DETERMINANTS OF KNOW YOUR CUSTOMERS (KYC) COMPLIANCE AMONG COMMERCIAL BANKS IN KENYA

BY

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DECLARATION

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

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

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ABSTRACT

The need to really know-your-customer (KYC) is the very base of a outstanding economical operation. As a measure of sensible behavior/good practice, well-established banking companies often follow KYC requirements which are stronger than what is called for under law. Know Your Client (KYC) fulfillment parameter has confirmed to be among the biggest efficient encounters banking companies and as well economical companies globally have had to surmount. The KYC submission require, for every of its outstanding results, has loaded banking companies as well as other economical companies with a significant handling commitment. Moreover to this, it increasingly includes the development of auditable proof of due determination activities, along with the call for customer recognition. The purpose of the analysis was to set up the factors of know-your-customer submission among expert banking companies in African-american. There are 43 expert banking companies in African-american. The analysis focused more on the area and particularly the top and middle level management group. From each stratum the analysis used stratified unique examining to select a example of members. From the target population of four hundred and forty four, examples of 10% was selected from within each group in percentages that each group maintains to the analysis population. The analysis collected both primary and more information. Primary information was collected using a set of questions while more information was obtained from books, standard bank books and reviews of the selected banking companies. Self-administered reviews were used to collect primary information. Data was analyzed on the basis of illustrative analysis. Content analysis was used to assess quantitative information. In order to determine the level of submission with KYC requirements by expert banking companies in African-american a straight line multiple regressions was used. The analysis found that Client functions be a factor more to the Commercial banking companies Conformity with KYC requirements in African-american followed by the Size of standard bank then Staff expertise while ICT functions had the least effect. The analysis indicates that untrue stories provided with or without evil objectives created a lasting illegal view of the client by the lending company. The analysis further indicates that little banking companies are not able to meet KYC submission cost. Moreover the analysis indicates that group activities and physical functions effect assistance support and effective KYC procedures submission. Finally the analysis indicates that the risk information of economical is high and should be personalized especially with respect to KYC. The analysis therefore indicates that the workers should be as precise as possible in the facts given to improve connections between them and the customers. The analysis further indicates little banking companies to make sure that they provide things to look for and generate confidence in their customers. Small standard bank owners must find creative ways to use their limited resources to grow the business while running the day-to-day functions of the lending company.

KeyWords: KYC

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DEDICATION

I dedicate this dissertation to my late friend and cousin Peter Ondiek Sagimo for his support and encouragement which enabled me go through this venture. His counsel has been of great help to me over the years. My his soul rest in eternal peace.

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LIST OF ABBREVIATIONS

ACAMS – Association of Certified Anti-Money Laundering Specialists

AML – Anti-Money Laundering

ATF – Anti Terrorism Financing

BCBS – Basel Committee on Banking Supervision

CBK – Central Bank of Kenya

ICT– Information Communication Technology

IT - Information Technology

KCB – Kenya Commercial Bank

KIB – Kenya Institute of Bankers

KBA – Kenya Bankers Association

KPMG - Klynveld Peat Marwick Goerdeler

KYC – Know Your Customer

PEPs – Politically Exposed Personalities

PG – Prudential Guidelines

SPSS – Statistical Package for Social Sciences

CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

The need to really KYC is the very foundation of a good banking operation. As a measure of prudent behavior/good practice, well-established banks often follow KYC standards which are stricter than what is called for under law. In combination with other factors, it is necessary to identify what information is 'really' required (usually, all data required under law would be a must) and what could possibly be done without (regulators may be open to negotiating on some of the requirements under remediation effort – for example, retail customers who are 'local residents' and have maintained a relationship beyond a threshold period of time) (Rothwell, 2007). Understanding a client is the most assiduousness and bank guideline that monetary organizations as well as other synchronized corporations ought to execute to recognize their clients and create significant information related to doing financial dealing among them.

KYC is in general a strategy put in position to be traditional to a client identification strategy approved in the, department 36 of the Economical Act Cap. 488 of the rulings of South Africa, 1966. Identify your client techniques are becoming progressively more significant worldwide to avoid character robbery fraud, resources decontaminating as well as capitalist financing. In an simple framework these rules might affiliate with addressing twelve issues, however this is the fixed flow of issues and supervisors keep on for much more.

According to Rothwell (2007), KYC ought not to be regarded as a summary to be filled, but as a process to be followed from the starting of a client company to the end. Ruijgrok (2008) argues that the complying objective by financial bodies has a progressively more important liability to join in protecting the distributed morality and position of the body. The writer additionally elaborates that the authoritarian environment is becoming difficult as well with obviously limitless flow of fresh set of rules. In the 2007 depository control declaration, Main Economical institution of Kenya (CBK) shows that financial organizations have exposed a increasing concentration of commitment in the previous few years to keep fast to progressively more firm authoritarian requirements such as anti-capital washing businesses.

KYC is a basic part of impressive professional development carried out to make all the relevant research concerning a potential client (Mitsilegas, 2003). The Standard Economical institution faction threat management techniques identify Your Client as a way by which the lender understands his/her customer as well as their financial dealings so as to be present at them better and run its threats more carefully.

According to Holton (2006) KYC is the foundation of the process that plans to ensure that the profit-making financial organizations do not set up an association with anybody on the United Countries permit list that maintains titles of people that are regarded as drug suppliers, resources launderers, terrorists or other types of international unlawful actions. The author argues that know your customer focuses on understanding the client throughout the company as well as maintaining this attention improved over the complete show. As indicated by Lilley (2003) KYC is the primary range of justified reason to a bank in resistance to scammers (Rothwell, 2007). In storing, KYC form is an requested framework through which any potential bank client follows prior to creating an contract with the lender and is constantly monitored all through the association.

KYC is considered to be a management device put in position by the Central bank of Kenya and it is often used to direct financial organizations in South Africa of the opportunity where they can get a true legal company with customers. Know your customer regulates the chance of a bank or the client using the other in terms of excessive neglect or total unlawful action like fraud or resources washing. KYC, amongst other authoritarian equipment is embodied in the CBK Prudential Procedure which controls the least concepts for daily working activities of a bank as well as the confirming framework (Sharma, 2008).

Prudential Techniques are guidelines which the CBK is approved through the Economical Act to make so as to make sure that the storing business is well performed. The KYC techniques are intended to act as fundamental requirements together with which all persistence gamers must meet. The guidelines are analyzed in compliance to the industry characteristics with the most recent assessment having been made in Jan 2008. These assessments amongst others are intended to give an environment suitable for a strong financial synchronization in range with the vital banking activities worldwide (Muller 2007).

The Kenyan Economical business performs a important liability in business and industry growth of the country by gathering importance through helping the quality of the alternative of products and services as financial arbitrator. In this powerful environment, labor unions have constantly customized their activities and interior design to duplicate the unique side-line truths; failing of which makes the company end up in a danger (Aosa, 1998). Banks need to target together with the globe's best put into practice moreover to satisfying Main Economical institution of South Africa requirements (Mwende, 2007).

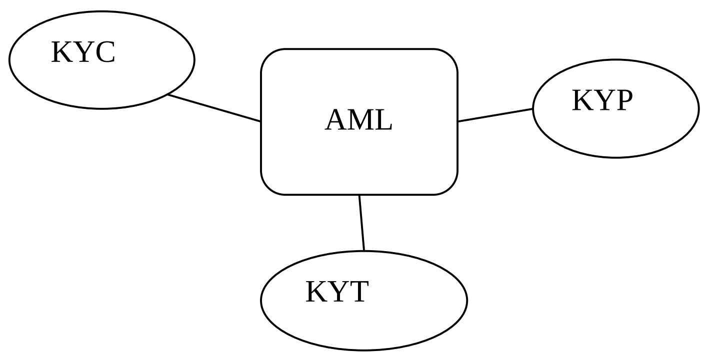
The move by Main Economical institution of South Africa to get a risk-based approach as from 2005 in bank guidance has moved focus to determining threat areas more than just the traditional review exercise (PKF news, 2007). This is meant to teach a threat management lifestyle whose foundation is the practical recognition of threats to the banking industry balance (CBK examination report, 2007). CBK performs a critical part in controlling the financial activity in the country. Know your client control is one of the ways that CBK uses to improve assurance and security among the gamers in the financial industry.

In an effort to provide the much needed assurance, balance and self-discipline among industry gamers to keep industry reliability which is the major characteristic of any audio economic climate, the CBK performs a key efficient part of certification and monitoring all approved traders with the acceptance of the Reverend for Finance among other responsibilities (C.B.K. Act Cap. 491 of the rules of South Africa, 1966). This has a free part on the functions of the Economical Act (Cap 488) that further controls the modus operandi of all certified professional financial organizations and banking organizations in South Africa.

The objective of control in banking is to protect public savings, generate balance in financial systems and prevent misuse of the economic climate (Peter and & Hudgins, 2005). KYC is one of the anti-money washing measures moreover to know your dealings (KYT) and know your procedures (KYP). Sound Know Your Customer (KYC) procedures are serious basic concepts in the useful company of banking threats. KYC protect go past easy account starting as well as record-keeping and need financial organizations to develop a client getting strategy and a tiered client identification strategy that engrosses more extensive due meticulousness for advanced threat accounts, and consists of practical information observe for distrustful activities.

FIGURE1:

Anti-money laundering model



Source: Muller (2007)

Having adequate information concerning your customer - "knowing your consumer" (KYC) – and also using the details supports each and every one of stop -currency laundering efforts, moreover to it being the most efficient resistance next to being employed to cleanse the advances of criminal violation. KYC should be a core feature of banks' threat management and control techniques, and be associated by regular conformity reviews and internal review. One of the key components of the AML/ATF structure is customer due persistence. Customer due persistence includes determining the consumer and confirming their identity; determining the valuable entrepreneurs of the consumer and evaluating on a risk-receptive basis whether or not to confirm those valuable owners; and obtaining details on the reasoning and anticipated landscapes of the trade association. For the purposes of this Act, legitimization of criminal activity shall mean an activity aimed to cover up the illegal source of criminal activity with the intention to present the illegal continues as lawful income**.**

1.1.1 KYC in Professional Banks

Prior to the release of KYC banking companies had little relevant details in any of the systems where such details could be obtained. They therefore managed in various different ways that introduced about difference in the knowledge about their clients in the marketplace. Since its release, KYC has become a legal requirement under the economical act (Cap 488) or the CBK act.

In compliance with the improved KYC regulation, main managers would hold economical companies responsible for the efficiency of their initial customer identification and continuing KYC testing. Organizations are needed to maintain detailed reports of the steps that were used to confirm prospective clients' details.

In purchase to assemble KYC satisfaction requirements, economical companies ought to: create sure that clients are not or have not been engaged in banned activities like fraud, monetary laundering or planned offense; confirm a prospective customer's identity; maintain proof of the procedure used to create out their personality; Find out if a probable customer is listed on any permits lists in connection with claimed capitalist activities, financial laundering, deception or other violations (Muller 2007). The commercial banking companies in South Africa operate under an umbrella body, the South Africa Lenders Organization (S.A.L.O) that is charged with the combined approach to issues impacting the members of the industry. Through SALO, Professional banking companies have subsidized a technological coaching and growth side, the South Africa Institution of Lenders (SAIL.) which is required to deal with issues of technological coaching, values and professional growth of participant banking companies and team to be able to generate self-discipline and requirements in the marketplace. The economical rule of values developed by SAIL details some of the significant issues relating to KYC. Through the rule of values, commercial banking companies are able to exchange vital yet private KYC details about an existing common customer among participant banking companies. The CBK on the other hand runs the Kenya School of Monetary Studies for general coaching in economical and finance relevant courses. The overall aim of these bodies is to balance synergies and ensure that economical services are performed in the best possible manner together with the regulator's contribution.

This is usually intended to achieve better conformity stages with the demands of the management authority especially on issues of KYC which still has holes. It is with this in thoughts that this research plans to set up the reasons behind the diverse KYC conformity requirements from one standard bank to the other.

1.2 Declaration of the Problem

According to the American Organization of certified anti-money laundering specialists (ACAMS, 2008), banking companies are gatekeepers of the reliability within the economic climate. However, the KYC recommendations from the Central Bank of South Africa appear to be applied with different stages of intensity dependent upon aspects determined by individual bank business ideals.

Non-compliance with KYC recommendations may have the impact of direct economical reduction, lack of reputation, possible lack of national and worldwide links and charges being enforced on an institution as prescribed in the Prudential Guide (PG's) (KPMG, 2003). Consequently several banking companies and individuals have made significant failures coming up out of fraudulently started out records. Most KYC programs focus on anti-money washing at the beginning stages but not those funds already within the program which are going through adding and incorporation processes (Richards, 1998).

Know Your Customer (KYC) observance guideline has confirmed to be one of the principal functional faces banking companies and relevant economical companies worldwide have had to overcome. The KYC satisfaction allows, for its entire capitalist outcome, has considered down banking companies as well as other economical organizations with a considerable managing responsibility. Furthermore, it increasingly involves the organization of auditable proof of excellent careful activities, moreover to the necessity of customer identification.

Among other past industry difficulties, especially in the 1980's and beginning 90's, perhaps the latest Daima Bank liquidation in 1998 and the ongoing lawful the multiple between Charterhouse standard bank and the CBK. stands out as latest cases of non-compliance by the banking companies with KYC recommendations.. Further, a much larger sum of cash is trafficked from one region to the other in obvious contravention of anti-money washing and drug dealing recommendations all due to worthless enforcement of KYC techniques (CBK PG, 2008).

Form the growing, there is a analysis gap since no research has been performed on the aspects of know-your-customer conformity which is introduced about by various aspects such as team proficiency, ICT facilities, types of clients and size of a standard bank especially after the liberalization of the industry in the beginning Nineties to be able to be driven by industry forces. It is with this in thoughts that this research wishes to set up why the various economical industry players still end up with different KYC requirements from one standard bank to the other sometimes with adverse repercussions as was recently witnessed in the flattened Charterhouse standard bank wherein certain preferred clients managed their records through proxy servers while doing business very huge sums across the worldwide boundaries.

It is expected that this research emphasize the aspects of KYC thereby helping the regulating regulators to generate tight values and self-discipline in the marketplace which will serve to keep off prospective criminal minds both within and without the industry.

1.2 Objective of the study

1.3.1 General objective

The wide objective of the research was to set up the factors of know-your-customer complying among expert economical companies in African-American.

1.3.2 Particular objectives

The specific goals were:

i. To set up the stage different functions of customers affect the complying stage of CBK KYC suggestions by expert economical companies in African-American.
ii. To determine the stage group expertise which affects the complying stage of CBK KYC suggestions by expert economical companies in African-American.
iii. To set up the stage ICT functions that affects the stage of complying with CBK KYC suggestions by expert economical companies in African-American.
iv. To set up stage to which the sizing a standard financial institution effects the stage of complying of CBK KYC suggestions by expert economical companies in African-American.

1.4 Research Questions

i. The research desired solutions to the following key questions:

ii. To what stage do the consumer functions affect the complying stage of KYC suggestions by expert banks?

iii. To what stage is group expertise or complicity impacting the stage of complying with KYC suggestions by expert banks?

iv. How do the ICT functions affect the stage of complying with KYC suggestions by expert banks?

v. Does a standard financial institution sizing have an effect in the complying stage of KYC suggestions by expert banks?

1.5 Importance of the Study

The research outcomes of the research would help economical companies on you will of the industry which will serve as a guide when setting up guidelines and procedures within their businesses with respect to KYC.

The customers of a bank as well as the group would also view the industry in a better manner particularly in relation to the reasons for making certain requirements compulsory when working with a standard financial institution as well as the reasons for performing an account must be performed in a particular way. All economical companies in African-American are currently taking under many litigations for restitution of heavy third party problems coming up out of mislead funds which have been removed through the financial system with Basel Board on Banking Assistance (SCBC) alone managing cases with a value of over African-American shillings 20.0 million. Anderson (2007) statements that while KYC requirements include extra costs, complying with the control has had the benefits of protecting economical companies against indirect and direct problems experienced due to poor controls, in particular those with regards to frauds.

Being that African-American has been ranked as a major entrance for prohibited drug trafficking as well as terrorism funding whose carries on pass through these economical companies, the outcomes of the research would also benefits the Government of African-American though the Central Bank of African-American as the regulator to better understand you will of the industry. This would lead to the execution of appropriate monitoring systems and controls. The research would be similarly useful to students and academicians who wish to use the outcomes of this research for referrals and as a basis for further research in future.

1.6 Opportunity of the Study

The research focused on KYC issues at all the expert economical companies in African-American with a special demand for more information from the lending company guidance division of the CBK for any information with regards to KYC complying levels in the marketplace.

1.7 Restrictions of the Study

Owing to the private business characteristics of economical institutions there was a lower reaction rate on the study reviews by the members. Since economical companies succeed on group confidence, the economical companies also may not provide very precise information in order to protect their popularity (reputation risk) in case the facts asked for appears negative. There was also a high probability that most unlawful transactions within the financial system are not recognizable due to the complicated web used by the scammers. It was also possible that some politically revealed individualities (PEPs) recommended as a factor in unlawful KYC methods could be intentionally secured by their lenders due to needless effect.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter focuses on prior studies that have been conducted by various researchers on KYC. In addition, this chapter focuses on the concept of KYC submission, KYC in regards to management, CBK KYC suggestions, conceptual framework as well as the operationalization of the conceptual framework.

2.2 Understanding of KYC Compliance

KYC submission progressively involves the formation of auditable evidence of outstanding attentiveness actions, moreover to the call for customer identification. Muller et al, (2007) indicate that to get to know KYC submission specifications, cost-effective companies must confirm that their consumers or clients are not engaged in actions that are illegal like fraud, cash cleaning or organized legal action, confirm the identification of a prospective client, sustain verification of the various steps used in their identification and establish whether a probability is detailed on any certified information in relationship with supposed attacker actions, cash cleaning, frauds or other legal violations.

They further declare that an organization needs to know the source of resources in a client's information. Wolfsberg group (2002) reiterates that cost-effective companies have to verify the identification as well as organization of members and develop their profiles so as to enable detection of any action that is contrary to the concerns concern of the organizations or earnings. A creditor’s inner evaluation and submission roles are very important in the examination and in ensuring adherence to KYC suggestions. The need for cost-effective companies and building societies to develop KYC techniques that is sound for the deterrence of forex cleaning which emphasizes all the other actions. Muller et al (2007) indicate that the use of cost-effective companies for cash cleaning jeopardizes the stability, soundness and confidence in the economy as a whole. Being custodians of public resources, all professional cost-effective companies in African-american consistently undergo a statutory evaluation work out by the central bank of Kenya, which is a regulator, to be able to establish how sound the organization is run and more so to arrange the level of KYC submission and their performance within the organization. The evaluation work out is centered in the threat frameworks so as to establish the ability of cost-effective companies to mitigate these threats. CBK has come up a various suggestions to enable cost-effective companies manage this threat but the cost-effective companies are responsible of developing actions that they comprehend to manage this threat in a better way provided that they are in line with the Prudential Guidelines.

Much of the reverse actions in the cost-effective industry will develop from a strong KYC process with a monitoring program that is tiered with information where “red flags” showing un-usual behavior are put and the risks vary with the product lines of the bank. These concepts as put up are widely applied and accepted by jurisdictions across the world as a standard for professional cost-effective companies and a sensible work out rule for all other classes of cost-effective companies. The fall down of several cost-effective companies in Kenya between the year 1980 and 1990s increased credibility to the point that ineffective regulator as a result of political and other interferences plays an even greater role in the market performance. During the regular evaluation of cost-effective companies, the CBK always insists on understanding that the greatest recipients of selected information samples are, particularly those held by trustees as well as nominees. This is a key element of KYC at plenty of your energy and effort the cost-effective relationship is created. Outside the cost-effective sector, the financial commitment markets as is the situation in the Value Economical organization discuss problem, Co-operative bank, standard bank and Safaricom limited are seen as companies with significant shareholders that remain legally unidentified. This brings an intriguing situation to their creditors while undertaking Know Your Customer techniques.

2.2.1 KYC in Regards to Management

Generally, management is usually identified as a procedure of planning and keeping an atmosphere in which people working in groups accomplish something in a professional manner. The core functions of management include planning, organizing, leading and controlling. All these elements are connected together in such a way that when one element is mishandled then the others are affected. KYC compliance is an element of management function. It is therefore important that appropriate monitoring and evaluation techniques are put in position to manage any possible abuse resulting from insufficient submission. According to Sharma (2008 India's cost-effective program long-term vision of is in modification from a domestic ground to worldwide ground by combining new technological innovation, prudential norms strengthening like KYC, implementing of worldwide consolidation and standards within the economy and organizational modification management. As a creating economy, the Kenyan cost-effective program cannot be ignored in light of the global transformations within the market so that it is not left behind as compared to other countries. Loading machine (2007) argues that the implementation of an efficient Know Your Customer traditional is a useful element of banks' threat management techniques. He also indicates that cost-effective companies with insufficient KYC specifications are often subject to important risks particularly reputation and legal. On the other hand, Greuning (2003) argues that cost-effective companies that provide key cost-effective information in relation to the economy are more exposed to cost-effective, efficient, organization and occasion risks.

As indicated by the Basel Committee on Financial Guidance the implementation of profitable (KYC specifications is element of creditor's threat management techniques. According to Loader (2007) financial institutions with insufficient KYC threat management applications are most of the times subject to key risks, particularly status threat and legal. Good and reliable KYC suggestions and techniques improve the overall soundness and safety of the creditors, protect the stability of the cost-effective scheme by minimizing the probability of cost-effective companies hence developing into vehicles for cash cleaning, attacker financing as well as other illegal actions.

Banking companies just like other companies are usually faced with compliance threats, reputation threat, credit threat, market threat, efficient threat, strategic threat, currency trading amount threat, attention amount and resources threat (Standard standard bank group threat management suggestions 2009). KYC is within the broad span of efficient threat that governs most of the daily operations in a cost-effective environment. As indicated by BCBS, the key locations of KYC involve strategies for customer acceptance, procedure for customer identification, risky monitoring procedure as well as the framework for threat management. These kinds of risks can be handled by use of efficient and strict set down management processes.

2.2.3 Main Economical organization of African-American KYC guidelines

The camel position strategy is an internationally applied position program for cost-effective companies used by cost-effective company's supervisory regulators towards position their companies (investopedia.com, 2008). The camel acronym stands for: (Capital adequacy, A: Sources top high quality, M: Management top high quality, E: Earning capacity, L: resources risk).

The camel position program is taken into account on the reasons for these five important locations, which allows discriminate and analyze the lender performance. CAMEL position provides a statistic of a financial loan company's existing overall cost-effective, managerial, and efficient and submission performance. the position was first provided in 1980s, by US supervisory regulators, the concept existing a uniform program of position a cost-effective organization in America. It is depending on the examiner assessment of a cost-effective organization under certain supervisory agencies, example the Government Reserve System, office of the comptroller of the finances (OCC) and the Government Deposit Insurance Corporation (FDIC). The same assess has been used by CBK as per the circular dated 16/10/2005 concerning the updating of the camel methodology used in position the cost-effective performance (CBK, 2006). The camel locates few ratios for each acronym components that assess the financial commitment adequacy, Asset top high quality, Management, Value, and resources which assess the lender performance, and soundness.

According to Naylor (2006) the Standard bank has ceased from being a reactive or passive and has turned into a spy since it needs to know and understand a client's customers and a client's, client's customers. In spite of the well-known actions adopted to avoid trafficking of drugs, worldwide terrorism as well as tax evasion, the IMF approximates that cash cleaning information for between 2 and 5% of the world's Gross Domestic Product. The implementation of Continues of Crime and Anti-money Washing Act (2008) to manage these vices that result from insufficient KYC techniques is intended to further strengthen the integrity of the entire Kenyan economy against abetting and dealing in proceeds of legal action (CBK annual evaluation , 2006). As indicated in the evaluation of the year 2007, the CBK indicates that rectification of the bill requires the organization of suitable techniques by companies to recognize and avoid stop cash cleaning. The Board of Directors of a cost-effective organization working in Southern African-American is required to ensure that the management gets, upholds and makes sure appropriate recognition of customers that wish to start information or create dealings whether through proxy or directly. In addition, the board is needed to sustain sufficient information for a minimum of seven decades in relation to the origin of resources and transactions information; train group consistently in the prevention, management and detection of cash cleaning and the suspicious transactions identification; submit to the Central Bank Kenya an evaluation of suspicious dealings or actions that may point out cash cleaning or other initiatives to cover the actual identification of customers or resources ownership and set up adequate inner management actions which will assist in the anticipation and identification of cash cleaning actions. Further the CBK forbids the companies from starting and the keeping of unidentified information or cost-effective information in apparent fictitious titles. According to PG (2008) any numbered information should be passed through the same verification and identification procedure (PG, 2008). Verifying companies are also necessitated to observe that they provide particular alternatives (to make sure that they point out and minimize their cash laundering/terrorist financing threat on ongoing foundation). This denotes that confirming companies should apply KYC techniques, deal with monitoring and improved customer due dedication as element of their anti-money cleaning and reverse attacker financing applications.

2.3 Fund Theory

According to Sharpe (1976) Fund Idea is a fair abstract but thorough concept, of special attention to information investors. On the other hand, Fama (1976) does not offer any precise definition, but argues that the purpose of his text is to existing Fund Idea and its scientific verification. Fama considered Fund Idea as a unique economics place as a result of the correspondence between concept and work out. According to Huang and Litzenberg (1988) Fund Idea provides with personal consumption and information options under doubt and their cost-effective resources implications. Jarrow (1988) argues that Fund Idea is a concept of CAPM, portfolios, option expenses, models and APT related to cost-effective economy. Copeland and Weston (1988) indicate that Fund Idea is a concept that that gives reasons why people and their agents develop options and select between various flows, working on resources, administration of information as well as finance suggestions. Further, Merton (1992) argues that Fund Idea can be considered to be a neoclassical concept that deals with perfectly described locations.

Hagstrom (1995) question Fund Idea as showing that different from academics, evaluation of a threat is complex and it is done solely by statistical measurements, as Fund Idea indicates, adding that specialization is a strong concept for normal investors. Since this intellectually exposing position comes from a personal whose graduate research are in the place of finance and who has created a fortune in stock investment techniques, it should be considered. Buffet is an actual fundamental analysis representative strategy, which provides discuss concepts.

Malkiel (1996), however, indicates that arguing logically, this means that a blindfolded chimpanzee throwing darts at the pages of the stock market of a newspaper can point out information with concepts equivalent to those chosen by the greatest professional care. He further argues that his professional and personal predisposition against chartists. He further argues that Technical Analysis as an anathema in the research and academic world; regular disapproval is determined by two deliberations. First is the strategy is evidently false and secondly it is easy to condemn. In addition, Malkiel further indicates that even though it appears a little unjust to condemn such a disgraceful purpose, the aim is to save cash. This is an immediate, intellectually exposing position with regard to other techniques that are not contained in Fund Idea, in this situation, technical analysis that also provides with the cost of the cost-effective resources and, particularly, the cost of stocks. Technical analysis is considered to be very old, both in its application and theoretical techniques to discuss concepts.

2.3 Empirical Review

2.3.1 Customer Characteristics

An association establishment between standard bank and its clients and consumers is at first based on information obtained from the clients and consumers and how the workers serving the customer translates and goes about determining the information's validity and stability. Falsehoods brought with or without evil purposes develop create a lasting untruthful view of the client by the lender. Whether any additional KYC information is needed or confirmed is identified by the cash laundering/terrorist financing threat appropriate to provide particular assistance (and the KYC information itself varies with the customers' type). The guidelines on the customer and useful proprietor category in the cost-effective companies provided the new statistic highlighted in worldwide documents– the statistic of useful identification of the owners. Financial institutions are needed to know all kinds of their clients and consumers, at a customer level and also at a contract level monitoring the customers' information motions (Mountain 2005).A traditional standard bank is needed to get evidence of identification of its customers, particularly new customers starting information. The consumer titles and information are then to be compared to sanctions information of dubious or designated people that are consistently produced by government departments (Wolfsberggroup, 2002). The anti-money cleaning strategy is a worldwide strategy developed to create sure that all workers and companies of the business are informed with regard to their clients and the kind of the dealings practiced through their information. The strategy information the value of thorough KYC techniques and screening of foreign correspondent standard bank connections (Builov, 2007).To create sure examination regarding the identification of the customer ("Know Your Customer" principles), obtaining verifying information and certification, it is incumbent upon the relationship administrator to execute the requisite KYC due diligence engaged in a new customer relationship.

Builov (2007) further states that KYC techniques also enable cost-effective companies to understand their clients /consumers and their cost-effective dealings better. This in turn allows them manage their risks wisely. Financial institutions should framework their KYC suggestions integrating the following four key components: Client Acceptance Policy; Client Recognition Procedures; Tracking of Transactions; and Threat management.

The strategy accepted by the Board of cost-effective companies should clearly magic out the Client Recognition Way to be approved at different stages i.e. while creating an cost-effective relationship; undertaking an cost-effective deal or when the lender doubts the authenticity/veracity or the sufficiency of the prior obtained customer identification information. Client identification indicates determining the customer and confirming his/ her identification by using reliable, separate source information, information or information. Financial institutions need to obtain adequate information necessary to set up their fulfillment, the identification of new customers, whether periodic or regular, and the aim of the developed functions of cost-effective relationship. Being satisfied indicates that the lender must be able to fulfill the qualified regulators that due dedication was seen depending on the danger information of the customer in submission with the extant suggestions in position. Such threat centered strategy is considered necessary to avoid extraordinary cost to cost-effective companies and a difficult program for the customers. Besides threat understanding, information/documents needed would rely on the customers' type (individual, corporate etc).

For natural individuals' customers, the cost-effective companies should obtain adequate identification information to confirm the customer's identification; his/her address which includes location, and also his/her recent picture. For companies or legal individuals' customers, the lender should:

i. Look at the legal position of the legal person/ business through appropriate and appropriate details.
ii. Say any personal claiming to act on element of the legal person is so accepted, recognized and confirm the identification of that personal,
iii. Comprehend the possession and management framework of the customer and establish the natural individuals who eventually manage the legal personal.

Financial institutions may, however, framework their own inner suggestions depending on their encounter of execute with such people or entities, discretion of normal bankers and the law as per recognized techniques. If the lender selects to agree to such information with regards to the Client Acceptance Plan, the lender should take reasonable actions to identify the valuable owner(s) and confirm his/her/their identification in a way so that it is convinced that it knows who the valuable owner(s) is/are (PG, 2008)

The level of due dedication to be performed relies on a variety of factors, such as the type of customer. For example, there are various specifications for individual people, companies, trusts, connections, companies, co-operatives and regulators. Simple verification techniques are available for household detailed companies and some controlled trusts. For other kinds of trusts and companies, more information that includes administrators or information, useful owners and trust beneficiaries) may be required in certain conditions, e.g., where a suspicious matter happens, it may be necessary for a confirming business to carry out personal identification procedure on a existing customer or to re-verify an personal that has already been the subject of personal identification procedure.

2.3.2 Team Competency

Staff behavior and actual physical features may impact assistance service. Effective KYC actions agree to exercises for appropriate management, strategy, and segregation of responsibilities, training as well as other connected suggestions which is a Board of directors' liability. The low group motivation due to insufficient working environment is expected to have a important impact on the great top high quality of execute as well as. According to Mamontov (2007) the directive on the organization of reputation and legal threat management techniques in the cost-effective companies, put emphasis on threat management with the concentrate on the possibility of trailing reputation due to non-compliance with the KYC management, non-cooperation with the regulator, having unsuccessful inner management guidelines and divergence from participation in the KYC regime.

The regulator's suggestions also known as the requirement of the cost-effective companies to elaborate on not only the “Know Your Customer” (KYC) program but also on the “Know Your Employee” program. Following the enactment of the anti-money cleaning management, actions inside a cost-effective organization needs not only formal identification of the law and the regulator's suggestions but also the deeper understanding of the value of the worldwide suggestions regarding. Gibbons (2003) argues that KYC Specialized expertise is required to create, apply and administer suitable submission programs. This brings to the forefront to the value of the workers qualifications and training.

According to Dementyeva (2006) workers training is given important amounts of concentration in big cost-effective companies where there are continuous alternatives provided for the workers, all new workers are needed to pass introductory AML courses focusing keenly on KYC and they examined a concept of maximum contribution of the workers in the AML procedure. Small-sized and regional branches however are not concerned about training responsibilities to the same extent. Regular training is, nevertheless, important for the potency of anti-money cleaning initiatives such as KYC.

The absence of know-how of the basic KYC specifications, as well as the banks' initiatives to limit enough time, causes the cost-effective companies to break the provision with the exception of the AML official from execute extra inner management functions and tasks.KYC submission is perceived by most creditors as a element of day by day execute. They admit that the reason they apply KYC actions is not because they want but it is because they are necessitated. The absence of know-how roots in the hazy management, unclear explanation and inability of the controlling and supervisory regulators to offer developed of the worldwide AML specifications (Markov, 2007).

According to Builov (2007), competent group allows create techniques and suggestions in regards to Know Your Customer (KYC) and Fraud and Risk Management for companies interacting with customers and accepting payments in a “not present” environment. They should offer efficient value-added alternatives due to their professional subject knowledge in the place of frauds & threat management gained during decades of practical hands on encounter. This allows the lender to easily asses their customers situations and specifications to be able to concentrate their time on delivering achievable suggestions. It is crucial to comprehend the organization and risks they encounter but cost-effective companies achieve this through their discovery framework ensuring they get up to amount as easily, accurately and in the most affordable way for the customers. This allows them to spend as great a proportion as possible of billable time on suggestions (Naylor, 2006).

2.3.3 ICT Infrastructure

As a result of the effects of globalization, together with complex white collar legal action amongst other factors, the cost-effective program in Southern African-american has progressed over the last few decades into a very dynamic market. According to Kondabagil (2007) technological innovation has presented a good opportunity to cost-effective companies to surmount geographical, professional and demographic barriers and offer products and assistance at almost zero marginal cost together with unbounded reach. In addition, Kondabagil (2007) argues that the success of economic institution is now identified by its capability to offer innovative products in a technologically innovative way that is in accordance to the customers' needs. He however cautions that the threat information of cost-effective has to be heightened and modified especially with regard to KYC. In the 2007 standard bank supervision evaluation, CBK states that cost-effective companies will need to deal with continuously changing organization environments and a continuous flow of new specifications via robust ICT platforms, while staying sufficiently agile.

Financial companies are these days more reliant on electronic dealings and more prepared to concurrent information than ever. In addition, the computerization level may important impact on a creditor's performance. Developments is costly and cost-effective companies need to assign to be able to have the right and advantages against their opponents in ICT features (Builov, 2007).With the passing of your energy and effort and technological developments, Money cleaning has progressed into more complicated and innovative kinds. The new worldwide economy fuelled by changes in information as well as communication technological innovation holds potential advantages and possibilities for cost-effective companies worldwide especially in enhancing the performance of the KYC submission. However, these possibilities also have their own complications. Among these complications involve legal violations relevant to the facts economy which is seen as an increasing source of problem within the worldwide cost-effective community. The hails from these legal violations are camouflaged to give it a legal appearance and this procedure is known as “money laundering”.

New technological innovation, particularly ICT has provided new methods for cost-effective companies to advocate products and alternatives by use of new release channels. The functions of these new products and alternatives involve raise amount of transmission of digitized information, assisting the resources’ movement and alternatives transcending range within as well as across national boundaries that compromise with the KYC submission in some situations (Bradley & Steward, 2002). As indicated by Mishkin and Strahan (1999 amount, range and secrecy are the crucial elements that transform the economy .However, according to Philippsohn (2001) the new products and alternatives such as electronic cost-effective and the introduction of e-money technological innovation have created cash cleaning actions even more common. Actually the FATF (2001) evaluation on cash cleaning typologies identifies online cost-effective and online as key cash cleaning vehicle.

Chief Economical Officer (2002) argues that evaluation, “technology changes have influenced the working techniques of many cost-effective companies and non-banks as they seek to contend in the progressively fast-paced and worldwide interdependent organization environment”. Alexander (2001) recommended that these substitute payment technological innovation has start breaches that can be subjugated for disguising earnings from legal actions, as cash can be channeled through multiple information in a host of various resources. This poses problems relating to traceability of the individual dealings which needs enormous amount of certification. Further, due to complications in traceability, involvement in law enforcement happens after the occasion has taken position FATF (1998) Philippsohn (2001) and Vargas & Backhouse (2003) recommended that management and management applied to fighting cash cleaning actions needs to deal with the use of new technological innovation. As such a sound economy to monitor and management transactional actions compounded with strong anti-money cleaning regimes are important to management cash cleaning actions.

2.3.4 Economical organization Size

The sizing cost-effective companies affects appears to have a positive modify on the level of KYC submission due to the respective financial commitment outlay, which predisposes it to a certain level of accessibility to varying stages of features. This invariably decides the level and complexity of investment techniques in different resources and hence the capability to effectively manage KYC issues within their tier group. Economical organization sizing also allows standard bank to have a higher advantages against their opponents over any undue impact by customers that are influential due to well recognized mechanisms. The risk-based strategy of the Anti-Money Laundering/Counter Enemy Financing Act, generally known as principles-based management, is developed to offer management to the organization itself to design an AMLCTF program that suits it (AUSTRAC, 2007). This shift of management from controlling body to the regulated business provides flexibility (Ross and Hannan, 2007) but needs the companies to be knowledgeable of the risks they encounter. According to AUSTRAC (2007) misunderstanding of these risks may be interpreted as non-compliance. KPMG (2008) survey purports that the big cost-effective companies are able to meet these KYC submission expenses.

Thus, it would be fair to say that companies who are new to the anti-money cleaning especially KYC organization would discover it hard going to be acquiescent. Little companies have limited earnings and a risk-based strategy which expects confirming companies to have full understanding of ML/TF risks which may be arduous. Moreover, according to Clarke (2006) the cost of submission with the KYC can be devastating.

As more and more investors are attracted to a particular standard bank, the administrator is provided with a significantly huge sum of cash. The threat that arises in this situation is that to put the cash to execute as soon as possible, some managers may purchase extra instruments that are not enough for the fund's investors (Financial Post Nov, 2009). A little standard bank can easily put all of its cash in its best concept; a absence of resources causes a huge cost-effective companies to have to invest in its not-so-good concepts and take larger positions per stock than is maximum, thereby eroding performance. Grinblatt and Sheridan Titman (2009) discover mixed evidence that KYC submission earnings decline with standard bank sizing. Needless to say, there is no consensus on this problem.

Risk concerns are at the very heart of most financial commitment options. For both individuals and companies the incorporation of threat variables in the choice procedure is important (Gitari, 2010). Different perspectives on threat cause different methods of thinking. The distinction school, March and Shapira (2007) comprehend frauds threat as the distinction in the submission of possible outcomes, their likelihoods and their subjective concepts. This understanding of frauds threat also compares well with Robicheck (2009) understanding of frauds threat being the likelihood that the actual earnings from an financial commitment may vary from the expected earnings. That is, the possibility of a security is the distinction in its expected future earnings. Conformity threat as calculated as the distinction of earnings has obtained widespread acknowledgement in choice concept. Thus, submission threat viewed as the distinction of earnings is quantified with regards to distinction actions such as range, mean absolute distinction, variance, traditional distinction, and coefficients of distinction (Spiegel, 2008).

The motions approach translates KYC submission threat with regards to the motions of earnings in regards to the market earnings. A assess of submission threat depending on the motions concept quantifies only that portion of the total distinction which is associated with the market distinction (systematic risk) and ignores any unsystematic distinction (Bower and Wippern, 2009).

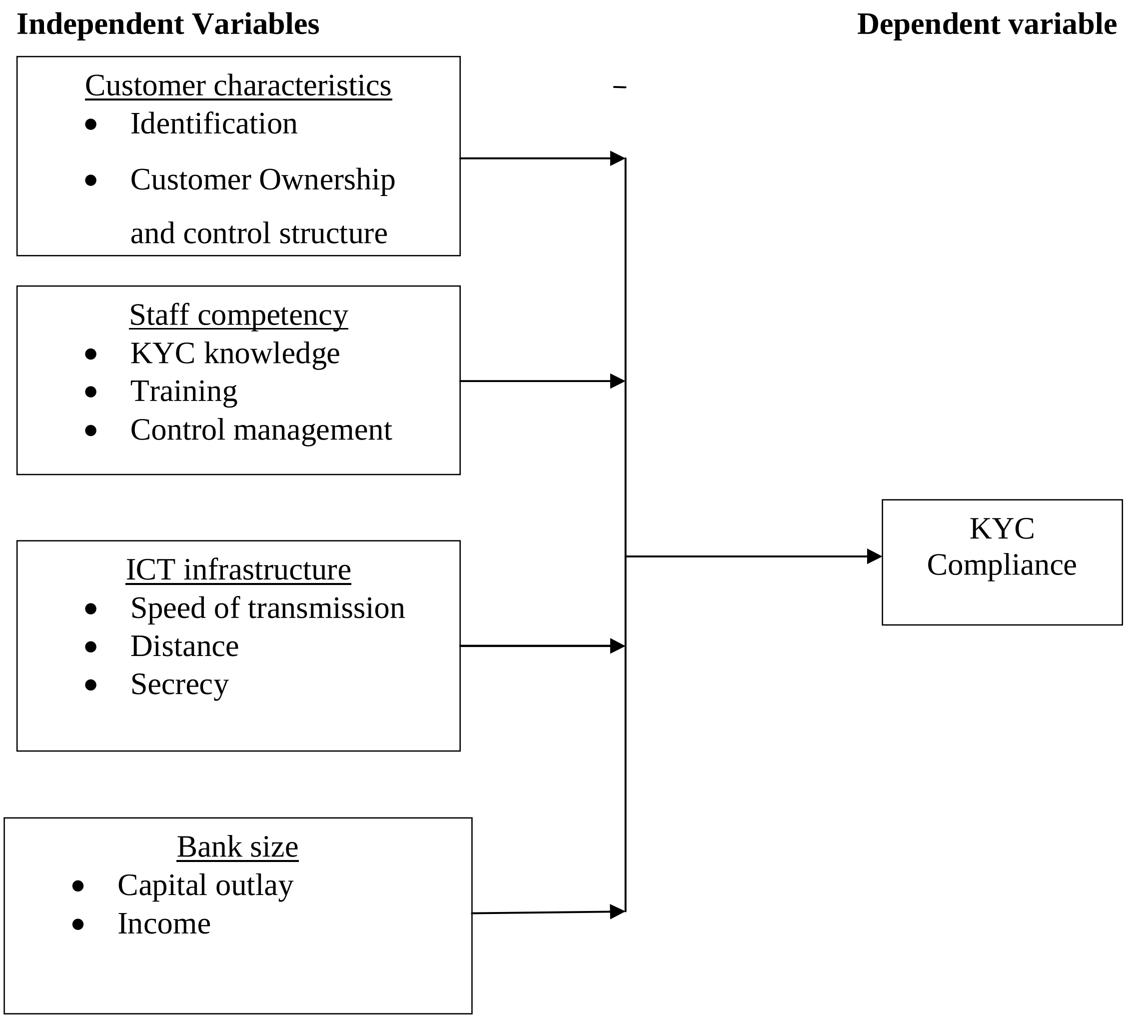
2.4. Conceptual Framework

In this analysis proposal, it is anticipated that a variety of elements will impact the information level disclosed to the lender. The most important factors are the customer functions, standard bank sizing, group proficiency and the robustness of the ICT features. Computerization, group behavior and actual physical features were found to impact assistance service at KCB (Murithi, 2006). Effective KYC techniques embrace exercises for appropriate management, oversight, techniques, controls, segregation of duties, training and other relevant suggestions which is a Board of directors' liability (Pieth, 2003). The low group motivation due to insufficient working conditions was found to have a important impact on the great top high quality of execute as well as at Postbank (Wanjiru, 2007). The availability and great top high quality of cost-effective skills is a central problem in the threat centered appraisal of cost-effective companies (Greuning, 2003). The ACAMS, (2008) declare that cost-effective companies must offer efficient submission training to workers fully within the locations of education, motivation and threat avoidance. This may be one of the key locations that is lacking in cost-effective companies.

Financial companies are these days more reliant on electronic dealings and more prepared to real-time information than ever (Bouchereau, 2006). Bouchereau (2006) states that cost-effective and electronic frauds involving workers is on the increase. The level of computerization was found to have a important impact on a creditors performance (Makokha, 2006). Development is costly and cost-effective companies need to assign to be able to have the right and advantages against their opponents in ICT infrastructures (Gikima, 2007). Dalal (2004) concluded that the advantages and advantages of ICT for the smooth running and efficient functioning of the cost-effective market cannot be disregarded and sidelined All these factors are required to interrelate as illustrated in figure 2 below:

FIGURE 2

Conceptual Framework



CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This area sets out various levels and levels that were followed in completing the analysis. It has a strategy for the choice, figure and analysis of details. This place contains the analysis design, focus on population, details choice equipment, details choice techniques and finally details analysis.

3.2 Research Design

The analysis was of a illustrative analysis style. Illustrative analysis style has a area analysis where an knowledgeable has a inhabitants of interest to check with certain issues concerning the organized analysis. The objective is to collect information without any adjustment of the analysis perspective and it is non-intrusive and includes normally obtained phenomena, where the professional has no control over the aspects (Cooper and Schindler, 2003). Kothari (2006) represents illustrative style as involved with offering features of a particular design while determining the regularity of stage of company with something else. Therefore illustrative analysis was used to evaluate the facts and identify any current designs.

3.3 Concentrate on Population

Target inhabitants in analysis are the particular inhabitants about which information is recommended (Ngechu, 2004). In this analysis, the professional used information for the 43 professional financial companies in African-American. The analysis focused more on the place and particularly the 444 top and center stage control team who are straight working with the day to day control of the professional financial companies since they are the ones acquainted with the Know Your Client (KYC) submission in their particular financial companies. The inhabitants function was as described in table 3.1 below.

TABLE 1

Target Population

Level	**Frequency**	**Percentage**
Top Management	129	29.1
Middle level Officer	315	70.9
Total	444	100.0

Source: Commercial banks Human Resource Report (2012)

3.4 Sampling Techniques

From the above population of 444 top and middle level managers from the staff working in the commercial banks, a representative sample of 206 respondents was drawn using Kathuri and Pals (1993) formula, (See appendix IV for results table).

The formula by Kathuri and Pals (1993) is as follows:

Equation 1

$$n = \frac{\chi^2 NP\ (1-P)}{\sigma^2\ (N - 1) + \chi^2\ P\ (1 - P)}$$

Where:

n = required sample size

N = the given population size from the sampling frame

P = Population proportion, assumed to be 0.50

σ^2 = the degree of accuracy; σ value is 0.05

χ^2 = Table value of chi-square for one degree of freedom, which is 3.841

The research arranged the inhabitants into two strata that are top supervisors and center stage authorities. From each stratum the research used easy unique testing to decide on an example of participants. Mathematically, to be able for generalization to take position, an example of at least 30 components (respondents) must are available (Cooper and Schindler, 2003). Kotler (2001) claims that if well selected, examples of about 10% of inhabitants can often give excellent stability. Other literatures have proven that example dimension choice to a large degree is judgmentally made the decision. The choice was as follows.

TABLE 2
Sampling Frame

Level	**Frequency**	**Sample Ratio**	**Sample Size**
Top Management	129	0.46	60
Middle level Officer	315	0.46	146
Total	444	0.46	206

Source: Author (2012)

3.5 Data Collection

The analysis gathered both main and additional information for the purpose of examining the factors of KYC conformity among professional financial institutions in South Africa. Primary information was gathered using a set of concerns while additional information was obtained from guides, bank publications and reviews of the selected financial institutions. Self-administered surveys were used to gather main information. The set of concerns developed in this analysis consist of two segments. The first part includes the market and functional features developed to figure out fundamental issues such as the market features of the participant. The organized concerns were used in an effort to preserve cash as well as to accomplish in easier analysis as they are in immediate useful form; while the unstructured concerns were used so as to motivate the participant to give an in-depth and experienced reaction without feeling held back in exposing of any information.

3.7 Stability and Credibility of Research Instrument

Validity is the stage by which the example of evaluate products symbolizes the material evaluate is developed to evaluate. Content validity which was employed by this analysis is evaluation of the stage to which information gathered using a particular device symbolizes a specific domain or material of a particular concept. Cooper and Schindler (2003) deal that the usual process in evaluating the material validity of evaluate is to use a professional or professional in a particular area.

To set up the validity of the analysis device the specialist desired the views of experts in the area of analysis which include anti-money washing professional and the researcher's manager. This assisted the necessary modification and adjustment of the analysis device thereby improving validity. Stability of the analysis device was improved through a lead analysis that was done on two professional financial institutions. The lead information was not included in the actual analysis. The lead analysis allowed for pre-testing of the analysis device. The quality of the device products to the participants was established so as to improve the instrument's validity and reliability. The lead analysis allowed the specialist to be familiar with analysis and its administration process as well as determining products that require adjustment. The result help the specialist to correct variance coming up from the equipment, which ensures that they evaluate what was intended.

3.6 Data Analysis

Primary information was examined using illustrative and inferential research to set up the aspects that figure out the stage of conformity with KYC specifications by professional financial institutions in South Africa. Data was examined on the basis of illustrative research.

Mathematical Package for Social Sciences (SPSS) edition 17 was used as an aid to analysis. SPSS was recommended because of its ability to cover a variety of most statistical and visual information analysis and is methodical. Content analysis was used to evaluate quantitative information. In order to figure out the stage that various aspects affect the conformity with KYC specifications by professional financial institutions in South africa, a straight line multiple regressions was used.

Equation 2

The regression equation

$$(\mathbf{Y = \beta_0 + \beta_i X_i + \beta_{ii} X_{ii} + \beta_{iii} X_{iii} + \beta_{iv} X_{iv} + e})$$

Whereby Y = Compliance with KYC requirements

β_0 = Constant

X_i = customer's characteristics

X_{ii}= Size of bank

X_{iii} = Staff competency

X_{iv} = Information Technology

e = Error Term

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This area provides analysis and outcomes of the analysis as set out in the analysis technique. The analysis outcomes are provided on to set up the aspects that determine the level of complying with KYC specifications by expert banking organizations in African-American. The details were gathered specifically from the set of concerns as the analysis device. The set of concerns was designed in line with the objectives of the analysis.

4.1.1 Response Rate

The analysis targeted 206 members in gathering details with respect to the aspects of know-your-customer complying among expert banking organizations in African-American. From the analysis, 147 out of the 206 example members filled-in and came back the reviews making a response quantity of 71.4%. This reasonable reaction quantity was designed a reality after the professional designed personal calls and visits to highlight the individual to fill-in and return the reviews.

4.2 Demographic Information

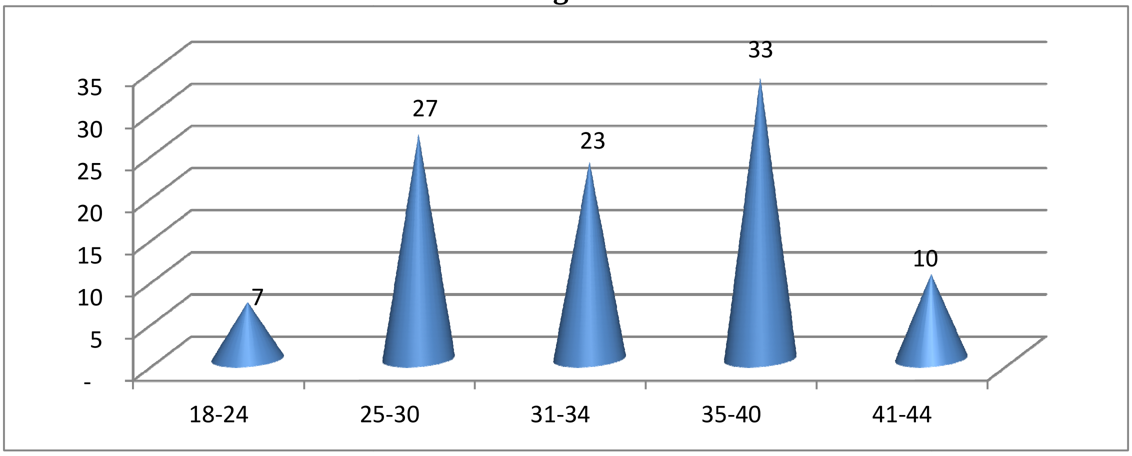
TABLE 3

Gender of the Respondents

	Frequency	Percent
Male	69	47
Female	78	53
Total	147	100

The research sought to find out the gender of the respondents. According to the findings, 53% of the respondents were female while 47% of the respondents were male.

FIGURE 3
Age Bracket



The research sought to find out the age bracket of the respondents. From the findings, 33% of the respondents were 35-40 years, 27% of the respondents were 25-30 years, 23% of the respondents were 31-34 years, 10% of the respondents were 41-44 years and 7% of the respondents were 18-24 years.

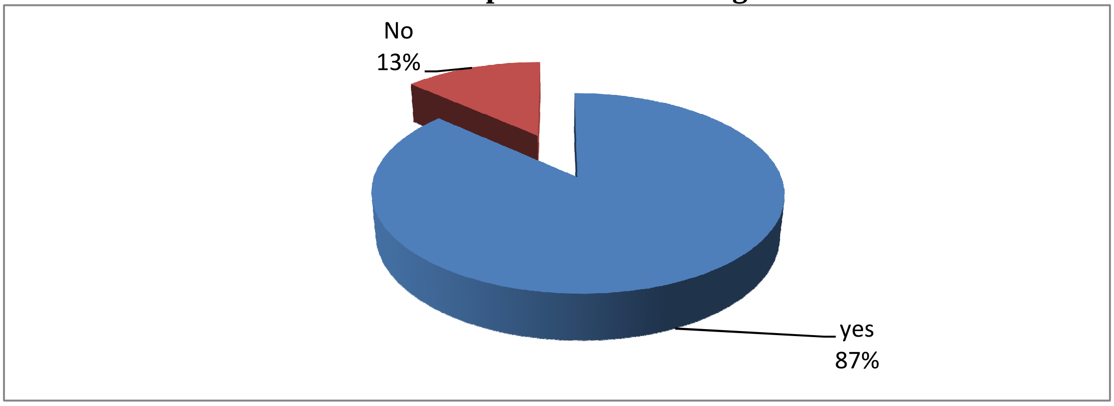
TABLE 4

Highest Level of Education

	Frequency	Percent
Higher diploma	25	17
Bachelors'	103	70
Masters	19	13
Total	147	100

The study sought to find out the highest level of education of the respondents. From the findings, 70% of the respondents were degree holders, 17% of the respondents had higher diplomas while 13% of the respondents had a master's degree.

FIGURE 4
Bank compliance with KYC guidelines



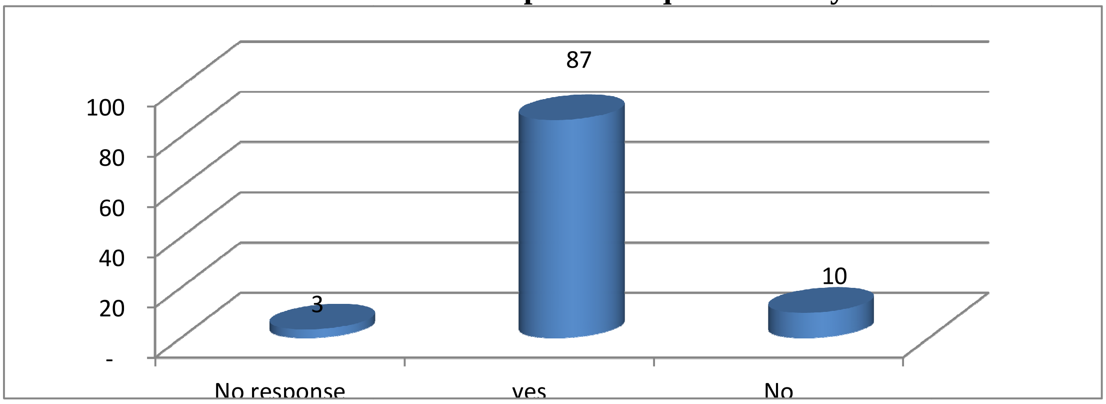
The study sought to find out whether the banks comply with KYC guidelines. From the findings, 87% of the respondents said that they complied with the KYC guidelines while 13% of the respondents said that they did not comply with KYC guidelines.

TABLE 5
The level of KYC compliance among commercial banks in Kenya

	Frequency	Percent
No response	19	13
low	15	10
moderate	79	54
high	34	23
Total	147	100

The study sought to find out the level of KYC compliance among commercial banks in Kenya. From the findings, 54% of the respondents were moderate, 23% of the respondents were high, 10% of the respondents were low and 13% of the respondents didn’t response.

FIGURE 5
Awareness of KYC compliance requirements by small banks



The study sought to find out whether the respondents were aware of KYC compliance requirements. From the findings, 87% of the respondents were aware of the KYC compliance requirements, 10% of the respondents were not aware of the KYC compliance requirements and 3% of the respondents did not respond.

4.3 Customers characteristics

TABLE 6
Respondents level of agreement with statements that relate to customers characteristics as a determinant of KYC compliance

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean	Stdev
Establishment of relationship between a bank and its customers is initially pegged upon information received from the customer and how the staff handling the customer perceive and goes about ascertaining the validity and reliability of information provided.	3	20	20	17	40	2.3	0.6
False information delivered with or without evil intention creates a permanent untruthful view of	30		23	43	3		0.6

customers by bank.						3.1	
banks are required to know all types of their customer not only at a customer level but also at contract level monitoring the client's account movement	0	20	33	37	10	2.6	0.6
a financial institutions required to obtain proof of identity of its customers, especially new customers opening accounts	0	20	33	23	23	2.5	0.6
banks should frame their KY guidelines integrating the following four key element clients' approval policy, customer recognition techniques, tracking of dealings and risk management.	0	13	40	40	7	2.6	0.6

The study sought to find out the stage of agreement rating customer's features as a determinant of KYC conformity. From the results, the participants strongly decided that falsehoods provided with or without wicked objectives created a lasting unethical view of the client by the lender as proven by a mean of 3.1, the participants also decided that banking organizations are needed to know all types of their client not only at a client stage but also at contract stage monitoring the customer's account activity and banking organizations should structure their KYC guidelines developing the following four key factor clients' acceptance policy, client identification techniques, monitoring of transactions and risk management as proven by a mean of 2.6,the participants were fairly neutral about banking organizations needed to obtain proof of identification of its clients, especially new clients opening accounts and Organization of relationship between a financial institution and its clients is initially placed upon details received from the client and how the staff managing the client understand and goes about determining the credibility and stability of details provided as proven by a mean of 2.5 and 2.3 respectively.

4.4 size of bank

TABLE 7
Respondents level of agreement relating to size of bank as a determinant of KYC compliance

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean	Stdev
the size of banks affect appear to have a direct impact on the level of compliance due to the respective capital outlay	0	27	17	50	7	2.6	0.6
big banks are capable of meeting the KYC compliance cost	10	0	53	33	3	2.8	0.6
small banks are not capable of meeting KYC compliance cost	0	33	33	33	0	3.0	0.6
small institution who are new to the anti-theft laundering especially KYC establishment would find it hard going to be compliant	0	23	30	33	14	2.6	0.6

The study sought to find out the respondents level of agreement relating to size of bank as a determinant of KYC compliance. From the findings, the respondents strongly agreed that small banks are not capable of meeting KYC compliance cost as shown by a mean of 3.0, the respondents agreed that big banks are capable of meeting the KYC compliance cost as shown by a mean of 2.8, the respondents agreed that the size of bank appears to have a direct impact on the level of compliance due to the respective capital outlay and small institution who are new to the anti-theft laundering especially KYC establishment would find it hard going to be compliant as shown by a mean of 2.6.

4.5 Staff competency

TABLE 8

Respondents level of agreement relating to staff competency as a determinant of KYC competency

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean	Stdev
staff attitudes and physical facilities affect customer service and effective KYC procedures compliance	0	40	23	30	7	3.0	0.6
the low staff motivation due to poor working conditions is likely to have a significant impact on the quality of KYC compliance	0	27	27	37	10	2.7	0.6
personnel qualifications and training is key to KYC procedure compliance	0	10	50	33	7	2.6	0.6
staff competency in control management is an essential ingredient for compliance in KYC guidelines	3	24	17	47	10	2.7	0.6

The study aimed at finding out participants' level of contract with regards to team proficiency as a determinant of KYC proficiency. From the results, the participants highly decided that team behavior and physical features effect client support and effective KYC techniques conformity as proven by a mean of 3.0 ,the participants decided that the low team inspiration due to inadequate working circumstances is likely to have a important effect on the quality of KYC conformity and team proficiency in control is an essential component for conformity in KYC recommendations as proven by a mean of 2.7,the participants decided that employees credentials and training is key to KYC process conformity as proven by a mean of 2.6.

4.6 Information Communication Technology Infrastructure

TABLE 9

Respondent Level Of Agreement Relating To Information Communication Technology Infrastructure As A Determinant Of KYC Compliance

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean	Stdev
The risk profile of banking is high and should be modified especially with regard to KYC. technology infrastructure plays a big role in determining compliance with KYC guidelines to reduce high risks involved	0	20	43	37	0	2.8	0.6
the new global economy fuelled by advances in information and communication technology holds potential benefits and opportunities for banks worldwide especially in enhancing the efficiency of the KYC compliance	0	33	13	44	10	2.7	0.6

The study sought to find out the respondent level of agreement relating to information communication technology infrastructure as a determinant of KYC compliance. From the findings, the respondents strongly agreed that the risk profile of banking is high and should be modified especially with regard to KYC. Technology infrastructure plays a big role in determining compliance with KYC guidelines to reduce high risks involved as shown by a mean of 2.8, the respondents agreed that the new global economy fuelled by advances in information and communication technology holds potential benefits and opportunities for banks worldwide especially in enhancing the efficiency of the KYC compliance as shown by a mean of 2.7.

Given the control environment, the risk assessment, the control activities, information and communication and the monitoring system at AFFS, the analytical model relating the dependent variable with independent variables can be formulated as follows:

4.7 Regression Analysis

TABLE 10

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.877[a]	.783	.129	.3099

Coefficient of dedication describes the level to which changes in the reliant varying can be described by the change in the separate aspects or the percentage of difference in the reliant varying (Commercial financial institutions Conformity with KYC specifications in South Africa.) that is described by all the four separate aspects (customer features, Size of bank, staff proficiency and ICT facilities.).

The four separate aspects that were analyzed, explain only 78.3% of the Professional financial institutions Conformity with KYC specifications in South Africa as showed by the R2. This therefore means that other aspects not analyzed in this analysis play a role 21.7% of the Professional financial institutions Conformity with KYC specifications in South Africa. Therefore, further analysis should be performed to examine the other aspects (21.7%) that affect Professional financial institutions Conformity with KYC specifications in South Africa.

TABLE 11
ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12.559	5	2.901	52.3333	.0089
	Residual	196.889	96	2.109		
	Total	209.448	101			

The significance value is .0089 which is less that 0.05 thus the model is statistically significant in predicting customer characteristics, Size of bank, staff competency and ICT infrastructure. The F critical at 5% level of significance was 3.23. Since F calculated is greater than the F critical (value = 52.333), this shows that the overall model was significant.

TABLE 12

Coefficient of determination

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.333	1.033		0.787	0.26
	Customer characteristics	0.863	0.123	0.159	1.091	0.002
	Size of bank	0.788	0.139	0.085	0.687	0.004
	Staff competency	0.564	0.099	0.135	0.97	0.014
	ICT infrastructure	0.389	0.079	0.54	0.349	0.033

The researcher conducted a multiple regression analysis so as to determine the relationship between Commercial banks Compliance with KYC requirements in Kenya and the four variables. As per the SPSS generated table 4.10, the equation ($\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon}$) becomes:

$Y= 2.333 + 0.863X_1+ 0.788X_2+ 0.564X_3+ 0.389X_4$

Where Y is the dependent varying (Commercial financial institutions Conformity with KYC specifications in South Africa.), X1 is the Client features varying, X2 is Dimension financial institution varying, X3 is Team proficiency, X4 and X5 is ICT facilities.

According to the regression equation established, taking all factors into account (customer features, Dimension financial institution, staff proficiency and ICT facilities.) constant at zero, Professional financial institutions Conformity with KYC specifications in South africa will be 2.333. The data findings analyzed also show that taking all other independent variables at zero, a device improve in Client features will lead to a 0.863 improve in Professional financial institutions Conformity with KYC specifications in Kenya; a device improve in Dimension financial institution will lead to a 0.788 improve in Professional financial institutions Conformity with KYC specifications in South Africa, a device improve in staff proficiency will lead to a 0.564 improve in Professional financial institutions Conformity with KYC specifications in South africa and a device improve in ICT facilities will lead to a 0.389 improve in Professional financial institutions Conformity with KYC specifications in South Africa. This infers that Client features contribute more to the Professional financial institutions Conformity with KYC specifications in South Africa followed by the Dimension financial institution then Team proficiency while ICT facilities had the least effect.

At 5% stage of importance and 95% stage of confidence, customer features had a 0.002 stage of importance, Dimension financial institution had a 0.004 stage of significance; staff proficiency showed a 0.014 stage of importance, ICT facilities had a 0.033 stage of significance; hence the most significant factor is customer features.

CHAPTER FIVE

SUMMARY OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The section provides the conclusion of the results from section four, and it also gives the results and suggestions of the research based on the goals of the research. The goals of this research were to investigate the aspects that figure out the stage of conformity with KYC specifications by professional financial institutions in South Africa.

5.2 Review of the Findings

The research aimed at analyzing the aspects that figure out the stage of conformity with KYC with reference to professional financial institutions in South Africa.

5.2.1 Clients characteristics

The research discovered that the participants highly decided that falsehoods provided with or without wicked goals designed a lasting unethical perspective of the client by the lender as proven by a mean of 3.1 and that financial institutions are required to know all types of their client not only at a client stage but also at contract stage monitoring the customer's account movement.

5.2.2 Size of bank

The research further discovered out that the participants highly decided that little financial institutions are not able to meet KYC conformity price as proven by a mean of 3.0 and that big financial institutions are able to meet the KYC conformity price as proven by a mean of 2.8.

5.2.3 Team competency

In inclusion, the research discovered out that the participants highly decided that staff behavior and actual features impact client support and efficient KYC techniques conformity as proven by a mean of 3.0 and that the low staff inspiration due to poor working conditions is likely to have a significant impact on the quality of KYC conformity as proven by a mean of 2.7.

5.2.4 Details Interaction Technological Innovation Infrastructure

In inclusion the research discovered that, the participants highly decided that the threat information of financial is great and should be customized especially with respect to KYC. Technology features performs a big part in identifying conformity with KYC recommendations to decrease great threats involved as proven by a mean of 2.8.

5.3 Conclusion

The research indicates that falsehoods provided with or without wicked goals designed a lasting unethical perspective of the client by the lender. The research further indicates that little financial institutions are not able to meet KYC conformity price.

Moreover the research indicates that staff behavior and actual features impact client support and efficient KYC techniques conformity. Lastly the research indicates that the threat information of financial is great and should be customized especially with respect to KYC. Technology features performs a big part in identifying conformity with KYC recommendations to decrease great threats involves.

5.4 Recommendations

Commercial financial institutions offer resource guidance for investors. Investors can be directed to joint funds or unswerving resource by financial institution experts. The research therefore suggests that the workers should be as precise as possible in the details given to enhance interaction between them and the customers can use.

The research further suggests little financial institutions to make sure that they offer things to look for and generate confidence in their clients. This is because Small financial institutions typically have a more hard time gaining customers than bigger financial institutions. They have smaller marketing and advertising budgets. Also, some prospective people are hesitant to do company with little financial institutions, especially new companies without a faithful following, since they believe that these companies may not be around for a long period or that they will not be able to offer the appropriate stage of support. By offering things to look for, the financial institutions are able to attract more customers hence offering room for growth.

In inclusion, the research suggests that Small financial institution owners must find creative ways to use their limited resources to grow the company while running the day-to-day functions of the lender. This can be done through either related the prices charged by bigger financial institutions or offer extra benefits to the client such as better client support.

Finally, the research suggests that since little financial institutions may not have the money to have a professional analysis done, they should rely on their consumer base to tell them what is bad or terrific about them. Let customers give feedback right at the register and on their website, and train their workers to ask customers what they'd like to see offered or done.

5.5 Recommendation for Further Studies

This research has analyzed the research on the aspects that figure out the stage of conformity with KYC specifications by professional financial institutions in South africa. To this end therefore a further research should be performed to set up the stage of conformity with KYC specifications by other financial institutions.

Moreover a research should also be performed to set up the functions of professional financial institutions and the services they offer.

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Appendix I: Questionnaire

DETERMINANTS OF KNOW YOUR CUSTOMER (KYC) COMPLIANCE AMONG COMMMERCIAL BANKS IN KENYA.

Instruction

This questionnaire consists of five parts Please answer all the questions by ticking on the spaces provided or use the spaces left for you.

PART A: BACKGROUND INFORMATION

1. Name of Bank (Optional) ………………………………………………

2. Gender: Male [ ] Female [ ]

3. Your age bracket (Tick whichever appropriate)

    18 – 24 Years [ ]
    25 - 30 Years [ ]
    31 - 34 years [ ]
    35 – 40 years [ ]
    41 – 44 years [ ]
    45– 50 years [ ]
    Over 51 years [ ]

4. How many years have you worked in the bank?

    1 – 5 Years [ ]
    6 - 10 Years [ ]
    11 - 15 years [ ]
    16 – 20 years [ ]
    Over 20 years [ ]

5. What is your position in the organization?

....

6. What is your highest level of education?

Certificate	
Diploma	
Higher National Diploma	
Bachelors	
Masters	
PhD	

7. Does your bank comply with KYC guidelines?

Yes [ ]

No [ ]

8. What is the level of KYC compliance among commercial banks in Kenya?

Low [ ]

Moderate [ ]

High [ ]

9. Are small banks aware of KYC compliance requirements

Yes [ ]

No [ ]

If no give reason why?

…………………………………………………………………………………………………
…………………………………………………………………………………………………
…………………………………………………………………………………………………
…………………………………………………………………………………………………

PART B: CUSTOMERS CHARACTERISTICS

1. What is your level of agreement with the following statements that relate to customers characteristics as a determinant of KYC compliance?**1= Strongly Disagree; 2= Disagree; 3= Neutral; 4 Agree; 5= Strongly Agree.**

	1	2	3	4	5
Establishment of a relationship between a bank and its customer is initially pegged upon information received from the customer and how the staff handling the customer perceives and goes about ascertaining the validity and reliability of the information provided.					
False information delivered with or without evil intentions creates a permanent untruthful view of the customer by the bank.					
Banks are required to know all types of their customers not only at a customer level but also at a contract level monitoring the clients' accounts movements.					
A financial institution is required to obtain proof of identity of its customers, especially new customers opening accounts.					
Financial institutions should structure their KYC guidelines integrating the following four key elements: Client Approval Policy; Client Recognition Procedures; Tracking of Transactions; and Risk control.					

PART C: SIZE OF BANK

2. What is your level of agreement with the following statements that relate to size of bank as a determinant of KYC compliance?**1= Strongly Disagree; 2= Disagree; 3= Neutral; 4 Agree; 5= Strongly Agree.**

	1	2	3	4	5
The size of banks affects appears to have a direct impact on the level of KYC compliance due to the respective capital outlay.					

Big banks are capable of meeting KYC compliance costs.					
Small banks are not able of meeting KYC compliance costs.					
Small institutions who are new to the anti-money laundering especially KYC establishment would find it hard going to be compliant.					

PART D: STAFF COMPETENCY

3. What is your level of agreement with the following statements that relate to staff competency as a determinant of KYC competency?**1= Strongly Disagree; 2= Disagree; 3= Neutral; 4 Agree; 5= Strongly Agree.**

	1	2	3	4	5
Staff attitudes and physical facilities affect customer service andEffective KYC procedures compliance.					
The low staff motivation due to poor working conditions is likely to have a significant impact on the quality of KYC compliance.					
Personnel qualifications and training is the key to KYC procedure compliance.					
Staff competency in control management is an essential ingredient for compliance in KYC guidelines.					

PART E: INFORMATION COMMUNICATION TECHNOLOGY INFRASTRUCTURE

4. What is your level of agreement with the following statements that relate to information communication technology infrastructure as a determinant of KYC compliance?**1= Strongly Disagree; 2= Disagree; 3= Neutral; 4 Agree; 5= Strongly Agree.**

	1	2	3	4	5

The risk profile of banking is high and should be modified especially with regard to KYC. Technology infrastructure plays a big role in determining compliance with KYC guidelines to reduce high risks involved.					
The new global economy fuelled by advances in information and communication technology holds potential benefits and opportunities for banks worldwide especially in enhancing the efficiency of the KYC compliance.					

5. Please indicate any other factors which you think influence KYC compliance levels in your bank:

----

6. Please recommend any other measures which you think can help in reducing the incidences of KYC non-compliance among the banks:

{THANK YOU FOR YOUR ASSISTANCE}

Appendix II: Study Time Frame

	Weeks																			
Activity	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**16**	**17**	**18**	**19**	**20**
Research proposal development and writing																				
Proposal presentation and defence																				
Proposal Corrections																				
Questionnaire testing																				
Data collection																				
Data analysis																				
Report writing																				
Presentation of Report																				
Corrections																				
Compilation and submission of final Report																				

Appendix III: Study Budget

Item	**Kshs**
Proposal writing	30,000.00
Questionnaires Printing	15,000.00
Data Collection	10,000.00
Printing	7,000.00
Photocopying	5,000.00
Transport, logistics and communication	9,000.00
Subsistence	7,000.00
Computer time	6,500.00
Miscellaneous	10,000.00
TOTAL	99,500.00

Appendix IV: Required Sampling frame for given population

N	S	N	S	N	S	N	S
10	10	140	103	550	226	4500	354
15	14	150	108	600	234	5000	357
20	19	160	113	650	241	6000	361
25	24	220	140	700	248	7000	364
30	28	230	144	750	254	8000	367
35	32	240	148	800	260	9000	368
40	36	250	152	1200	291	10000	370
45	40	260	155	1300	297	15000	375
50	44	270	159	1400	302	20000	377
55	48	280	160	1500	306	30000	380
60	52	290	165	1600	310	50000	381
65	56	300	169	1700	313	100000	384
70	59	320	175	1800	317		
75	63	340	181	1900	320		
80	66	360	186	2000	322		
85	70	380	191	2200	327		
90	73	400	196	2400	331		
95	76	420	201	2600	335		
100	80	440	205	2800	338		
110	86	460	210	3000	341		
120	92	480	214	3500	346		
130	97	500	217	4000	351		

Source: Kathuri & Pals (1993). N=Population size
S=Sample size