
Digitized information	3.3784	0.83916

The highest ranking mean score as shown in Table 4.8 was 3.6216 implying that majority of the responses showed that legitimization of virtual currency affects the adoption of anti-money laundering regulations in commercial banks in Kenya to a great extent. In addition, most of the respondents indicated that electronic payment systems and digitized information affects the adoption of anti-money laundering regulations in commercial banks in Kenya to moderate extents as shown by mean scores of 3.4054 and 3.3784 correspondingly. These results imply that technological advancements aspects are crucial in the adoption of anti-money laundering regulations in commercial banks in Kenya.

4.9 Diagnostic Tests

Prior to subjecting the data to regression analysis, diagnostic tests were first carried out on the collected data to establish if it conformed to the requisite assumptions. The diagnostic included Multicollinearity test, Normality test, Heteroscedasticity, Unit root test and Huaseman test.

4.9.1 Multicollinearity Test

The first diagnostic test was the multicollinearity test, which was done so as to establish the inter-relatedness of the independent variables (legal enforcement mechanisms, institutional capacity, international cooperation and technological advancements). For this study, the collinearity tests were conducted using correlation analysis. Table 4.9 shows the correlation matrix for the four predictor variables.

Table 4.9: Correlations matrix for the four predictor variables

Variables	Correlations	Anti-money laundering	Legal enforcement mechanisms	Institutional capacity	International cooperation	Technological advancements
Anti-money laundering regulations	Pearson Correlation	1	.321	.526	.122	.166
	Sig. (2-tailed)	.	.020	.032	.039	.024
Legal enforcement mechanisms	Pearson Correlation	.321	1	.426	.166	.174
	Sig. (2-tailed)	.020	.	.002	.024	.030
Institutional capacity	Pearson Correlation	.526	.426	1	.042	.103
	Sig. (2-tailed)	.032	.002	.	.047	.043
International cooperation	Pearson Correlation	.122	.166	.042	1	.097
	Sig. (2-tailed)	.039	.024	.047	.	.046
Technological advancements	Pearson Correlation	.166	.235	.103	.097	1
	Sig. (2-tailed)	.024	.047	.043	.046	

These results show that there is significant relationship among variables (anti-money laundering regulations, legal enforcement mechanisms, institutional capacity, international cooperation and technological advancements). The results indicate that the correlation coefficients for all variables were less than 0.05 implying that the study data did not exhibit severe multi-collinearity. From the findings, there was a positive correlation between anti-money laundering regulations and legal enforcement mechanisms with a correlation figure of 0.321 ($p<0.05$); it was clear that there was a positive correlation between anti-money laundering regulations and institutional capacity with a correlation figure of 0.526 ($p<0.05$); there was a positive correlation between anti-money laundering regulations and international cooperation with a correlation value of 0.122 ($p<0.05$) while there was a positive correlation between anti-money laundering regulations and technological advancements with a correlation value of 0.166 ($p<0.05$). Multi-collinearity arises when two or more independent variables are highly correlated with each other.

4.9.2 Normality Test

A diagnostic test to ascertain the normality of the factors influencing adoption of anti money laundering regulations by commercial banks in Kenya was undertaken. In this study the Kolmogorov-Smirnov (K-S) test was constructed to check for normality so as to ensure that the residuals in the model behaved normal. The test was used to test the null hypothesis that the distribution of the residuals was normal. The results are presented by the Table 4.10.

Table 4.10: One-Sample Kolmogorov-Smirnov Test

Indicator	**Adoption of AML regulation**	
N	74	
Normal Parametersa,b	Mean	3.8638
	Std. Deviation	0.8055
Most Extreme	Absolute	0.183
Differences	Positive	0.123
	Negative	-0.183
Kolmogorov-Smirnov Z	1.933	
Asymp. Sig. (2-tailed)	0.001	

The results obtained in Table 4.10 indicated that Kolmogorov-Smirnov Z is 1.933 (p-value= 0.001) the p-value is less than 0.05; we fail to accept the null hypothesis and accept the alternative hypothesis and conclude that the data was normally distributed. K-S test was used to decide if a sample comes from a population with a completely specified continuous distribution. Based on the output coefficient, the obtained value of significance of the adoption of anti-money laundering regulation is 0.001, meaning that the value of the variable significance is less than 0.05. It can be concluded that the data is normal and that the data did not deviate significantly from the normal distribution and for this reason it was safe to use statistical tests and procedures that assume normality of the variables.

4.9.3 Heteroscedasticity Test

In this study Heteroscedasticity was tested using the Breuch-pagan / cook-weisberg test. For the Breusch-Pagan / CookWeisberg test, the null hypothesis is that the error variances are all equal while the alternative hypothesis is that the error variances are a multiplicative function of one or more variables. Homoscedasticity is evident when the value of "Prob > Chi-squared" is greater than 0.05. The results for the Heteroscedasticity tests were as shown in Table 4.11. The study variables were legal enforcement mechanisms, institutional capacity, international cooperation and technological advancements represented by X_1, X_2, X_3, X_4 respectively.

Table 4.11: Test for Heteroscedasticity

HO	Variables	Chi^2	$Prob>Chi^2$
Constant Variance	X_1,X_2, X_3, X_4	56.02	0.323

Table 4.11 shows that the constant variance ($Chi^2 = 56.02$) is insignificant ($P = 0.323$). Thus the study failed to reject the null hypothesis and conclude that the error variance is equal thus heteroscedasticity is not a problem in the study data. Hence, the study accepted the null hypothesis that there is no difference in residual variance of independent to dependent variables tested.

4.10 Reliability and Validity Tests

The study conducted pilot test to test the reliability and validity of the research instrument. The pilot study was conducted using 10 respondents drawn from other financial institutions.

4.10.1 Reliability Test

Cronbach's alpha test was carried out to determine the reliability of the questionnaire. The researcher utilized this approach in the mock survey where sample questionnaires were issued to a group of respondents. The main areas of concern were language and question clarity, and suitability. The study conducted a pretest to test the reliability of the research instrument. Table 4.12 shows the results.

Table 4.12: Reliability Analysis

Factor	Cronbach's Alpha	Number of Items	Comments
Legal enforcement mechanisms	0.741	5	Accepted
Institutional capacity	0.720	4	Accepted
International cooperation	0.743	4	Accepted
Technological advancements	0.729	6	Accepted

From the pretest, all the alpha values were more than 0.7 as indicated in Table 4.12. Legal enforcement mechanisms had an alpha value of 0.741, institutional capacity had Cronbach's alpha value of 0.720, international cooperation had an alpha value of 0.743, and Technological advancements had a Cronbach's alpha value of 0.729. Accordingly, all the Cronbach alpha values were found to be above 0.7 for all the variables and therefore the construct was found to be acceptable. Based on results in Table 4.13 it is clear that the research instrument was reliable with Cronbach's alpha value of above 0.7. These results correlate with Mugenda and Mugenda (2012) argument that coefficient of 0.6 to 0.7 is a commonly accepted rule of thumb that indicates acceptable reliability and 0.8 or higher indicated good reliability.

4.10.2 Validity Test

Content validity which was employed by this study is a measure of the degree to which data collected using a particular instrument represents a specific domain or content of a particular concept. Two validity tests were assessed; face validity test and internal construct validity. A pilot survey was conducted to test the face validity of the study instrument. The questionnaire was administered to 10 respondents drawn from other financial institutions and they were asked to make any comments on questions or terms which were unclear or ambiguous. Their feedback was used to remove vague questions, double barreled questions and to improve the research instrument that was then adopted in the survey. Internal construct validity was indicated if the same items that reflect a factor in one study load on the same factor on replication.

4.11 Inferential Analysis

To complement the descriptive results, the researcher conducted inferential analyses involving coefficient of determination, Analysis of Variance (ANOVA) and regression analysis. The dependent variable in this study was Adoption of anti-money laundering regulation (measured in terms of customer screening/KYC policies, prudential accounting and reporting and monitoring of transactions) while the independent variables were legal enforcement mechanisms, institutional capacity, international cooperation and technological advancements. The researcher applied the statistical package for social sciences (SPSS) to code, enter and compute the measurements of the multiple regressions for the study.

To establish the relationship between the independent variables and the dependent variable of the study the study conducted multiple regression analysis. The model summary for the regression is shown in Table 4.13.

Table 4.13: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.743(a)	.552	.526	.44595

Predictors: (Constant), Legal enforcement mechanisms, institutional capacity, international cooperation and technological advancements

Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (adoption of AML regulations) that is explained by all the four independent variables (legal enforcement mechanisms, institutional capacity, international cooperation and technological advancements). The four independent variables that were studied, explain 55.2% of the adoption of AML regulations by commercial banks in Kenya as represented by the R^2. This therefore means the four independent variables only contribute about 55.2% of the adoption of AML regulations in banks while other factors not studied in this research contributes 44.8% of the adoption of AML regulations in banks.

The Analysis of variance (ANOVA) was used to determine whether there was a regression relationship between the study variables. The F-ratio in the ANOVA table tested whether the overall regression model was good and fit for the data. The results obtained are presented in Table 4.14.

Table 4.14: ANOVA (b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	16.927	4	4.232	1.278	.000(a)
	Residual	13.722	69	0.199		
	Total	30.649	73			

Predictors: (Constant), Legal enforcement mechanisms, institutional capacity, international cooperation and technological advancements

Dependent Variable: Adoption of AML regulations by commercial banks

One way analysis of variance (ANOVA) that provided information about levels of variability within the regression model and which formed a basis for tests of significance was used. The ANOVA F-statistic was used to test the research questions for the regressor coefficients for each variable to be equal to zero. From the ANOVA statistics in Table 4.11, the processed data had a significance level of 0.000 which shows that the model is fit to predict the relationship between the independent and the dependent variables. The F calculated at 5% Level of significance was 1.278. Since F calculated is greater than the F critical (at 4, 69), this shows that the overall model was significant i.e. there is a significant relationship between various factors studied and adoption of AML regulations by commercial banks. Statistical tests of ANOVA reveal that the four factors are crucial for adoption of AML regulations by commercial banks.

The researcher further conducted a regression analysis to determine the relationship between the four factors and adoption of AML regulations in commercial banks. The coefficients in Table 4.15 answer the regression equation relating the dependent and the independent variables.

Table 4.15: Multiple Regression Analysis

	Unstandardized Coefficients		T	Sig.
	B	Std. Error		
(Constant)	0.991	.491	2.018	.047
Legal enforcement mechanisms	0.376	.125	3.008	.004
Institutional capacity	0.287	.078	3.679	.048
International cooperation	0.316	.076	4.158	.013
Technological advancements	0.333	.109	3.055	.007

Source: Author (2018)

Testing the significance of the coefficients at 95% confidence level, the table indicates that all the variables had a significance value less than 0.05 thus confirming the significance of the results. Also, from the table, all the variables indicated a positive coefficient indicating a positive relationship between the dependent and independent variables. Based on these coefficients, the regression model ($Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$) therefore becomes;

$$Y=0.991 + 0.376X_1 + 0.287X_2 + 0.316X_3 + 0.333X_4$$

The model indicates that, holding the predictor variables (legal enforcement mechanisms, institutional capacity, international cooperation and technological advancements) constant, the adoption of AML regulations in commercial banks would be 0.991. An increase in legal enforcement mechanisms by one unit leads to an increase in the adoption of AML regulations in commercial banks by 0.376 unit. This had a significant value of 0.004 which is less than 0.05 depicting the significance of the relationship between legal enforcement mechanisms and adoption of AML regulations in commercial banks. Therefore, based on these, there is a positive and significant relationship between legal enforcement mechanisms and adoption of AML regulations in commercial banks. This shows that, a unit increase in the legal enforcement mechanisms reforms would result to 0.376 times increase in adoption of AML regulations in commercial banks.

Institutional capacity was also seen to have a positive effect on the adoption of AML regulations in commercial banks. This is shown by the regression coefficient of 0.287 with a significance value of 0.048 which is less than 0.05 the critical value at the 5% level of significance. This therefore shows that given a unit increase in institutional capacity would result to 0.287 increase in adoption of AML regulations in commercial banks. The regression model as well shows that international cooperation is positively related to adoption of AML regulations in commercial banks. The regression coefficient for this was obtained to be 0.316 with a significant value of 0.013 less than 0.05 indicating a significant effect of international cooperation on adoption of AML regulations in commercial banks. Thus, a unit growth in international cooperation would result to 0.357 times increase in adoption of AML regulations in commercial banks.

Further, technological advancements were seen to have a positive effect on the adoption of AML regulations in commercial banks. This is shown by the regression coefficient of 0.333 with a significance value of 0.007 which is less than 0.05 the critical value at the 5% level of significance. This therefore shows that given a unit increase in technological advancements would result to 0.333 increase in adoption of AML regulations in commercial banks. According to these findings, legal enforcement mechanisms contributes more to the increase of adoption of AML regulations in commercial banks followed by technological advancements, then international cooperation while institutional capacity contributes the least to the adoption of AML regulations in commercial banks.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes whole study process from the introduction to the end of data analysis. The study sought to investigate the factors influencing adoption of anti-money laundering regulations by commercial banks. The various sections presented in this chapter include summary, discussions, conclusions and recommendations.

5.2 Summary of Findings

The study found that the commercial banks are faced with money laundering problems to a great extent. some of the money laundering occurrences that have ever been experienced in the banks include criminal income, income from organized criminal gang activities, finances from drug smuggling, money obtained from illegal off-shore companies and business, large financial transfers from corrupt deals and sums generated from pervasive abuse of office. However, the banks have implemented the anti-money laundering policies to a great extent.

5.2.1 Legal Enforcement Mechanisms and Adoption of AML Regulations

The study found that legal enforcement mechanisms affect the adoption of anti-money laundering regulations in commercial banks in Kenya to a great extent. From the results, willingness of enforcers, length of the litigation process and prosecution of launderers affect the adoption of anti-money laundering regulations in commercial banks. As such, the policymakers ought to enact legislation that can capacitate the commercial banks to and other relevant institutions to fight against money laundering issues. These results concur with the findings by Johnson (2012) who established that lack of legal enforcement mechanisms derails the implementation of AML regulations. In the same view, David (2011) argued that regulatory policies and procedures enable organizations to free themselves from illegal money and avoid incurring unnecessary costs. However, according to Tupman (2015), despite robust laws that criminalize money laundering and terrorist financing activities and empower authorities to confiscate assets, prosecutions and convictions have been few, and the rate of confiscation is low.

5.2.2 Institutional Capacity and Adoption of AML Regulations

The study found that institutional capacity affects the adoption of anti-money laundering regulations in commercial banks to a great extent. In addition, the study established that internal resources and exposure to money laundering positively affects the adoption of anti-money laundering regulations in the banks. As such, the banks management should offer staff training on anti-money laundering issues and emphasize on the need for honest and of integrity among the banking employees. These results are in agreement with Subbotina (2014) who found that lack of skills, training, and resources often hinders the capacity to establish and prevents competent supervisory authorities from conducting adequate oversight of AML. In the same view, Turner (2011) indicated that an effective implementation of AML regulations requires that institutional elements be in place, including good regulatory framework, appropriate measures to prevent corruption, rule of law, government effectiveness, culture of compliance and an effective judicial system. In support of this study findings, Mei and Zhou (2015) pointed that one of the strategic approaches through which to resolve the challenges of institutional capacity was through creating the employee's required personality as well as inspiring honest and of integrity.

5.2.3 International Cooperation and Adoption of AML Regulations

The study established that international cooperation affects the adoption of anti-money laundering regulations in commercial banks to a moderate extent. From the study, cross boarder correspondence and international regulation of proceeds from crime affect adoption of AML regulations by commercial banks affect adoption of AML regulations to great extents. These results concur with Fleming (2015) and Mugarura (2017) who reported that relationships between economies are based on mutual noninterference in one other's domestic affairs which render international cooperation and mutual assistance arrangements in the adoption of AML regulations more challenging and time consuming. To deal with cross boarder correspondence, compatibility of approaches and regulation of proceeds from crime Ping (2010) established that 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.

5.2.4 Technological Advancements and Adoption of AML Regulations

The study revealed that technological advancements affect the adoption of AML regulations in their banks to a great extent. From the results, legitimization of virtual currency, electronic payment systems and digitized information influence the adoption of anti-money laundering regulations by commercial banks in Kenya. These results are in coincidence with thoise of Amali (2016) who indicated that the Anti-Money Laundering

System becomes structurally coupled with the system of technology with which it co-evolves. This is because technology enables banks to look at transactions together as opposed to one transaction in a vacuum. Hopton (2016) also found that e-Bullion (a former Internet-based digital gold currency) allowed individuals engaging in fraud to move money around the world while remaining virtually anonymous and avoiding many global banking reporting requirements. According to the DoS (2014), organized criminal groups were using an online role-playing game to facilitate money laundering by purchasing virtual game currency with the proceeds of criminal activity.

5.3 Conclusions

The study concludes that the commercial banks are significantly faced with money laundering problems. The banks in Kenya have made strides in implementing the anti-money laundering policies. The commercial banks have focused on various aspects of the AML policy provisions. The banks have been steadfast in implementing the AML policies touching on various areas of their operations. The hall mark of any financial institution is its reputation for integrity which can be seriously undermined if funds from criminal activity can be easily processed through that particular institution thus creating a perception of active complicity criminal networks.

The study deduces that legal enforcement mechanisms are crucial in the adoption of anti-money laundering regulations in commercial banks in Kenya. Legal mechanisms and jurisdictions are considerably relevant in the implementation of regulations aimed at curbing money laundering activities in the commercial banks. Cross boarder correspondence, compatibility of approaches and regulation of proceeds from crime affect the adoption of anti-money laundering regulations in banks.

The study revealed that institutional capacity affects the adoption of anti-money laundering regulations in commercial banks. Internal resources and exposure to money laundering affect the adoption of anti-money laundering regulations in the banks in Kenya. In addition, staff training, provision of resources, staff honesty and integrity among the banking employees would be crucial in facilitating the adoption of AML regulations. The study found that international cooperation affects the adoption of anti-money laundering regulations in commercial banks. Cross boarder correspondence, compatibility of approaches and regulation of proceeds from crime affect adoption of AML regulations in commercial banks.

The study finally concludes that technological advancements are essential in the adoption of AML regulations in commercial banks especially in the modern era where most operations and transactions are carried out on technologically supported platforms. Legitimization of virtual currency, electronic payment systems and digitized information affect the adoption of anti-money laundering regulations in commercial banks in Kenya.

From the inferential analysis, legal enforcement mechanisms contributes more to the increase of adoption of AML regulations in commercial banks followed by technological advancements, then international cooperation while institutional capacity contributes the least to the adoption of AML regulations in commercial banks.

5.4 Recommendations

The study recommends that there is need to strengthen the legal enforcement mechanisms on the adoption money laundering regulations. There is need to ensure that there is enforcement of prudential accounting and reporting, monitoring of transactions and training of enforcing staffs on anti-money laundering issues. This would strengthen sanctions available and clarify the government body responsible for their implementation in the fight of money laundering in the Country. The relevant policymakers should enact legislations that can capacitate the commercial banks to and other relevant institutions to fight against money laundering issues.

The study recommends the management of commercial banks to offer staff training on anti-money laundering issues, ensure the stability and integrity of the financial system the financial action task force (FATF) should continue to be implemented in addition to regulatory and institutional framework under the AML Act, in collaboration with the Central Bank of Kenya (CBK).

The study also recommends the policymakers to enact legislation that can capacitate the commercial banks to and other relevant institutions to fight against money laundering issues. The study also recommends the banks to undertake a comprehensive risk assessment of the sector, to include the identification of the categories of money laundering acts which might be more at risk of being misused for facilitating illegal activities by virtue of their characteristics. There is need to raise the level of awareness on AML measures across borders, there is need to monitor keenly the online services and exercise of oversight by jurisdictions chartering internet banking. This will act as a barrier to cross border money laundering activities involving criminal incomes, income from organized criminal gang activities, finances from drug smuggling, money obtained from illegal off-shore companies and business, large financial transfers from corrupt deals and sums generated from pervasive abuse of office.

The study recommends the banks to develop and adopt use of advanced technologies to enhance adoption of AML regulations. This is because banks that do not have the technological systems are likely to experience money laundering activities without detecting them. Accordingly, there is need for advanced technologies to detect laundering of virtual currencies, laundering of electronic payment systems and laundering in form of digitized information.

5.5 Limitations of the Study

The researcher was likely to encounter various limitations that might have hindered access to information sought by the study. The main limitation of study was its inability to include more institutions in the Country. This was a study focusing on commercial banks in Kenya. The study could have covered more institutions across the Country so as to provide a more broad based analysis. The researcher countered this problem by carrying a study all the commercial banks in Kenya where staffs working in various departments in the banks' head offices were selected and served as a representative.

The respondents approached were likely to be reluctant in giving information fearing that the information sought would be used to intimidate them or print a negative image about them or the banks. The researcher handled the problem by assuring them that the information they gave would be treated confidentially and it would be used purely for academic purposes.

5.6 Suggestions for Future Studies

This study focused on investigating effects of AML policies on money laundering in banks in Kenya. To validate the findings of this study, this study recommends that future studies be replicated in different financial institutions. This could be undertaken in a large bank especially the top 5 banks in asset size in Kenya or the East African region. Furthermore, a similar study using multiple financial institutions could also provide substantive literature for comparison.

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APPENDICES

Appendix I: Introductory Letter

Dear Respondent,

My name is Peter Mwirigi, a postgraduate student at KCA University pursuing Masters of Science in Commerce. I am currently undertaking a research on the **FACTORS INFLUENCING ADOPTION OF ANTI MONEY LAUNDERING REGULATIONS BY COMMERCIAL BANKS IN KENYA**. The focus of my research will be on the top and middle management staffs working in the commercial banks in Kenya. Please accept my invitation to participate in this research by sparing some time to fill the questionnaire.

This questionnaire is being administered for research purposes and any information provided will be used purely for academic purposes and will be treated with confidentiality.

Thank you.

Yours faithfully,

Peter Mwirigi

KCA University

Appendix II: Research Questionnaire

This questionnaire is designed to collect data on the **Factors Influencing Adoption of Anti Money Laundering Regulations by Commercial Banks in Kenya**. This questionnaire consists of three major parts. Kindly respond to all questions by putting a tick (√) in the box matching your answer or write your answer in the space provided if it is not included in the choices. The information given here will only be used for purposes of this study and will be treated with utmost confidentiality. Your cooperation will be highly appreciated.

SECTION A: GENERAL INFORMATION

4 Please indicate your gender:

Male [ ]   Female [ ]

5 Please indicate your age (in years):

20-25 [ ]   26-30 [ ]   31-35 [ ]   36-40 [ ]

41-45 [ ]   46-50 [ ]   51 and above [ ]

6 For how long have you been working in this Bank?

1-3yrs [ ]   4-6yrs [ ]

7-9yrs [ ]   10 yrs and Above [ ]

7 What is your current job level in the organization structure?

Senior Management Team [ ]   Middle Level Management Team [ ]

8 What is your highest level of education?

Certificate [ ]   Diploma [ ]

Bachelor's Degree [ ]   Masters [ ]

PhD [ ]   Others (Specify............................) [ ]

9 Kindly, indicate the department you are working in.

Human Resource & Administration [ ]   Risk Management [ ]

Business Growth and Development [ ]   Internal Audit [ ]

Corporate Strategy and Planning [ ]   Finance [ ]

Any other (specify)………………………………………………… [ ]

SECTION B: ADOPTION OF ANTI-MONEY LAUNDERING REGULATIONS

10 To what extent has this Bank been faced with money laundering problems?

To a very great extent	To a great extent	To a moderate extent	To a little extent	To no extent

11 Kindly list some of the money laundering occurrences that have been experienced in this Bank

……………………………………………………………………………………………

……………………………………………………………………………………………

……………………………………………………………………………………………

12 To what extent has this Bank implemented the anti-money laundering policies?

To a very great extent	To a great extent	To a moderate extent	To a little extent	To no extent

13 To what extent does this bank focus on the following aspects of AML regulations/Policies? Rate on a scale of 1 to 5 where 1= no extent, 2= little extent, 3= moderate extent, 4= great extent and 5 is to a very great extent.

Aspects of AML Regulations /Policies	**1**	**2**	**3**	**4**	**5**
k) Customer screening/KYC policies					
l) Prudential accounting and reporting					
m) Monitoring of transaction					
n) A centralized customer account opening and monitoring centre					
o) Staff training on anti-money laundering issues					
p) KYC or customer identification screening program					
q) A documented and approved AML policy and procedures					
r) Filling forms to report transactions on SAR					
s) Application of Customer Identification Program (CIP)					
t) Creating awareness on suspicious account reporting (SAR)					
u) Other(Specify…………………………..……… ………….)					

14 To what extent have the anti-money laundering policies affected the following aspects of money laundering in this bank? Use a scale of 1 to 5 where 1= no extent, 2= little extent, 3= moderate extent, 4= great extent and 5 is to a very great extent.

Aspects of money laundering	**1**	**2**	**3**	**4**	**5**
Prohibited Business					
Reputational Risk					
Termination of Banking Business					
Monetary Penalties					
Other (Specify……………………….…………….)					

Legal Enforcement Mechanisms

15 To what extent do legal enforcement mechanisms affect the adoption of anti-money laundering regulations in this bank?

To a very great extent	[ ]	To a great extent	[ ]
To a moderate extent	[ ]	To a low extent	[ ]
To no extent at all	[ ]		

16 Rate the extent to which the following aspects of legal enforcement mechanisms affect the adoption of anti-money laundering regulations in this bank? Rate on a scale of 1 to 5 where 1= no extent, 2= little extent, 3= moderate extent, 4= great extent and 5 is to a very great extent.

Aspects of legal enforcement mechanisms	**1**	**2**	**3**	**4**	**5**
Prosecution of launderers					
Length of the litigation process					
Willingness of enforcers					

17 Kindly outline the possible approaches that can enhance legal enforcement mechanisms for the adoption of anti-money laundering regulations?

…………………………………………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………………

Institutional Capacity

18 To what extent do institutional capacity mechanisms affect the adoption of anti-money laundering regulations in this bank?

To a very great extent	[ ]	To a great extent	[ ]
To a moderate extent	[ ]	To a low extent	[ ]
To no extent at all	[ ]		

19 To what extent do the following aspects of institutional capacity affect the adoption of anti-money laundering regulations in this bank? Rate on a scale of 1 to 5 where 1= no extent, 2= little extent, 3= moderate extent, 4= great extent and 5 is to a very great extent.

Aspects of institutional capacity	**1**	**2**	**3**	**4**	**5**
Internal resources					
Skills and expertise					
Exposure to money laundering					
Other (Specify……………………………...……)					

20 What do you think should be done on institutional capacity to enhance the adoption of anti-money laundering regulations in this bank?

…………………………………………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………………

International Cooperation

21 To what extent does international cooperation affect the adoption of anti-money laundering regulations in this bank?

To a very great extent	[ ]	To a great extent	[ ]
To a moderate extent	[ ]	To a low extent	[ ]
To no extent at all	[ ]		

22 Rate the extent to which the following aspects of international cooperation affect the adoption of anti-money laundering regulations in this bank? Rate on a scale of 1 to 5 where 1= no extent, 2= little extent, 3= moderate extent, 4= great extent and 5 is to a very great extent.

Aspects of international cooperation	**1**	**2**	**3**	**4**	**5**
Cross boarder correspondence					
Compatibility of approaches					
Regulation of proceeds from crime					

Other (Specify…………………………...……)					

23 How can international cooperation be streamlined to facilitate the adoption of anti-money laundering regulations in banks?

…………………………………………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………………

Technological Advancements

24 To what extent do technological advancements affect the adoption of anti-money laundering regulations in this bank?

To a very great extent [ ] To a great extent [ ]
To a moderate extent [ ] To a low extent [ ]
To no extent at all [ ]

25 With regard to this bank, to what extent do the following aspects of technological advancements affect the adoption of anti-money laundering regulations in commercial banks in Kenya? Rate on a scale of 1 to 5 where 1= no extent, 2= little extent, 3= moderate extent, 4= great extent and 5 is to a very great extent.

Legitimization of virtual currency					
Electronic payment systems					
Digitized information					
Other (Specify………………………...……)					

26 What do you think should be done to enhance effectiveness of anti-money laundering policies in the commercial banks?

…………………………………………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………………

Thank you

Appendix III: List of Commercial Banks in Kenya

1. African Banking Corporation Limited
2. Bank of Africa Kenya Limited
3. Bank of Baroda (K) Limited
4. Bank of India
5. Barclays Bank of Kenya Limited
6. Charterhouse Bank Limited Under - Statutory Management
7. Chase Bank (K) Limited in Receivership
8. Citibank N.A Kenya
9. Commercial Bank of Africa Limited
10. Consolidated Bank of Kenya Limited
11. Co-operative Bank of Kenya
12. Credit Bank Limited
13. Development Bank of Kenya Limited
14. Diamond Trust Bank Kenya Limited
15. DIB Bank (Kenya) Limited
16. Ecobank Kenya
17. Spire Bank Ltd
18. Equity Bank Kenya Limited
19. Family Bank Limited
20. Fidelity Commercial Bank Limited
21. First Community Bank Limited
22. Guaranty Trust Bank (K) Ltd
23. Guardian Bank Limited
24. Gulf African Bank Limited
25. Habib Bank A.G Zurich
26. Habib Bank
27. Imperial Bank Limited in Receivership
28. I & M Bank Limited
29. Jamii Bora Bank Limited
30. KCB Bank Kenya Limited
31. Middle East Bank (K) Limited
32. National Bank of Kenya Limited
33. NIC Bank Limited
34. M-Oriental Bank Limited
35. Paramount Bank
36. Prime Bank Limited
37. Sidian Bank Limited
38. Stanbic Bank Kenya Limited
39. Standard Chartered Bank Kenya Limited
40. Trans-National Bank Limited
41. UBA Kenya Bank Limited
42. Victoria Commercial Bank Limited