

Money Laundering Risk Assessment in the Banking Institutions: An Experimental Approach

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Abstract : In view that money laundering has become eminent for banking institutions, it is an obligation for the banking institutions to adopt a risk-based approach as the integral component of the accepted policies on anti-money laundering. In doing so, those involved with the banking operations are the most critical group of personnel as these are the people who deal with the day-to-day operations of the banking institutions and are obligated to form a judgement on the level of impending risk. This requirement is extended to all relevant banking institutions staff, such as tellers and customer account representatives for them to identify suspicious customers and escalate it to the relevant authorities. Banking institutions staffs, however, face enormous challenges in identifying and distinguishing money launderers from other legitimate customers seeking genuine banking transactions. Banking institutions staffs are mostly educated and trained with the business objective in mind to serve the customers and are not trained to be "detectives with a detective's power of observation". Despite increasing awareness as well as trainings conducted for the banking institutions staff, their competency in assessing money laundering risk is still insufficient. Several gaps have prompted this study including the lack of behavioural perspectives in the assessment of money laundering risk in the banking institutions. Utilizing experimental approach, respondents are randomly assigned within a controlled setting with manipulated situations upon which judgement of the respondents is solicited based on various observations related to the situations. The study suggests that it is imperative that informed judgement is exercised in arriving at the decision to proceed with the banking services required by the customers. Judgement forms a basis of opinion for the banking institution staff to decide if the customers posed money laundering risk. Failure to exercise good judgement could results in losses and absorption of unnecessary risk into the banking institutions. Although the banking institutions are exposed with choices of automated solutions in assessing money laundering risk, the human factor in assessing the risk is indispensable. Individual staff in the banking institutions is the first line of defence who are responsible for screening the impending risk of any customer soliciting for banking services. At the end of the spectrum, the individual role involvement on the subject of money laundering risk assessment is not a substitute for automated solutions as human judgement is inimitable.

Keywords : banking institutions, experimental approach, money laundering, risk assessment

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