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Anti-Money Laundering Requirements – Perceived Effectiveness

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***Abstract*—**Anti-money laundering is commonly recognized as a set of procedures, laws or regulations designed to reduce the practice of generating income through illegal actions. In Malaysia, the government and law enforcement agencies have stepped up their capacities and efforts to curb money laundering since 2001. One of these measures was the enactment of the Anti-Money Laundering Act (AMLA) in 2001. The implementation costs on anti-money laundering requirements (AMLR) can be burdensome to those who are involved in enforcing them. The objective of this paper is to explore the perceived effectiveness of AMLR from the enforcement agencies' perspective. This is a preliminary study whose findings will help to give direction for further AML research in Malaysia. In addition, the results of this study provide empirical evidences on the perceived effectiveness of AMLR prior to further investigations on barriers and improvements of the implementation of the anti-money laundering regime in Malaysia.

***Keywords*—**Anti-money laundering, anti-money laundering requirements, perceived effectiveness, enforcement agencies.

I. Introduction

ANTI-MONEY laundering is commonly recognized as a set of procedures, laws or regulations designed to curb or reduce the practice of generating income through illegal actions. It is simply defined as an activity which prevents or aims to prevent money laundering from happenings [1]. Anti-money laundering (AML) efforts help to prevent terrorism and smuggling activities, and improve equality in the market, providing countries with stable and consistent economic growth. In Malaysia, the government and law enforcement agencies have stepped up their capacities and efforts to curb money laundering since 2001. One of these measures was the enactment of the Anti-Money Laundering Act (AMLA) in 2001. The implementation costs on AML activities can be burdensome to those who are involved in enforcing the requirements. Though AML efforts are generally recognized as beneficial, assessing their effectiveness is rather challenging as it is difficult to obtain a reliable measure for the implementation costs of anti-money laundering requirements (AMLR). In addition, the benefits of these efforts are often not apparent and direct. A lack of information on criminal data further restrains the appraisal of the effectiveness AMLR.

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In an era where performance assessment is a routine demand imposed on government agencies around the world, a careful assessment of the achievements of the existing AML regime is appropriate [2]. Supporting this, it was recommended that there may even be a need to conduct an internal audit to evaluate the effectiveness of money laundering awareness programs and compliance among the staff of financial institutions [3]. However, [1] states that before increasing the level of regulation further, it is proper to assess the effectiveness of current AMLR. The objective of this paper is to explore the perceived effectiveness of AMLR from the law enforcement agencies' perspective in Malaysia. This is a preliminary study whose findings will help to give direction for further AML research in Malaysia. The findings provide empirical evidences on the perceived effectiveness of AMLR before carrying out further investigations on the barriers to curb money laundering and how to improve the implementation of the anti-money laundering regime in Malaysia.

II. Literature Review

Implementing AMLR is not costs free. At times, the process of implementation can be extensive and this can be rather costly. Besides, financial criminals are constantly looking for ways to launder their money. Hence, AML regulation may be effective only for the initial few years when a new regulation is introduced. Before long, the offenders will find new ways to launder their money. In addition, offenders often take advantage in every situation to launder even with the presence of AMLR. This makes the assessment of the effectiveness of AMLR even more difficult as regulators, law enforcement and reporting agencies need to constantly update, review and improve their implementations in order to effectively curb money laundering nationally or globally.

The absence of an accurate measurement for the AML costs makes it challenging to demonstrate whether AMLR are effective. Generally, an AML system can be considered effective if its benefits outweigh the costs incurred in fighting money laundering and terrorism financing. But, assessing the effectiveness of the AML system, particularly the impact of AMLR is not only difficult but a challenging task. Nevertheless, attempts have been made by researchers who explored the effectiveness of AML system from various aspects. Cost-effectiveness of AML can be measured from the "opportunity cost theory" and 'break-even point" perspectives [4]. From the point of view of the criminal organizations, estimated the benefits and costs on designing an effective

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AML regime using a conservative estimation of the economic value of money laundered globally [5]. Reference [6], using both qualitative and quantitative assessments, found that money laundering has a negative effect on the economic growth and financial stability of Netherland.

Alternatively, the success of the AML system could be judged by how much it reduces the criminal activities that generate laundering such as drug trafficking, corruption, terrorism, etc. [2]. In line with this, AML policy was found to be negatively correlated with crime rate when examining the probability of being caught for money laundering, the sentence for money laundering, and the probability of being convicted for the predicate crime and transactions costs of money laundering [7]. With stricter policies, AMLR can help to deter potential criminals from illegal behavior and hence, reduce crime rate [7].

However, assessing the effectiveness of AML policies is a controversial matter. It is not practical to find an accurate measure for costs and benefits of implementing AMLR [8]. Supporting this, [9] states that there is no clear formula to assess whether an AML/countering financing terrorism system has been effective in achieving its objective. They find the question of effectiveness elusive when there is no reliable method to measure the amount of money being laundered or how much terrorists' funds are being circulated. Moreover, according to [10], merely complying with the Financial Action Task Force's (FATF's) recommendations may not be sufficient to create an effective AML regime.

The difficulties in measuring the effectiveness of AML accurately have caused researchers to turn to 'perceived effectiveness' of AML as an alternative to assess effectiveness. A study on perceived effectiveness of AML with the aid of a questionnaire was conducted by [1]. They found that only 24% of UK respondents and 54% of international respondents perceived AMLR as being 'good' or 'very good' at deterring money laundering.

Another study by [8] examined the effectiveness of China's AML policies on several aspects, namely effectiveness of AML legislation, effectiveness of AML regulation, monitoring and analysis, investigation and judicial litigation. The questionnaire was prepared according to FATF's 40 recommendations and FATF's 9 special recommendations. It was found that 59% of the respondents think that China's overall AMLR is "totally effective" and 36% of the respondents think that it is "basically effective" with only 5% call it "ineffective". Their findings [8] were inconsistent with prior research conducted by [11] who found that American AML system failed to reach the targets stipulated by law and expected by regulatory authorities. Similarly, [12] states that most professionals and researchers believe that AML measures are not very effective in preventing upstream crimes such as smuggling, drug trafficking and bribery.

Reference [13] conducted a survey on the cost benefits of the risk-based approach of AML. The majority (91%) of the respondents said they were "very satisfied" or "satisfied" with their organizations as they had successfully implemented the risk-based approach in curbing money laundering. However, the respondents were less clear concerning the effectiveness from the cost benefits approach. Eighty two percent of the respondents indicated that they had not noticed any cost benefits of implementing the risk-based approach, with six percent stating that there had been a negative effect on costs. Sixty four percent of those respondents who did not notice any cost benefits also did not perceive AML system as beneficial.

III. Research and Methodology

A. Sample

The targeted respondents for this study were initially those from the law enforcement agencies such as the Royal Customs Malaysia Department and the Royal Malaysia Police. However, as a low response was obtained from these organizations, the sample size was extended to include other reporting institutions.

B. Questionnaire

The questionnaire was designed to explore the effectiveness of AML in Malaysia. Besides demographic data, several questions concerning the effectiveness of AMLR were incorporated. These questions were adapted from the study of [1]. Several questions were incorporated in the questionnaire. One question focused on the estimation of AML implementation costs. Two questions were examining the effectiveness of AMLR in helping to control money laundering and counter terrorism financing in Malaysia in the last five years as well as in the coming five years respectively. One more question was on the extent of effectiveness of AMLR for deterring and detecting organized crimes, terrorism financing and smuggling, reducing tax evasion, etc.

IV. Results

A. Respondents

Only 27 respondents participated in the questionnaire survey. The organizations represented by these respondents are revealed in Table I. The majority (63%) of them worked for the Royal Customs Malaysia Department. The remaining respondents were from the Royal Malaysia Police, Inland Revenue Board of Malaysia and Ministry of Domestic Trade, Co-Operatives and Consumerism.

TABLE I
Organizations of Respondents

Organization	Number	Percentage (%)
Royal Customs Malaysia Department	17	63
Royal Malaysia Police	4	15
Ministry of Domestic Trade, Co-Operatives and Consumerism	3	11
Inland Revenue Board of Malaysia	3	11
Total	**27**	**100**

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Table II summarizes the current positions of the respondents. Most of the respondents worked as investigation and enforcement officers who are deemed knowledgeable to answer the questionnaire. Their responses are hence relevant to the study.

TABLE II
CURRENT POSITIONS RESPONDENTS

Current positions	Number	Percentage (%)
Investigation officers/Inspectors	5	18
Superintendents (customs departments)	6	22
Assistant Directors	7	26
Enforcement officers	5	19
Assessing officers	1	4
Not stated	3	11
Total	**27**	**100**

B. Estimated Implementation Anti-Money Laundering Costs

In estimating implementation costs, the majority (48%) of the respondents have indicated the AML costs in their organizations ranged between RM200,000 and RM299,000 per annum. Twelve percent of the respondents incurred less than RM100,000 per annum in implementing AMLR in their organizations and only 8% spent more than RM500,000 per annum to counter money laundering.

TABLE III
ESTIMATED AML (AML) COSTS

Annual estimated AML costs	Number	Percentage (%)
Very low < RM100,000	3	12
Low RM100,000 -RM199,000	5	20
Moderate RM200,000 – RM299,000	12	48
High RM300k -RM499,000	3	12
Very high > RM500,000	2	8
Total	**25**	**100**

C. Effectiveness of Anti-Money Laundering

Even though none of the respondents regarded AMLR to be very greatly effective, the majority (59.3%) perceived AMLR to be greatly effective in controlling money laundering and countering terrorism financing in the past five years in Malaysia. Only six respondents (22.2%) found 'little' or 'very little' effectiveness of implementing AML in the past five years. This finding is consistent with the study of [8] which China's overall AMLR to be effective.

TABLE IV
EFFECTIVENESS OF AMLR IN PAST FIVE YEARS

Effectiveness of AMLR in controlling money laundering in past five years	Number	Percentage (%)
Very Great	0	0
Great	16	59.3
About the same	5	18.5
Little	5	18.5
Very Little	1	3.7
Total	**27**	**100.0**

The respondents were also asked how effective AMLR will be in five years time compared to now. Most respondents (24 respondents or 89%) expect AMLR to become 'more' or 'much more' effective over the next five years (see Table V). Only 11.1% of the respondents perceived that the effectiveness of AMLR in controlling money laundering will be the same in the next five years. None of the respondents think that the efforts of AML will not be effective.

TABLE V
EFFECTIVENESS OF AMLR IN NEXT FIVE YEARS

Effectiveness of AMLR in controlling money laundering in next five years	Number	Percentage (%)
Much less effective	0	0
Less effective	0	0
About the same	3	11.1
More effective	17	63.0
Much more effective	7	25.9
Total	**27**	**100.0**

Anti-money laundering could be implemented to deter and detect organized crime deter and detect terrorism financing or reduce the potential for tax evasion, etc. This study found that AMLR are effective (mean score of 4.00) in international obligation and resolving targeted problems (see Table VI).

TABLE VI
EFFECTIVENESS OF AMLR (DESCRIPTIVE STATISTICS)

Effectiveness of AMLR in:	A	B	C	D	E
International obligation	27	2	5	4.00	.679
Resolve targeted problems	27	3	5	4.00	.555
Reduce scope of tax evasion	27	2	5	3.89	.751
Deter & detect smuggling	27	1	5	3.67	.876
Deter & detect organized crimes	27	1	5	3.63	.884
Deter & detect terrorism financing	27	2	5	3.48	.893

A = number, B = minimum, C = maximum, D = mean, E = standard deviation

Implementation of AMLR is perceived as less effective in deterring and detecting smuggling (mean=3.68), organized crimes (mean=3.63) and terrorism financing (mean=3.48). In Table VII, only 16 respondents (59.3%) found AMLR to be 'effective' and 'very effective' in deterring and detecting terrorism financing as compared to 23 respondents (81.5%) who perceived international obligation as most effective. This finding is consistent with that of [12] who found that most professionals and researchers believe that AML measures are not very effective in preventing upstream crimes such as smuggling, drug trafficking and bribery. However, [11] found that American AML system failed to reach the targets stipulated by law and expected by regulatory authorities.

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TABLE VII
EFFECTIVENESS/INEFFECTIVENESS OF AMLR

Effectiveness of AMLR in:	A	B	C	D	E	F
International obligation						
(no.)	0	1	3	18	5	27
(%)	0	3.7	11.1	66.7	14.8	100
Resolve targeted problems						
(no.)	0	0	4	19	4	27
(%)	0	0	14.8	70.4	14.8	100
Reduce scope of tax evasion						
(no.)	0	2	3	18	4	27
(%)	0	7.4	11.1	66.7	14.8	100
Deter & detect smuggling						
(no.)	1	3	4	15	4	27
(%)	3.7	11.1	14.8	55.6	14.8	100
Deter & detect organized crimes						
(no.)	1	2	5	17	2	27
(%)	3.7	7.4	18.5	63.0	7.4	100
Deter & detect terrorism financing						
(no.)	0	5	6	14	2	27
(%)	0	18.5	22.2	51.9	7.4	100

A = very ineffective, B = ineffective, C = neutral, D = effective, E = very effective, F = total

IV. DISCUSSION AND CONCLUSION

The findings of this study revealed that Malaysian organizations, more specifically, the law enforcement agencies, incurred considerable amounts of AML implementations costs annually. The respondents have perceived that such spending were effective in the past five years. These respondents perceived this will improve in the coming five years. This finding is encouraging. According to [1], perceived effectiveness of AMLR should improve the reputation and competitiveness of a nation. Hence, future AML studies should focus on how to improve effectiveness of AMLR in Malaysia as to increase competitiveness and reputation level. Participations from various parties, such as the enforcement agencies and reporting agencies are essential to achieve this before increasing the level of regulation further.

As the findings of this study are restricted due to its small sample size, future studies should increase the sample size. AML studies from different parties should be carried out to investigate what are the barriers to effective implementation of AMLR as well as how to improve the implementation of AML in Malaysia. Current study employed 'perceived effectiveness', future study should attempt to develop a measure for effectiveness of AMLR in Malaysia. This effectiveness can be evaluated in terms of meeting the objectives of AML or on the basis of costs versus benefits achieved.

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