CHALLENGES OF IMPLEMENTING EFFECTIVE ANTI-MONEY LAUNDERING STRATEGIES IN KENYAN COMMERCIAL BANKS

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DECLARATION

This research project is my original work and has not been presented before to any other university or institution of higher learning for the award of degree, diploma or certificate.

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DEDICATION

I dedicate this research study to my dear parents Mr. and Mrs. Francis Wafula, for the love, guidance and sacrifices they make to ensure we have the best of everything.

I also dedicate this research to my siblings Godfrey, Julie, Vicky, Betty, Paul and Grace for always being there for me and my family.

Last but not least, I dedicate this research to my husband and best friend Eric, and our lovely daughters Erica and Joy. You light up my world.

To all, I say Thank you and may God bless you.

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ABBREVIATIONS AND ACRONYMS

AML   Anti-Money Laundering

CBK   Central Bank of Kenya

CDD   Client Due Diligence

FATF   Financial Action Task Force

FRC   Financial Reporting Centre

KCB   Kenya Commercial Bank

KYC   Know Your Customer

ML   Money Laundering

POCAMLA Proceeds of Crime and Money Laundering Act

RoA   Return on Assets

SCB   Standard Chartered Bank

UNODC   United Nations Office on Drugs and Crime

ABSTRACT

The aim of this study was to establish the challenges of implementing effective anti-money laundering strategies (AML) in Kenyan Commercial Banks. Descriptive design was adopted in this study. The population under study consisted of all licensed Commercial banks that were operating in Kenya as at 31 July 2019. The study was a census survey, covering 42 banks and 1 mortgage finance institution. Primary data was obtained through questionnaires. Data analysis was done using both descriptive statistics and inferential statistics in form of Factor Analysis. The study found that challenges of implementing effective AML strategies in Kenyan commercial banks include organisation cultures that did not prioritize compliance, inadequate focus on AML by senior executives and limited participation by relevant stakeholders in formulation and implementation of the AML strategies. Further, the study found that AML functions were not sufficiently resourced amidst rising costs of AML compliance. Another finding was that there is need to deploy intelligent technology for client identification and transaction monitoring was a challenge as technology changes happen rapidly and criminals often use the best technology for money laundering purposes. As banks have multiple products, processes, procedures and systems which are uniformly applied across segments, extensive AML risk interpretations, assessments, vigilance and expertise are necessary. Additionally, AML processes like periodic and adhoc review of client information are demanding given the number of customers, products and situations that bank customers may be in, hence, posing a challenge in effective implementation of the AML strategies. The study also found that globalization and innovations in the banking industry are a challenge as these allow for rapid movement of funds and trade within and across nations, providing fertile grounds for criminals to place, layer and integrate illegally acquired funds faster. Further, outdated client information and limited co-operation from clients in provision of KYC information poses a challenge in transaction monitoring and subsequently on effectiveness of AML strategies for banks. In addition, banks spend considerable amount of time, resources and effort to train employees, to keep up with changing regulations local and international regulations and ensure consistency in application of due diligence checks across the organization. The study recommends more involvement of senior executives on AML activities, use of updated intelligent systems and technologies that effectively monitor client activities from an AML perspective, employment and retaining of personnel with adequate knowledge and skills as well as more support and involvement by the government and Regulators in assisting banks to effectively implement their AML strategies.

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CHAPTER ONE: INTRODUCTION

1.1. Background of the Study

Money laundering refers to cleaning or washing of money obtained in un-clean or illegal ways in order to disguise its origin and make it appear clean, legal or legitimate. It also includes knowingly assisting a criminal in moving money or other property that constitutes the proceeds of criminal activity (Njagi, 2009). Criminals employ varied measures to disguise the source of illegally obtained resources. These include successive movement of funds through various channels, use of multiple bank accounts and account holders for transactions, deposits and withdrawals of cash in denominations below the reportable thresholds and purchase and sale of assets, property and stocks. Money laundering is done to disguise the source of criminally obtained assets in a bid to finally re-introduce the laundered money or assets back into the economy as legitimately acquired assets. In Kenya, money laundering is a criminal offence which attracts prosecution, conviction and confiscation of the criminally acquired funds and assets (POCAMLA, 2009).

Anti-Money Laundering (AML) strategies can be defined as plans, activities, policies, processes, procedures and controls that Commercial Banks, Regulators and law enforcing agencies employ to try to prevent money laundering and minimize its adverse consequences (Murithi, 2013). Mintzberg distinguished five componens of strategy which he calls "the 5 P's of Strategy". Mintzberg explains that a strategy is as a plan that is employed to achieve a given objective (Mulder, 2018). According to Mintzberg, a strategy is also a pattern, position, perspective and ploy. The aim of a strategy is to address a future activity, situation or objective and can be short term or long term (Mulder, 2018). A good strategy ensures the well-being of an organization

and requires coordination of different areas and facets of an organization (Mulder, 2018). An AML strategy consists of as a set of deliberate activities which if correctly implemented and monitored would collectively assist in preventing or minimizing occurrence and severity of money laundering.

This study was grounded on The Survival-Based Theory, "The Crying Wolf Theory" as explained by Elod Takáts in year 2007 and the "Fraud-Triangle Theory" as established by Donald Cressey in year 1953. In The Survival-Based Theory, Abdullah (2010) argues that only companies that effectively utilize their resources to stay ahead of their competitors survive. Under the "Crying Wolf Theory" Takáts (2007) puts forward that Banks resort to over reporting to avoid large fines that could be levied by Regulators for failure to report money laundering transactions or activities. Over reporting by Banks to Regulators is referred to as "crying wolf". This can water down the quality of information submitted for investigation purposes and hence, fail to achieve the intended objective of detecting true money laundering activities (Takáts, 2007). Under the "Fraud-Triangle Theory", Cressey (1953) identifies three main factors that enable fraud and unethical actions. These 3 factors constitute the fraud triangle and are itemized as "Pressure, Opportunity and Rationalization" (Brumell Group, 2019). It is crucial for organizations to study and recognize the three aspects of The Fraud Triangle for them to address possible loop holes and opportunities that can encourage unethical behavior in their organizations (Brumell Group, 2019).

Commercial Banks are financial intermediaries which accept deposits from their customers which they then lend to their customers in form of loans and other facilities

(Njagi, 2009). Commercial Banks play a great role in supporting trade and business through their cash, lending, foreign exchange and trading products and services that they offer to individuals, businesses and Governments. In Kenya, Banks are regulated by The Central Bank of Kenya (Njagi, 2009). As at July 2019, Kenya had 42 Commercial Banks and 1 mortgage finance institution. CBK had also authorized eight non- operating bank holding companies (Central Bank Of Kenya, 2019). Banks face various challenges as they discharge their mandates. These include the need to ensure compliance with regulations, the need to provide suitable products and services for their clients, competition and also generate fair returns for their shareholders. According to Njagi (2009), one key challenge that Commercial Banks face is "fraud and money laundering" (Njagi, 2009).

Money laundering is increasingly a challenge and hazard in the financial industry. Many proceeds of financial crimes pass through Banks and go un-noticed. The United Nations Office on Drugs and Crime (2019) approximates that the funds laundered annually on a global basis to be about 2 - 5% of the global gross domestic product (GDP). This ranges from 800 billion US Dollars to 2 trillion US Dollars. The dynamic developments in the financial industry, rapid enhancements in technology and improvements in communication allows easy and fast movements of funds anywhere in the world. Money laundered could therefore easily be integrated with legitimate funds, making the need to address and prevent more laundering even more crucial (UNODC, 2019). The objective of this study therefore is to examine the challenges of implementing effective AML strategies in Kenyan Commercial Banks and recommend measures that can be adopted for a more vigilant AML environment.

1.1.1. The Concept of Strategy

Henry Mintzberg, in 1987 set aside five components of strategy for organizations which he called "the 5 P's of Strategy". These are: plan, pattern, position, perspective and ploy (Mulder, 2018). As a plan, a strategy presents the ways and means of achieving an identified purpose. A plan consists of sets of intended ideas or actions which are repeatedly done for a given duration. A plan can be formal, that is well documented or it can be informal, presented as ideas or undocumented actions (Jofre, 2011). Documented plans work best for organizations as these allow for follow through. As a pattern, a strategy emerges from repeated, focused and consistent behavior (Mulder, 2018). As a position, a strategy is being in a certain place for a certain purpose. This could include choosing to serve a particular group of people, or designing products to fill a gap, hence a niche strategy. As a perspective, a strategy is "how" things are done. As a ploy, a strategy is a deliberate tactic envisioned to achieve a certain objective (Jofre, 2011).

The "5 P's of Strategy" if well-coordinated and followed through, would support an organization to develop and implement a working strategy (Mulder, 2018). A strategy could be short term or long term. Different departments of Commercial Banks, for instance, compliance, operations, sales, finance and strategy need to be involved in the formulation and execution of an effective AML strategy. The "5 P's of Strategy" can be used to check or discover inconsistencies in organizations' strategies early enough in order to realize the organization's objectives and use its resources amicably (Mulder, 2018). According to Mintzberg, a strategy provides direction to an organization. It ensures that efforts are concerted towards the target goal. A strategy defines an organization, what it is known for is and what it stands for. A strategy also

provides the backbone an organization needs to achieve desirable outcomes consistently (Jofre, 2011).

1.1.2. Money Laundering

Money Laundering is a serious global threat that has undesired economic, reputation and social consequences. It can wear down an economy (Central Bank of Kenya, 2019). The UONDC asserts that money laundering can deny provision of intended basic services to citizens as well as create artificial high prices and inflation for properties, goods as well as services. It too can create volatilities of foreign currency exchange rates and interest rates. It feeds corruption and fuels organized crime such as terrorism, drug trafficking, purchase of illegal arms and commodity smuggling. The social and economic consequences of allowing criminal groups to clean their dirty money are devastating (UNODC, 2019).

The Money Laundering process is conventionally achieved in three stages, namely "Placement, Layering and Integration". Placement, usually comes first, and is the process where funds from illegal activities are initially introduced in the financial systems such that Commercial Banks, Regulators and Government authorities are unable to identify them. Next is layering, which is the process of obscuring the audit trail of funds by through a series of transactions to disguise or distance the proceeds from their original illegal source. Lastly, integration, usually the final stage in money laundering, is the un-noticed return of successfully laundered funds which cannot be re-traced to their original source, back into an economy. This is achieved by outlays in legitimate looking, businesses, investments and lending transactions (Murithi, 2013). These stages can occur as distinct phases, could occur concurrently or overlap (Sainah, 2015).

1.1.3. Implementation of Anti-Money Laundering Strategies

The plan, position, perspective, measures, pattern, ploy and activities consciously employed by a Bank to prevent or minimize ML form its AML strategy. Implementing a strategy involves putting the formulated strategy into actions. Mintzberg appreciates that it is difficult to develop a good strategy, and even tougher to implement. Good strategies could fail not because they were not well formulated, but because they were not well implemented (Mbai, 2014). The more and better an organization conceives and implements its strategy, the more likely it is to achieve its goals. The success or failure of implementing a strategy could determine the success, failure or even existence of an organization (Mbogoh, 2014).

Commercial Banks associated with money laundering face regulatory and reputational damages which eventually adversely affects their financial performance. Many legitimate businesses, both local and international will shun Commercial Banks associated with any form of money laundering (UNODC, 2019). Globally, The Financial Action Task Force (FATF) provides guidelines on dealing with Money laundering through legal, regulatory as well as operational frameworks. They are a good base for coordinated responses to ML threats and promotion of the financial and Banking systems integrity and soundness. The recommendations help to provide a reference point and a level playing field that can be adopted across nations (FATF, 2019). Commercial Banks in Kenya are guided by The Proceeds of crime and Anti Money Laundering Act (POCAMLA) and recommendations by FATF. POCAMLA prescribes the obligations, responsibilities as well as guidelines for reporting institutions in promoting AML.

For effective implementation of an AML strategy, the challenges organizations face while implementing strategies need to be addressed. Clear focus, communication of the strategy and follow through by senior management at critical levels of the organization is a challenge, since Senor Executives have competing priorities and would need to deploy scarce resources to a cause whose impact may be impossible to assess at the onset (KPMG, 2014). Further, Commercial banks need to formulate, adopt and have control mechanisms for AML policies, processes and procedures and tailor them to apply uniformly across a wide range of client segments. This could be a 'mammoth' task (Muppayyanamath, 2019). Recruiting, training and retaining skilled employees with adequate knowledge of AML policies, processes and procedures is a challenge (Muppayyanamath, 2019), as well as the need to comply with the ever-changing regulations (KPMG, 2014). Further, the impact of employing intelligent technology to promote consistency of implementation of the AML strategy across the organization is challenging, since technology advances rapidly and money launderers are well organized and often use updated technology to disguise the illegally acquired funds (UNODC, 2019). As globalization and advancements in the Banking industry take shape, Banks need to keep innovating to keep up with competition, regulations and keep money launderers away, posing a challenge in implementing an effective AML strategy (Mbwayo, 2005).

1.1.4. Commercial Banks in Kenya

Commercial Banks in Kenya are regulated by the CBK. They are also governed by the Banking Act, the Companies Act, the CBK Act and various Regulations and guidelines issued by the CBK (Murithi, 2013). Fraud and ML are among the key challenges that Commercial Banks in Kenya are facing (Njagi, 2009). The CBK first published The POCAMLA (The Act) in year 2009. This Act was enforced in year

2010 and is the principal AML legislation. POCAMLA is supplemented by The Proceeds of Crime and Anti-money laundering regulations and was subsequently revised and amended in years 2012, 2013 and 2017. Kenya also enacted the Prevention of Terrorism Act, 2012 and is a signatory to The Prevention of Terrorism (Implementation of the United Nations Security Council Resolutions on Suppression of Terrorism) Regulations, 2013 (Financial Reporting Centre, 2019). Commercial Banks have been given key AML roles and responsibilities by Anti- Money Laundering legislations (Dan, 2009).

1.2. Research Problem

Money laundering is of great concern, locally and internationally. Attempts to curb money laundering are often hindered by the quick changing nature of the criminal tactics employed by its perpetrators (Belaisha, 2005). To disguise, realize and legitimize benefits of criminal activities, money launderers are continuously studying Banking procedures, processes and regulations in a bid to identify possible loopholes for ML without being caught. They also use up to date technology and complex techniques to legitimize the proceeds of crime (Dan, 2009). Although the interconnectivity between financial institutions facilitates international trade and eases the transfer of funds for such international transactions, it has its share of limitations one being the increased risk of occurrence of money laundering (Menezes, 2017).

Money laundering has created significant challenges in the financial services industry (Muppayyanamath, 2019). Regulatory authorities have responded to these challenges by introducing strict AML regulations which aim to detect suspicious transactions and prevent ML. Complying with these regulations often calls for investments in comprehensive compliance systems. This also calls for investments in multiple

processes, technology and smart data analytics that can comprehensively detect true ML activities. In addition, Complying with these regulations requires appropriate training and AML skillset. (Muppayyanamath, 2019).

Commercial Banks are expected to be front-liners in fighting money laundering activities and have as such adopted various AML strategies. Kenya Commercial Bank (KCB) which as at 31.12.2018 was the largest Bank in Kenya by asset base has a detailed AML policy which reiterates its commitment to combat money-laundering through its customer identification and verification procedures (KCB Group, 2019). Similarly, Standard Chartered Bank Kenya (SCB), which as at 31.12.2018 was the largest foreign Bank in Kenya by asset base, has an AML policy that is aligned with the recommendations of the Financial Services Authority and also benchmarked with international best practices. SCB employs three lines of defence in its AML campaign; knowing their customers, monitoring transactions and staff training (Standard Chartered Bank, 2019).

Numerous studies have been done in the field of AML. Sainah (2015) did a study titled "The effect of Money Laundering Risk Assessment on the Financial Performance of Commercial Banks in Kenya". Sainah (2015) linked bank reporting on AML with Return on assets (ROA) and concluded that reduction in ML incidences could have led to improved ROA. Murithi (2013) studied "The effect of AML regulation Implementation on the Financial Performance of Commercial Banks in Kenya" and concluded that AML activities has led to an increase in operating costs due to higher screening and regulatory reporting frequencies. A research titled "Assessment of the effectiveness of The Financial Reporting Centre and Financial Institutions in Prevention of Money Laundering in Nairobi County" concluded that

the underlying obstacles to prevention of Money laundering were failure to enforce AML rules and regulations, inefficiencies in coordination among stakeholders, inadequate training on AML and inferior technological knowledge or skills (Kathuli, 2018).

Though there are studies on AML in Commercial Banks, very few examine the challenges of implementing effective AML strategies in Kenyan Commercial Banks. In September 2018, The CBK levied fines totaling KES 392 million to five banks in Kenya for not adhering to the transaction rules in respect of handling and reporting of funds that originated from the National Youth Service (Ochieng, 2018). The action by CBK to levy fines due to non-compliance of transaction reporting rules further points towards gaps in how AML is practiced in Banks in Kenya. In light of the above gaps, this study seeks to answer the following research question: what are the challenges of implementing effective anti-money laundering strategies in Kenyan Commercial Banks?

1.3. Research Objective

To establish the challenges of implementing effective anti-money laundering strategies in Kenyan Commercial Banks.

1.4. Value of study

The findings of this study will be useful to Commercial Banks, Financial Institutions, Policy makers, Scholars and the public in several ways. In practice, it will provide insights to the management, board and employees of financial institutions on challenges that Kenyan Banks face in implementing effective AML strategies and thereafter provide practical solutions to address the challenges.

The study will also be valuable to Regulators and Policy owners, who include The CBK, The Financial Reporting Centre (FRC), The Capital Markets Authority among others in their roles as custodians and advisors of AML. By appreciating the challenges Commercial Banks face in executing effective AML strategies, the Regulators and policy makers will be in a position to improve on existing policies, regulations and guidance for Commercial Banks and regulated financial institutions. They too will have more information that will enable them to structure trainings and other forms of support to boost a robust AML environment.

Future Scholars and Researchers would find value in the study as it will contribute to available knowledge in this field of research. Findings of this study will help in validation or otherwise of the three theories that the study is anchored on. Professionals in the legal field and the general public will find value in the study as money laundering has undesirable consequences to the economic and social wellbeing of nations.

CHAPTER TWO: LITERATURE REVIEW

2.1. Introduction

This chapter entails theoretical reviews of ideas and writings appropriate for this study. The study will be grounded on three theories; The Survival-based theory, the Theory of "Crying Wolf" and The Fraud Triangle Theory.

2.2. Theoretical Review

The Survival-based theory is discussed including its relevance to the study. The same is done for the Crying Wolf and the Fraud Triangle theories.

2.2.1. The Survival-Based Theory

The Survival-based theory, also known as "survival of the fittest" was initially discussed in the field of economics whilst analyzing how firms compete and thrive in industries. Furthermore, the Survival-based theory was linked to Darwin's theory of evolution and natural selection and Adam Smith's invisible hands by Herbert Spencer (Abdullah, 2010). Survival-based theory emphasizes the need for organizations to consciously and continuously adapt to their competitive environment, else, they would cease to exist. The theory recognizes the need not only for competition, but also cooperation in businesses. Organizations need to deploy strategies that are focused on ensuring efficiency and do so quick enough to wade off competition and survive in their dynamic environments. Further, the theory reiterates that by nature, only the best and the finest win, which in the end is good for the community as they enjoy only the best products and services (Abdullah, 2010).

This theory is applicable as Money laundering can be construed to be the "competing" factor that Commercial Banks need to beat. Just like business competitors, criminals will employ strategies and ploys to remain in the business of money laundering. Banks need to be vigilant and ensure that their AML strategies are well implemented to ensure money is not laundered in their organizations. Banks can also cooperate with other Financial Institutions and Regulators in the quest against money laundering by having good and ethical business practices (Klein, 2003).

2.2.2. Theory of "Crying Wolf"

The theory points out how excessive reporting by Banks to Law enforcing agencies could miss to spot positive ML activities or transactions (Takáts, 2007). The theory is likened to the tale of "The boy who cried wolf" wherein, the boy often cried wolf before ascertaining the wolf's presence and many who came to his aid found that his cries were false. When the wolf actually appeared, his cries were not attended to as the villagers thought these were his usual false cries. Banks are required to monitor their clients account activities, and report to the authorities, any suspicious or unusual transactions. However, because Banks face huge fines for failing to report ML activities, they resort to take caution and report transactions which could be false positives or less suspicious. Excessive reporting, referred to as "crying wolf", can decrease the value of the data of reports sent to Regulators for investigations and thereby fail to identify true positive ML matches. This creates an overload of information and work for the investigators of Regulators who may eventually fail to identify true ML activities (Takáts, 2007).

Takáts (2007) builds the theory on five key economic obstacles; inappropriate communication between Banks and the Governments. Here, Takáts (2007) explains

that the challenge lies not with verification, but rather with the precision of information. Another economic obstacle is the incentive a Bank has to report potential ML activities, which is the fear of being fined by Regulators as opposed to genuine concern on an account activity. This also could be because Banks are not all the time sure of the kind of transactions done by their clients and each could be a potential ML transaction (Takáts, 2007). Further, banks have to oversee all transactions of a customer in order to report the suspicious ones. Given the number of daily transactions, this is a huge responsibility. The final obstacle is on the judgmental nature of decisions that bank officials do while monitoring transactions. This judgement can often not be produced later (Takáts, 2007).

The theory recommends changes in tact on fines, suggesting "optimal" as opposed to "maximal" fines and instituting of reporting fees to encourage desirable reporting and discourage false positives information from Banks (Takáts, 2007). Banks should ensure adequate reporting, not just to avoid being punished by Regulators for failing to report suspicious activities, but also to genuinely ensure their organizations are not used for ML. Sainah (2015) argues that on the part of Regulators, optimal government investigation would increase as the benefits of prosecuting true money laundering activities increase. The theory is relevant as excessive reporting, false positives, diluted information and the underlying causes, reasons and drivers of excessive reporting could un-earth major challenges of implementation of an effective AML strategy.

2.2.3. The Fraud Triangle Theory

This theory was developed by Donald Cressey in 1953. It recognizes three factors which make up the fraud triangle and which must be present for fraud and unethical

behavior to happen. The three factors are itemized as Pressure, Opportunity and Rationalization. Under Pressure, the theory points out that most individuals are driven by some form of push or reasons to commit a criminal act, which can be financial or emotional reasons. They could also be greed coupled with injustice of a system. The second factor is the presence of an opportunity to commit the act. An opportunity in ML could include a failed transaction monitoring process or non-adherence to the set policies and procedures for AML. If there is a chance of committing the act, and not being caught, then, the criminal act can occur. Third is Rationalization, which are the justifications or reasons an individual finds for committing a crime (Brumell Group, 201z9).

This theory is applicable as it explains the motivation, opportunities and justifications for a crime to be committed and provides a useful outline for organizations to self-analyze their susceptibility to fraud and other undesired behavior. If an organization can check and implement measures to prevent each pf the three factors, then, it can avoid un-ethical practices (Brumell Group, 2019) Organisaions should relieve pressure by providing adequate financial and emotional support to their employees. They should also minimize opportunities by ensuring adequate end to end analysis and fool-proofing of their processes, operations, systems and controls. They should also address any potential current or future opportunities for crime or un-ethical behaviors. Companies should target rationalization by not tolerating un-ethical actions. This can be reinforced through codes of conduct training and reminding staff and customers of their policies and goals regularly (Brumell Group, 2019).

2.3. Challenges of Implementing Effective Anti-Money Laundering Strategies in Kenyan Commercial Banks

Mintzberg appreciates that coming up with a good strategy is not easy; and implementing a strategy is even harder. Good strategies and plans may die due to inability implement them efficiently (Hrebiniak, 2006). All stages of formulating and implementing of a strategy determine the wholesomeness and effectiveness of the strategy. Identifying critical areas of focus early enough, mostly while at the planning phase, can lead to better efficiencies in use of resources in the end (Mulder, 2018). For effective AML strategies, it is critical for Commercial Banks to adequately plan, develop, implement and consciously monitor their AML strategies. The challenges of implementing effective AML strategies in Kenyan Commercial Banks are outlined below.

Organisation culture and tone from the top can determine how an AML strategy is implemented (Hrebiniak, 2006). Senior executives of Banks are often faced with competing prioroties including generation of revenue, management of stakeholders and compliance with Regulators. A low key focus on AML and compliance by the Board and senior managers could lead to less careful formulation and execution of the AML strategy. Senior management must set up appropriate stuctures that adequately supports the AML processes and allows clear lines of responsibility for processing controls and reporting (Mbwayo, 2005).

Management capability is important in implementation of a Bank's AML strategy. The challenge here being that many managers are often trained to plan or come up with a strategy, but not to implement or execute it (Hrebiniak, 2006). Similarly,

Mbogoh (2014) argues that senior management spends resources in form of money, time, and ideas into formulating of strategies, but they often do not provide for sufficient resources to implement these strategies adequately. Inadequate or incomplete implementation of the AML strategy would curtail it's effectiveness.

Skilled and trained personnel are key in successfully implementation of a Bank's AML strategy. On-boarding and retaining skilled employees with adequate knowledge of AML policies, processes and procedures can be difficult (Muppayyanamath, 2019). Commercial Banks are required to employ skilled personnel and train staff on the Act, on their internal policies, on recognition and handling of suspicious activities and new regulations (POCAMLA, 2012). Further, different regions, countries and organizations train their Boards, AML staff and non-AML staff in diverse ways, hence, creating an "inconsistent approach" to training (KPMG, 2014).

Implementing an AML strategy requires deployment of scarce resources in people, multiple technology, reporting, systems and processes. Allocation of sufficient resources that allows successful implementation of the AML strategy is a key challenge facing Commercial Banks in Kenya. The AML implementation costs are like normal costs of business which when compared with operating margin and revenues may result into losses to a financial institution (Mohamud, 2017). According to the KPMG International survey on AML whose findings were reported in the year 2014, seventy-eight percent of the 317 respondents affirmed that their investments in AML activities had increased from the previous survey, done 10 years earlier, with another seventy-four percent anticipating more increases in AML investment during the following three years (KPMG, 2014).

Anti-Money laundering practices require multiple processes, procedures and technology solutions that speak to each other and collectively ensure that the customers' Know Your Customer (KYC) data is stored safely in a single repository. Banks need to invest in intelligent technology and data analytics that aids in transaction monitoring and detection of suspicious activities across their product offerings and channels. This often results in multiple, interlinked processes. Further, Banks need to standardize their processes and data quality, yet allow their applicability across a wide range of client segments to maintain relevance and avoid ambiguity in the KYC process. A client's AML risk level could change according to the type of transactions the customers do or change in their profiles for instance, election to a political position (POCAMLA, 2012). This calls for continuous assessment of AML risks for each customer and appropriate adjustments of the risk levels. This necessitates continuous and intelligent monitoring of transactions for each customer, which is a huge ask (Muppayyanamath, 2019).

Organized crime is often dynamic, flexible and cuts across nations. Money launderers are continuously and consciously studying banks, their AML policies and procedures and Regulations to find opportunities and loop holes which enable them to disguise the flow of cash. This further supports the Fraud Triangle theory as this presents avenues for their transnational crimes to flourish. They then employ increasingly smart, complex and creative techniques to disguise and legitimize the proceeds of criminal activities (UNODC, 2019). Money launderers have entrenched themselves in legitimate businesses in wide range of business areas and locations, with multiple

accounts in many Banks in many jurisdictions. It is challenging for Commercial banks to keep up with new ploys employed by money launderers.

Commercial Banks and financial institutions need to comply with local and cross-border AML requirements. As Money laundering continues to spread, so do local and international regulations, which keep getting tighter for financial institutions (Belaisha, 2015). To satisfy compliance, Regulators usually conduct AML reviews and require submission of reports done by independent AML assessors (POCAMLA, 2012). Further, Banks face possibilities of large sum fines should they not report suspicious activities (Takáts, 2007). The fear of the Regulators axe and the need to comply would in some cases make Banks to invest in systems and technology to pass the Regulators test, as opposed to truly make strides in AML and transaction monitoring (KPMG, 2014). Keeping up with changing regulations requires considerable time and effort (Muppayyanamath, 2019).

Technology, financial information, and communication change very rapidly. New innovations for instance ability to trade in global markets instruments and upsurge of non-conventional currencies like crypto currencies are on the increase (Musyimi, 2018). These developments can enable "dirty money" to move into local and global banking system with more ease and speed. Money launderers are also using up to date technology throughout the money laundry stages. Given the number, diversity and complexity of transactions, Banks are expected to employ systems that will identify positive matches to suspicious activities. The more "dirty money" gets mixed with legitimate funds, the harder it is to detect (UNODC, 2019).

Commercial Banks have witnessed rapid changes in product offering and product innovation. The recent trends in the financial industry over the last two decades have drastically changed the industry systems (Menezes, 2017). One major innovation is the use of mobile money. Banks in Kenya have embraced mobile money and customers in virtually all Banks in Kenya can conveniently access their accounts at any time day or night (Musyimi, 2018). Multiple channels for banking transactions make it harder for Banks to effectively see the flow of money and potential ML activities. Further, the financial industry is now largely interconnected across all nations, all through from the developed to the developing nations. Although the interconnectivity between financial institutions facilitates international trade and eases the transfer of funds for such international transactions, it has its share of limitations. One of the limitations is the increased risk of money laundering (Menezes, 2017).

Globalization has delivered many benefits which include faster and easier communication, easy movement of finances, international trade as well as travel. On the flip side, globalization has also opened avenues for organized criminals to grow (UNODC, 2019). Traditional, territorial-based criminal groups are evolving, diversifying, re-grouping and spreading their branches across several locations. In the course of an investigation, it could happen that victims, suspects, organized criminal groups can be located in varied jurisdictions, each with different AML tolerance, laws and practices. Prosecuting transnational crimes may be a daunting task (UNODC, 2019). As such, the benefits of globalization could also help to initiate and disguise potential money laundering activities.

Belaisha (2005) asserts that it is almost impossible to assess the rate or percentage of money laundered. The amount of funds laundered globally is approximated to be

between US dollars 800 billion and US dollars 2 trillion annually, in current US dollars (FATF, 2019). These amounts are massive, even if the lower value of US Dollars 800m is considered, it still spells out the seriousness of the ML problem (The Financial Task Force, 2019). Further, unlike other more clear parameters of estimating a Bank's performance, for instance, return on assets or profitability ratios, proceeds of financial crime and money laundering often pass without being detected and cannot be easily quantified. With this, it may be challenging for Commercial Banks to calculate their AML risk, hence, challenging for them to effective deploy AML resources.

AML approaches are divergent across the Banking Industry. Globally, the FATF principles offer guidelines on AML which are adopted by member countries according to their national government requirements (FATF 2019). Locally, Part 3 of the POCAMLA requires Commercial Banks to have measures that effectively manage and mitigate the identified ML risks as per their "nature and size" (POCAMLA, 2012). There is a possibility of adoption of varied approaches of the AML regulations across jurisdictions (KPMG, 2014). This has resulted in inconsistent AML practices and checks across the country and jurisdictions. The adoption of divergent policies and practices in in the fight against ML creates loopholes in AML processes and poses challenges in adopting effective AML strategies across the industry.

2.4. Empirical Review and Knowledge Gaps

Few studies have been done on various aspects of AML in Kenya. Some sought to establish relationships between aspects of AML with financial performance of Commercial Banks, while others studied the impact of AML regulations in Kenya. This study seeks to add to the body of available knowledge in AML by studying the

challenges Commercial Banks face while implementing their AML Strategies. Some of the studies that have been done on AML, their focus, findings and knowledge gaps are discussed in the table below.

Table 2.1. Empirical Review and Knowledge Gaps

Researcher	Focus of the study	Findings	Knowledge Gaps
Muriithi (2013) MBA project paper	To establish the relationship between cost of implementing AML regulations on Financial Performance of Commercial Banks in Kenya as measured by Return on Assets (RoA).	Banks had instituted measures to combat Money laundering. These measures had increased their operating costs and lowered their RoA.	Other factors apart from AML operating costs can affect a Bank's RoA, for example the macro economic environmnent. The study assumed that Banks had efficiently implemented strong AML strategies
Mohamud (2017) MBA project paper	The Effect of AML Risk Management on Financial Performance of Commercial Banks in Kenya	The cost AML measures had risen steadily after introduction of AML regulations AML risk management costs lowered the Banks financial performance. Massive investments in technology was needed for detection and identification of suspicious transactions.	Other factors aside from AML operating costs can affect a Bank's RoA. The study, like one done by Muriithi (2013) above focussed on the association between AML risk management and its financial performance. It also assumed that Banks had efficiently implemented strong AML strategies which may not

		be the case.
Sainah (2015) MBA project paper	The Effect of AML Risk Assessment on The Financial Performance of Banks in Kenya	Banks should build AML capacity by continuously training their staff on the subject.	Other factors aside from AML risk asseessment measures could affect a Bank's financial performance.
		Banks should apply FATF and POCAMLA's recommendations for a robust AML environment.	The study too focussed on the relationship between AML risk management and financial performance.
		Increase in costs associated with AML, for example transaction monitoring costs had lowered financial performance.	The study assumes a robust AML risk environmnet which may not be the case.
Njagi (2009) MBA project paper	The Effectiveness of Know Your Customer (KYC) Policies Adopted by Commerical Banks in Kenya in Reducing Money Laundering and Fraud Incidences	The study highlighted gaps, referred to as "laxity" on the part of Commercal Banks in compling with KYC policies and procodures.	The study was done about a decade ago. The Reguators then had not implimented strict compliance requirements as is currently the practice
Gaituri (2014) Master in Laws degree project paper	Inadequacies of Anti-Money Laundering Legislation in Kenya	The regulation, POCAMLA, had not been effective at curbing money laundering and organised crimes in Kenya	Focus was on AML regulation, and not AML practices by Banks. Gaituri (2014) recommended law reforms in the area of

			AML, which was subsequently been done via amendments of the POCAMLA in the year 2017.
Belaisha (2005) Unpublished PHD thesis	Money Laundering and Financial Crimes in Dubai: A Critical Study of Strategies and Future Direction of Control.	United Arab Emirates (UAE) had enacted laws against Money Laundering, but there had been little assessment to test their successs in preventing or reducing money laundering in the country.	The study was done in a different location from Kenya. Also, at the time of study, AML regulatons had not been strictly adopted globally.
Kathuli (2018) Masters of Arts in Sociaology project paper	Asessement of the effeciveness of the Financial Reporing Centre and Financial Institutions in prevention of Money Laundering : A case study of Nairoi County	Incidences of ML had reduced due to the interventions by the Financial Reporting Centre. Kathuli (2018) concluded that the underlying obstacles to prevention of ML were failure to enforce AML rules and regulations, inefficiencies in coordination among stakeholders, inadequate training on AML and inferior technological knowledge or skills.	Though the study highlighted challenges of implementing a robust AML environment, it's main focus was on the effectivness of the Financial Reporting Centre.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1. Introduction

This chapter discusses the research methodology that was employed to solve the research problem. The sections of the chapter cover the research design, the population that was under study, data collection and its analysis.

3.2. Research Design

According to (Akhtar, 2016), a research design is an outline of the way the research will be conducted. It spells out how the research data will be obtained, measured and analyzed. Further (Akhtar, 2016) notes that a research design is the "Glue" or the structure of research that holds all elements in a research project together. A research design can also be seen as a plan of how the research will be done (Akhtar, 2016). The research design that was adopted was the descriptive design. According to Cooper and Schindler (2003), a descriptive survey aims to establish the where, what and how's of an occurrence or situation. The research design was aimed at determining the challenges of implementing effective AML strategies in Kenyan Commercial Banks.

3.3. Population of the Study

Population, as pointed out by Mohamud (2017) refers to the whole set or group of elements or institutions that have similar observable characteristics that the researcher will be interested in. It includes each and every member of the group with similar characteristics that are of interest to a researcher. The target population consisted of all the licensed Commercial Banks in Kenya as at 31 July 2019, which were 42 Commercial Banks and 1 mortgage finance institution. (Appendix I).

3.4. Data Collection

The study was a census survey and the collected data was primary data, obtained through questionnaires. The questionnaires were appropriate as the information to be collected could not be directly observed by opinions, feelings or perceptions of the respondents as according to Mugenda & Mugenda (2003). The questionnaires were structured and was responded to using a 5 pointer Likert scale. The questionnaires were dropped and picked from respondents. The target respondents were the senior Bank employees, mainly Heads of Business Units, Heads of Products, Heads of Strategy, Heads of Compliance &AML and Heads of Operations or equivalent.-

3.5. Data Analysis

The collected data was coded to facilitate data analysis and was based on the questionnaire statements and thereafter, analyzed. Data analysis was completed using both descriptive statistics and inferential statistics. Descriptive statistics provide summaries about the collected data and define the basic features of the data under study (Web Centre for Social Research Methods, 2019). Inferential statistics were used in form of Factor Analysis. The analyzed data was presented through the use of tables and a figure.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1. Introduction

This chapter entails the discussion on data analysis which includes the study response rate, background information on the respondents and the data analysis method employed.

4.2. Questionnaire Response Rate

This part analyzes information of the questionnaires that were returned from the field. The findings on filled in questionnaires and unreturned questionnaires are as per Table 4.2. below.

Table 4.2. Response Rate

Response	Frequency (n)	Percentage (%)
Completed questionnaires	90	75
Un returned questionnaires	30	25
Total Response Rate	**120**	**100**

Out of the sampled population, 90 questionnaires were completed and returned, making a response rate of 75%. The response rate was representative and was adequately used to answer the research questions. According to Kothari, C. R & ProQuest (Firm) (2004), response rates above 50% are adequate for analysis and reporting; rates of 60% are good, and response rates of 70% and over are excellent.

4.3. Background Information

Background information included length of time the respondents had served in their current roles, number of branches the Bank had in Kenya, regions where the banks

had presence and the Bank customers segments. The findings are presented in the following subsections:

4.3.1. Length of Service in the Current Role

The respondents were requested to specify how long they had served in their current roles. Accordingly, the findings are as presented in Table 4.3.

Table 4.3. Length of Service in the Current Role

Duration	Frequency	Percentage
1-2 years	10	11.1
2-3 years	22	24.4
Over 3 years	58	64.5
Total	**90**	**100**

From the findings, majority (64.5%) of the respondents indicated they had served in their current roles for over 3 years, 24.4% indicated 2-3 years, while 11.1% indicated that they had served in their current roles for 1-2 years. This depicts that the respondents had served in their roles for a sizeable duration and thus could offer reliable information in relation to challenges of implementing effective AML strategies in Kenyan Commercial Banks.

4.3.2. Number of Branches the Bank Has

The respondents were requested to specify the number of branches that their banks had. Accordingly, the findings are as presented in Table 4.4.

Table 4.4. Number of Branches the Bank Has

Branches	Frequency	Percentage
11-20	10	11.1
21-50	67	74.4
Over 50	13	14.5
Total	**90**	**100**

From the findings majority (74.4%) of the respondents Banks had between 21-50 branches, 14.5% indicated over 50 branches, while 11.1% indicated 11-20 branches. This shows that most of the respondents were working in banks which had between 21-50 branches which depicted sizeable presence of the Banks across the country.

4.3.3. Regions Where the Bank Has Presence

The respondents were requested to include the regions where their banks had presence. Accordingly, the findings are as presented in Table 4.5.

Table 4.5. Regions Where the Bank Has Presence

Region	Frequency	Percentage
Kenya	72	80
East Africa	4	4.4
Africa wide	5	5.6
Global	9	10
Total	**90**	**100**

From the findings majority (80%) pointed out that their bank had operations in Kenya, 10% had global presence, 5.6% operated across Africa while 4.4% operated in East Africa. This depicts that most of the banks were locally incorporated and owned Banks.

4.3.4. Bank Customer Segment

The respondents were requested to indicate the bank customer segment. Accordingly, the findings are as presented in Table 4.6.

Table 4.6. Bank Customer Segment

Segment	Frequency	Percentage
Corporate Clients	63	70.0
Small & Medium Enterprises	18	20.0
Retail / Individual Customers	9	10.0
Total	**90**	**100**

From the findings majority (71%) of the respondents indicated that they served corporate clients, 20% indicated small and medium enterprises, while 10% indicated retail/individual customers. This depicts that most of the respondents had corporate clients as their large customer segment.

4.4. Challenges of Implementing Effective Anti-Money Laundering Strategies

In order to establish the challenges of implementing effective AML strategies, factor analysis was conducted to reduce the dimensions and provide better propositions of the challenges of implementing effective AML strategies in Kenyan Commercial banks. This was important to identify the significant challenges that of implementation effective AML strategies in Kenyan Commercial Banks.

Table 4.7. Communalities

	Initial	Extraction
The Bank employs and retains employees who have adequate knowledge of anti-money laundering (AML) policies, processes and procedures	1.000	.887
All staff are trained on AML, on identification and reporting of suspicious activities at least once every year	1.000	.961
Anti-money laundering training is conducted and accessed on-line	1.000	.912
The bank has anti-money laundering compliance targets or incentives for staff	1.000	.943
Staff are regularly updated on AML strategies and Regulations	1.000	.940
Information on AML policies and procedures can be accessed easily	1.000	.928
All staff are screened for AML purposes periodically after joining the Bank	1.000	.926
The AML strategy is carefully designed and implemented	1.000	.975
Board members have been trained on AML compliance	1.000	.880
There is a Board member(s) who over-sees AML compliance in your organization	1.000	.830
The Bank's Senior Executives follow through on AML activities and controls	1.000	.948
There are appropriate structures that support AML activities with clear lines of responsibilities for controls and reporting	1.000	.893
The Bank allocates sufficient resources for AML activities	1.000	.913
Stakeholders from various departments are involved in coming up with AML activities	1.000	.753
Exposure to money laundering risk is considered a high risk area in your business risk assessment	1.000	.873
The Bank can estimate its potential losses due to money laundering activities	1.000	.925
The Bank complies with local and international AML regulations	1.000	.945
Anti-money laundering regulations and compliance needs change rapidly	1.000	.540
The Bank invests considerable time and effort to keep personnel abreast with changing regulations	1.000	.897

Anti-money laundering compliance costs have risen in the last 2 years	1.000	.906
The number suspicious activities / transactions reported by the Bank has increased in the last 2 years	1.000	.881
Controls are in place to ensure compliance with internal & external AML requirements	1.000	.950
In the past 3 years, Regulators have brought actions against your Bank due to ML or terrorist financing	1.000	.965
It is challenging for the Bank to keep up with tactics or ploys employed by money launderers to disguise the proceeds of criminal activities	1.000	.857
The Bank reviews and updates its AML technology and controls when it launches new products or banking channels	1.000	.883
The Bank updates its AML technology applications at least once every 2 years	1.000	.955
All Bank products have been assessed for AML risk	1.000	.950
The Bank uses intelligent systems and data analytics for transaction monitoring	1.000	.940
The Bank has multiple processes and technology solutions that consolidate know your customer data and systems in a single repository	1.000	.931
Many of the Bank's systems are interconnected	1.000	.949
Due diligence checks (KYC) and regulations and processes are applied uniformly across the Banking industry	1.000	.905
The Bank's Due diligence (KYC) process is standardized and uniformly applied across client segments	1.000	.920
Account opening at the Bank is centralized	1.000	.930
There is a centralized AML function responsible for coordinating and monitoring AML compliance	1.000	.858
The identity of all customers is verified at the inception of a Banking relationship	1.000	.892
The Bank has accurate and up to date information on its customers	1.000	.950
The Bank conducts risk sensitive due diligence on all clients	1.000	.945
A clients Anti-money laundering risk rating is a factor that determines the kind of products offered to them	1.000	.950
Accounts rated Low risk for Money laundering purposes are reviewed at least once every 3 years	1.000	.880

Accounts rated High risk for Money laundering purposes are reviewed at least once every 3 years	1.000	.897
The Bank has a dedicated online site used for screening politically exposure persons, sanctions and allegations of bribery and corruption	1.000	.951
A change in a client's AML risk rating results in a review of the clients due diligence records	1.000	.975
Customers co-operate with the Bank on provision of anti-money laundering information	1.000	.762
No waivers are given to allow customers to operate their accounts if they are not compliant with anti-money laundering requirements	1.000	.929
Over the last 2 years, the Bank has closed accounts that are not compliant with its AML requirements	1.000	.907
The Bank has lost customers or deals due to AML requirements	1.000	.801
Globalization has changed the way the Bank operates	1.000	.950
The frequency of cross border transactions has increased over the past 3 years	1.000	.844
The Bank's customers use mobile e-banking and other channels for product delivery	1.000	.968
The bank keeps on innovating products and services to retain and attract customers	1.000	.932
Extraction Method: Principal Component Analysis.		

The study sought the key challenges of implementing effective AML strategies in Kenyan Commercial Banks. It was revealed that most factors had an extraction greater than 0.7 proportion of variance. The challenges with the highest extraction were in the design and formulation of the AML strategy with 0.975, need to review clients KYC data when there are changes in client's AML rating with 0.975, the Bank's customers use of innovation and alternative banking channels like mobile banking and other channels for product delivery with 0.968, Regulators actions in the past 3 years as a result of violations of laws or regulations concerning money laundering or terrorist financing with 0.965, training of all staff are on AML and identification and reporting of suspicious activities at least once every year with

0.961, the need for the Bank to update its Anti-money laundering technology applications at least once every 2 years with 0.955, investment of the Bank in dedicated online sites used for screening politically exposure persons, sanctions and allegations of bribery and corruption with 0.951, presence of controls to ensure compliance with internal & external AML requirements with 0.95, assessment of Bank products for AML risk with 0.95, presence of accurate and up to date information on Bank customers with 0.95, a client's AML risk rating as a factor that determines the kind of products offered to them with 0.95, effects of globalization on how the Bank operates with 0.95, interconnectivity of the Bank's systems with 0.949, follow through of the Bank's senior Executives on AML activities and controls with 0.948, need for the Bank to comply with local and international AML regulation with 0.945, conducting of conducts risk sensitive due diligence by Banks on all clients with 0.945, presence of AML compliance targets or incentives for staff with 0.943, regular staff updates on AML strategies and Regulations with 0.94, investment of the Bank in intelligent systems and data analytics for transaction monitoring with 0.94, innovations by Banks to retain and attract customers with 0.932, use of multiple processes and technology solutions that consolidate know your customer data and systems in a single repository with 0.931, centralization of account opening at the Bank at 0.93, enforcement of rules in form of no waivers to allow customers to operate their accounts if they are not compliant with anti-money laundering requirements with 0.929, ease of access of AML information, policies and procedures with 0.928, screening of staff for anti-money laundering purposes periodically after joining the Bank with 0.926, ability of the Bank to estimate its potential losses due to money laundering activities with 0.925, the Bank's is standardization and application of Due diligence (KYC) process across client segments with 0.92, allocation of

sufficient resources for Anti-money laundering activities with 0.913, access and conducting of AML training on-line with 0.912, closure of accounts that are not compliant with its anti-money laundering requirements over the past 2 years with 0.907, rise in anti-money laundering compliance costs in the last 2 years with 0.906, application of due diligence checks (KYC) and regulations and processes are across the Banking industry with 0.905, investment of the Bank in considerable time and effort to keep personnel abreast with changing regulations with 0.897, review of accounts rated High risk for Money laundering purposes are reviewed at least once every 3 years with 0.897, appropriate structures that support AML activities with clear lines of responsibilities for controls and reporting with 0.893, verification of the identities of all customers at the inception of a Banking relationship with 0.892, the Bank employs and retains employees who have adequate knowledge of AML policies, processes and procedures with 0.887, the Bank reviews and updates its Anti-money laundering technology and controls when it launches new products or banking channels with 0.883, the number suspicious activities / transactions reported by the Bank has increased in the last 2 years with 0.881, board members have been trained on AML compliance with 0.88, accounts rated Low risk for Money laundering purposes are reviewed at least once every 3 years with 0.88, exposure to money laundering risk is considered a high risk area in your business risk assessment with 0.873, there is a centralized anti-money laundering function responsible for coordinating and monitoring AML compliance with 0.858, it is challenging for the Bank to keep up with tactics or ploys employed by money launderers to disguise the proceeds of criminal activities with 0.857, the frequency of cross border transactions has increased over the past 3 years with 0.844, there is a Board member(s) who over-sees AML compliance in your organization with 0.83, the Bank has lost customers or

deals due to AML requirements with 0.801, customers co-operate with the Bank on provision of AML information with 0.762, stakeholders from various departments are involved in coming up with AML activities with 0.753, and AML regulations and compliance needs change rapidly with 0.54.

Table 4.8. Transformation Table

Component Matrix													
	Component												
	1	2	3	4	5	6	7	8	9	10	11	12	13
The Bank employs and retains employees who have adequate knowledge of AML policies, processes and procedures	0.37	-0.229	-0.361	0.001	0.341	0.073	-0.595	-0.078	0.03	-0.076	-0.182	-0.07	-0.203
All staff are trained on anti-money laundering, on identification and reporting of suspicious activities at least once every year	0.562	-0.009	-0.295	0.466	0.086	0.076	-0.037	-0.096	-0.187	-0.457	0.18	0.148	0.139
Anti-money laundering training is conducted and accessed on-line	0.327	0.698	-0.221	-0.046	0.498	0.029	0.054	-0.053	-0.062	-0.042	-0.023	-0.059	0.055
The bank has AML compliance targets or incentives for staff	0.154	0.05	0.48	0.336	0.323	-0.096	-0.352	-0.316	-0.019	0.098	0.056	0.472	-0.018
Staff are regularly updated on AML strategies and Regulations	0.628	-0.272	-0.16	0.062	0.089	0.565	-0.038	-0.183	-0.107	-0.184	0.04	-0.109	0.147
Information on AML policies and procedures can be accessed easily	0.707	-0.326	-0.044	-0.082	0.068	0.306	-0.234	0.03	-0.202	0.001	0.156	-0.253	0.174
All staff are screened for AML purposes periodically after joining the Bank	0.366	0.516	0.221	0.27	0.121	0.208	-0.294	0.256	0.247	-0.336	0.106	0.001	0.095
The AML strategy is carefully	0.681	0.14	-0.181	-	-	0.434	0.062	-0.269	0.254	0.127	-0.059	-0.017	-0.22

designed and implemented				0.084	0.233								
Board members have been trained on AML compliance	0.572	0.141	-0.191	-0.078	-0.042	0.466	-0.173	0.125	0.385	-0.169	-0.144	0.115	-0.122
There is a Board member(s) who over-sees AML compliance in your organization	0.383	0.041	0.285	-0.332	-0.199	-0.081	-0.145	0.49	0.177	-0.133	-0.021	0.09	-0.354
The Bank's Senior Executives follow through on AML activities and controls	0.81	0.106	-0.038	-0.035	0.222	0.218	-0.055	-0.003	-0.087	0.209	-0.324	-0.099	-0.11
There are appropriate structures that support AML activities with clear lines of responsibilities for controls and reporting	0.77	-0.169	-0.16	0.423	0.117	0.089	0.005	0.016	-0.175	0.007	-0.075	-0.089	0.036
The Bank allocates sufficient resources for AML activities	0.889	-0.019	-0.172	0.039	0.088	-0.134	-0.16	-0.064	0.051	-0.129	0.002	0.046	0.124
Stakeholders from various departments are involved in coming up with AML activities	0.56	0.069	0.046	-0.35	-0.309	0.176	-0.004	0.308	-0.022	-0.17	0.127	0.156	-0.138
Exposure to money laundering risk is considered a high risk area in your business risk assessment	0.511	-0.113	-0.117	0.25	-0.334	0.353	-0.083	0.133	0.118	0.48	-0.036	0.062	0.114
The Bank can estimate its potential losses due to money laundering	0.224	0.101	0.827	0.207	0.141	0.189	-0.076	0.098	0.092	0.075	-0.15	-0.17	-0.053

activities

The Bank complies with local and international AML regulations	0.583	0.617	-0.125	0.219	-0.024	-0.097	0.009	-0.259	-0.044	0.172	-0.213	0.062	-0.054
AML regulations and compliance needs change rapidly	0.178	0.465	0.077	-0.143	0.301	0.119	-0.154	-0.046	-0.052	0.197	0.189	-0.109	0.213
The Bank invests considerable time and effort to keep up with changing regulations	0.604	0.337	-0.207	-0.176	-0.27	0.265	0.026	-0.138	0.238	0.045	0.327	-0.071	-0.106
Anti-money laundering compliance costs have risen in the last 2 years	0.406	0.733	-0.124	-0.278	0.168	-0.183	0.149	0	0.026	-0.09	0.091	0.09	0.057
The number suspicious activities / transactions reported by the Bank has increased in the last 2 years	0.376	-0.291	-0.095	-0.484	0.329	-0.07	0.211	-0.097	0.408	0.029	0.141	0.026	0.238
Controls are in place to ensure compliance with internal & external AML requirements	0.796	0.184	-0.152	0.125	0.304	0.011	0.06	0.234	-0.099	-0.103	0.208	0.076	-0.155
In the past 3 years, Regulators have brought actions against your Bank due to money laundering or terrorist financing	0.222	0.008	0.604	-0.143	0.382	0.299	0.375	-0.01	0.281	-0.074	0.035	-0.227	0.13
It is challenging for the Bank to keep up with tactics or ploys employed by money launderers to	-0.114	0.188	0.122	0.152	0.347	0.497	0.549	0.243	-0.058	0.063	-0.076	0.163	0.065

disguise the proceeds of criminal activities													
The Bank reviews and updates its AML technology and controls when it launches new products or banking channels	0.61	-0.403	0.11	-0.117	0.276	-0.41	-0.186	0.009	0.131	0.086	0.137	0.007	0.01
The Bank updates its AML technology applications at least once every 2 years	0.366	-0.411	0.625	-0.142	0.273	-0.083	0.059	-0.326	0.107	0.047	0.014	0.16	-0.103
All Bank products have been assessed for AML risk	0.669	-0.218	-0.023	0	-0.208	0.136	0.257	-0.16	-0.243	0.006	0.208	0.337	-0.289
The Bank uses intelligent systems and data analytics for transaction monitoring	0.732	-0.396	0.373	-0.053	-0.059	0.016	0.183	0.105	-0.153	0.068	-0.155	-0.004	-0.066
The Bank has multiple processes and technology solutions that consolidate know your customer data and systems in a single repository	0.638	-0.452	0.258	-0.107	0.028	0.174	0.116	-0.052	-0.403	-0.095	0.107	0.011	0.109
Many of the Bank's systems are interconnected	0.712	-0.429	0.04	-0.146	-0.158	-0.018	-0.078	0.17	-0.088	-0.194	-0.306	-0.134	0.133
Due diligence checks (KYC) and regulations and processes are applied uniformly across the	0.037	0.065	-0.233	-0.686	0.145	-0.097	-0.134	0.136	-0.465	0.19	0.174	-0.092	-0.127

Banking industry												
The Bank's Due diligence (KYC) process is standardized and uniformly applied across client segments	0.413	0.028	0.67	0.3	-0.029	0.006	-0.189	0.291	-0.174	0.08	0.164	-0.157	-0.017
Account opening at the Bank is centralized	0.754	-0.163	-0.002	-0.115	-0.398	0.241	0.01	-0.283	0.014	-0.071	0.106	0.068	0.062
There is a centralized anti-money laundering function responsible for coordinating and monitoring AML compliance	0.601	-0.069	0.086	-0.146	-0.588	-0.171	-0.094	-0.08	0.029	0.003	0.166	-0.105	0.185
The identity of all customers is verified at the inception of a Banking relationship	0.594	0.069	-0.131	0.421	-0.423	-0.207	0.173	-0.266	0.01	0.037	-0.04	0.014	0.125
The Bank has accurate and up to date information on its customers	0.665	0.386	-0.037	-0.167	-0.002	-0.206	0.126	-0.06	-0.163	-0.254	-0.345	0.237	0.012
The Bank conducts risk sensitive due diligence on all clients	0.828	0.178	-0.031	0.155	0.008	-0.347	0.128	0.173	-0.06	-0.052	-0.125	0.04	0.108
A clients AML risk rating is a factor that determines the kind of products offered to them	0.621	-0.272	0.356	-0.465	-0.121	-0.134	0.072	-0.07	0.023	0.027	-0.309	0.086	0.01
Accounts rated Low risk for Money laundering purposes are reviewed at	0.56	0.462	0.244	-0.253	-0.125	-0.389	0.005	0.029	0.165	-0.1	0.066	-0.037	0.137

least once every 3 years													
Accounts rated High risk for Money laundering purposes are reviewed at least once every 3 years	-0.1	0.033	0.003	0.138	-0.173	0.203	-0.229	0.406	0.07	0.401	-0.037	0.504	0.396
The Bank has a dedicated online site used for screening politically exposure persons, sanctions and allegations of bribery and corruption	0.565	0.578	-0.147	-0.021	-0.087	0.02	-0.008	-0.114	-0.12	0.409	-0.002	-0.232	-0.144
A change in a client's AML risk rating results in a review of the clients due diligence records	0.717	0.29	0.278	0.259	-0.171	-0.313	-0.087	-0.046	-0.088	0.037	-0.177	-0.186	0.144
Customers co-operate with the Bank on provision of AML information	0.574	0.315	0.022	-0.393	-0.252	-0.011	0.181	0.218	-0.142	0.011	-0.078	0.022	0.088
No waivers are given to allow customers to operate their accounts if they are not compliant with anti-money laundering requirements	0.238	0.246	0.654	0.457	-0.133	-0.069	0.069	-0.217	0.085	-0.007	0.206	-0.064	-0.219
Over the last 2 years, the Bank has closed accounts that are not compliant with its AML requirements	0.772	-0.094	-0.059	-0.299	0.305	-0.145	-0.109	0.038	0.045	0.218	0.181	0.01	-0.02
The Bank has lost customers or deals due to anti-money laundering	0.531	-0.23	-0.155	-0.347	0.462	-0.033	0.026	-0.171	0.123	0.14	-0.134	0.148	0.052

requirements													
Globalization has changed the way the Bank operates	0.536	-0.131	-0.166	0.484	0.338	-0.125	0.267	0.285	-0.198	0.138	0.142	0.042	-0.146
The frequency of cross border transactions has increased over the past 3 years	0.289	-0.358	-0.444	0.346	0.019	-0.171	0.349	0.187	0.293	0.051	-0.078	-0.186	-0.023
The Bank's customers use mobile e-banking and other channels for product delivery	0.653	-0.31	-0.202	0.185	-0.019	-0.388	0.096	0.151	0.247	0.126	0.332	0.013	0.006
The bank keeps on innovating products and services to retain and attract customers	0.597	-0.312	-0.338	0.43	0.115	-0.215	-0.04	0.129	0.241	0.008	-0.139	-0.057	-0.143
Extraction Method: Principal Component Analysis.													
a. 13 components extracted.													

Table 4.8 above shows the correlations among the variables with the loadings being positive or negative based on the correlations.

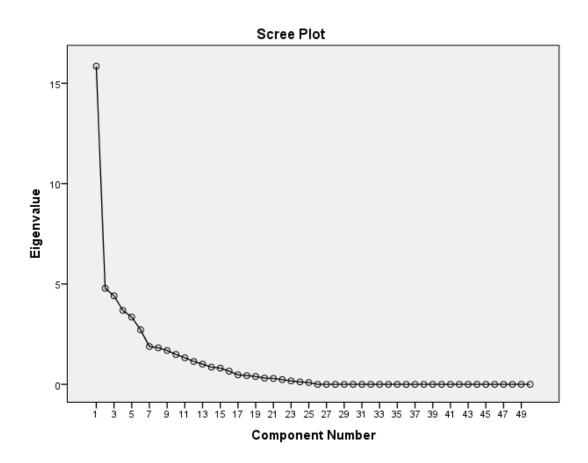**Table 4.9. Contribution of Extracted Variable**

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	15.894	31.788	31.788	15.894	31.788	31.788
2	4.912	9.824	41.612	4.912	9.824	41.612
3	4.233	8.467	50.079	4.233	8.467	50.079
4	3.824	7.648	57.727	3.824	7.648	57.727
5	3.096	6.192	63.920	3.096	6.192	63.920
6	2.727	5.454	69.373	2.727	5.454	69.373
7	1.858	3.716	73.090	1.858	3.716	73.090
8	1.820	3.639	76.729	1.820	3.639	76.729
9	1.685	3.370	80.099	1.685	3.370	80.099
10	1.482	2.965	83.064	1.482	2.965	83.064
11	1.360	2.720	85.783	1.360	2.720	85.783
12	1.222	2.444	88.227	1.222	2.444	88.227
13	1.070	2.140	90.366	1.070	2.140	90.366
14	.861	1.721	92.088			
15	.773	1.547	93.634			
16	.632	1.264	94.899			
17	.532	1.065	95.963			
18	.431	.863	96.826			
19	.418	.836	97.662			
20	.312	.624	98.286			
21	.279	.558	98.845			
22	.222	.444	99.289			
23	.170	.341	99.629			
24	.109	.218	99.848			
25	.076	.152	100.000			
26	1.027E-013	1.054E-013	100.000			
27	1.021E-013	1.042E-013	100.000			
28	1.018E-013	1.037E-013	100.000			
29	1.016E-013	1.032E-013	100.000			
30	1.015E-013	1.029E-013	100.000			
31	1.012E-013	1.023E-013	100.000			
32	1.010E-013	1.021E-013	100.000			
33	1.009E-013	1.017E-013	100.000			
34	1.007E-013	1.014E-013	100.000			
35	1.006E-013	1.012E-013	100.000			
36	1.004E-013	1.007E-013	100.000			
37	1.003E-013	1.006E-013	100.000			

38	1.002E-013	1.004E-013	100.000			
39	-1.002E-013	-1.003E-013	100.000			
40	-1.005E-013	-1.009E-013	100.000			
41	-1.005E-013	-1.010E-013	100.000			
42	-1.007E-013	-1.013E-013	100.000			
43	-1.010E-013	-1.020E-013	100.000			
44	-1.012E-013	-1.023E-013	100.000			
45	-1.012E-013	-1.024E-013	100.000			
46	-1.015E-013	-1.030E-013	100.000			
47	-1.018E-013	-1.036E-013	100.000			
48	-1.020E-013	-1.040E-013	100.000			
49	-1.023E-013	-1.045E-013	100.000			
50	-1.029E-013	-1.058E-013	100.000			

Extraction Method: Principal Component Analysis.

Table 4.9 shows the importance of each of the 13 components. The components with an Eigen value of over 2.1 are the first 13 components and together they explain 90.366% of the total variability of the data. The 13 components are probably adequate for making significant operational decisions in relation to the implementation of money laundering strategies. The components are the strategies with the highest extraction value which includes: the AML strategy is carefully designed and implemented, a change in a client's anti-money laundering risk rating results in a review of the client's due diligence records, the Bank's customers use mobile e-banking and other channels for product delivery, in the past 3 years, Regulators have brought actions against your Bank resulting from violations of laws or regulations concerning money laundering or terrorist financing, all staff are trained on anti-money laundering, on identification and reporting of suspicious activities at least once every year, the Bank updates its Anti-money laundering technology applications at least once every 2 years, the Bank has a dedicated online site used for screening politically exposure persons, sanctions and allegations of bribery and corruption, controls are in place to ensure compliance with internal & external AML requirements, all Bank

products have been assessed for Anti-money laundering risk, the Bank has accurate and up to date information on its customers, a client's Anti-money laundering risk rating is a factor that determines the kind of products offered to them, globalization has changed the way the Bank operates, and many of the Bank's systems are interconnected.

Figure 4.1. Scree Plot

The scree plot shows the line plot of the Eingenvalues of the fifty components which were checked to determine the challenges of implementing effective AML strategies in Kenyan Commercial Banks. The first 13 components together explained 90.366% of the total variability of the data and were retained for further analysis, with each successive component accounting for a smaller amount of the total variance.

4.5. Discussion of Findings

The study found that the challenges of implementing effective AML strategies in Kenyan Banks are as follows:

Organisation cultures and tone from the top that do not prioritize compliance, limited involvement of key stakeholders in formulation and implementation of the AML strategy and insufficient follow through on AML activities by senior executives. A low key focus on AML and compliance by the Board and senior managers leads to less careful formulation and execution of the AML strategy. This finding concurs with Hrebiniak (2006) who stated that organisation culture and tone from the top can determine how strategies are implemented.

Rising cost of AML activities, controls and compliance. Respondents affirmed that AML compliance costs had risen in the last 2 years of the study, against a backdrop of competing priorities for scarce resources. This is in line with a study by Mohamud (2017) who states that AML implementation costs are like normal costs of business which when compared with operating margin and revenues may result to a dip financial performance. Additionally, the study found that AML departments and activities were not adequately resourced and it was hard for Banks to estimate potential losses due to ML activities, a factor that could hinder correct assessment of the right level of investment needed for AML activities.

The study also found that Commercial Banks in Kenyan have multiple products, processes, procedures and systems which are uniformly applied across segments. This is a challenge as the multiplicity of processes and products calls for extensive AML risk interpretations, assessments, vigilance and expertise. Further, not all products had been assessed for Money laundering risk and AML processes like

periodic and adhoc review of client information were demanding given the number of customers, products and situations that Bank customers were in. The findings concur with a study by Muppayyanamath, (2019) who states that Commercial Banks need to formulate, adopt and have control mechanisms for AML policies, processes and procedures and tailor them to apply uniformly across a wide range of client segments.

The study concurred that globalization and innovations in the Banking industry have changed how Commercial Banks operate in Kenya and also increased the frequency of cross border transactions over the past three years. This is a challenge for effective implementation of the Banks' AML strategies as though globalization and innovations in the Banking industry has allowed rapid movement of funds from various jurisdictions and trade within and across nations, it has also provided fertile grounds for criminals to place, layer and integrate illegally acquired funds faster. Further, innovations like electronic and mobile banking solutions have eased the process and time it takes for funds to be transferred from one person to another, and can too be mis-used by criminals. This finding concurs with Mbwayo (2005) who notes that easier and faster movement of funds presents challenges in tracking illegally acquired funds.

The study also found that the need to deploy and continuously update intelligent technology for client identification and transaction monitoring is a challenge as technology advances rapidly and money launderers often use updated technology to disguise the illegally acquired funds. This is in line with UNODC (2019) who explain that employing intelligent technology that promotes consistency of implementation of AML activities across the organization is a challenge.

Outdated client information and limited co-operation from clients in provision of KYC information poses a challenge in transaction monitoring and subsequently on effectiveness of AML strategies for Banks. In addition, the study showed a disconnection between a client's AML risk ratings with possible banking products that could be offered to them. Out-of-date, incorrect or hard to obtain client information would render even the most intelligent processes and technology in-effective against money laundering.

The study also found that the need to comply with local and international regulations is a challenge as consequences of non-compliance yield financial and reputational damages. Respondents affirmed that the number of reported suspicious transactions had increased within the preceding 2 years of the study and Regulators had brought actions against their Banks resulting from violations of laws or regulations concerning money laundering or terrorist financing in the past three years. However, it was not established if the rising number of reported suspicious transactions was an action of "excessive" reporting as put out in "Crying Wolf" theory by Takáts.

Continuously training of new and existing staff on AML and recognition of suspicious activities as well as assuring consistency in application of due diligence checks across the organization is a challenge as Banks need considerable amount of time, effort and resources to attain this. Many respondents agreed that due diligence checks were being uniformly applied within their organisations and that they had dedicated online sites for screening their customers for political exposure, sanctions and for allegations of bribery and corruption. This finding agrees with Muppayyanamath (2019) who asserts that recruiting, training and retaining skilled employees with adequate knowledge of AML policies, processes and procedures can be difficult.

CHAPTER FIVE: SUMMARY, CONCLUSIONS, LIMITATIONS OF THE STUDY AND RECOMMENDATIONS

5.1. Introduction

The chapter provides the summary of the findings from chapter four. It also gives the conclusions and recommendations of the study based on the objectives of the study.

5.2. Summary of the Findings

The study found that challenges of implementing effective Anti-Money Laundering (AML) strategies in Kenyan Commercial Banks include organisation cultures and tone from the top that did not prioritize AML compliance, limited involvement of key stakeholders in formulation and implementation of the AML strategy and presence of multiple products, processes, procedures and systems which are uniformly applied across segments, thereby calling for extensive AML risk interpretations, assessments, vigilance and expertise.

The study also showed that continuous training of new and existing staff on AML and on recognition of suspicious activities is a challenge as Banks use considerable effort and resources to keep employees abreast of changing ML patterns, regulations and in ensuring uniformly of due diligence checks across the organization. Need for updated intelligent technology for data analytics and transaction monitoring is a challenge as technology advances rapidly and money launderers often use updated technology to disguise illegally acquired funds.

The study established that rising cost of AML activities, controls and compliance is a challenge, and AML departments were not adequately resourced. Additionally, globalization and innovations in the Banking industry are a challenge as these allow

for rapid movement of funds and trade within and across nations, providing fertile grounds for criminals to place, layer and integrate illegally acquired funds faster.

The study also found that the need to comply with local and international regulations is a challenge as consequences of non-compliance yield financial and reputational damages with the study showing that in the past three years, Regulators had brought actions against some Banks for violation of KYC rules. Further, outdated client information and limited co-operation from clients in provision of KYC information poses a challenge in transaction monitoring and subsequently on effectiveness of AML strategies for Banks.

5.3. Conclusion of the Study

The study concluded that challenges of implementing effective AML policies in Kenyan Commercial Banks include lack of clear focus on AML by senior executives and inadequate involvement of relevant stakeholders on implementing of the AML strategies. The study also concluded that rising costs of AML activities and limited investment in people, processes, systems and intelligent technologies deter effective implementation of the AML strategies. Further, the need to deploy and continuously update intelligent technology for client identification and transaction monitoring is a challenge as technology advances rapidly, in addition to being a costly exercise. The study concluded that Banks have multiple products, processes, systems and technologies that need to be applied across a wide client segment and fit various client situations. The study also concluded that globalisation and innovations in the Banking industry have facilitated easy and quick flow of funds, which provides a good avenue for criminals to move illegally acquired funds with ease. In addition, Banks do not always have accurate data on their clients and clients may not always co-operate with

Banks in provision of AML information. In addition, Banks spend considerable amount of time and effort to train employees and keep up with changing local and international regulations whose non-compliance has adverse financial and reputational consequences.

5.4. Recommendations of the Study

The researcher makes the following recommendation to address the key findings of the study.

The study recommends that Boards and senior management staff of Banks should set the right tone from the top in ensuring effective implementation of AML strategies in Kenyan Commercial Banks. This includes making considerable investment in AML expertise, continuous training of employees on AML and recognition of suspicious activities and having active over-sight roles on AML activities   Further, Banks should procure intelligent AML technology, continuously update existing technology and adopt effective AML processes, procedures and support structures.   Senior management could also consider centralized account opening centers for standardization of customer identification and uniform application of KYC processes and procedures across their banking segments.

The researcher also recommends provision of support from Regulators and AML policy makers in form of continuous industry wide AML research, sensitization, training programs and guidance to capacitate Commercial Banks and other relevant institutions in fighting against money laundering. The researcher also recommends that Regulators could check on the possibility of offering centralized AML information repository for bank customers across the country and intelligent AML

systems and technology that interested Banks could plug in for effective client assessments and transaction monitoring at an affordable and shared cost.

The study further recommends diligent application of the recommendations by the FATF and guidelines as per POCAMLA by Commercial Banks in Kenya.

5.5. Limitations of the Study

One limitation of the study was the scarcity of information that was available for literature review as the research topic is in a relatively recent area of study. In addition, a number of respondents did not complete the questionnaires due to their internal policies on provision of bank information and confidentiality.

The focus of the study was on Commercial Banks; the study therefore excluded non-bank financial services providers such as mobile money operators and micro-finance institutions. The financial services industry and system in Kenya is wide and interconnected and funds from non-Commercial Banks financial institutions easily flow in and out of Commercial Banks.

5.6. Recommendations for Further Research

Further research is recommended on challenges of implementing effective AML strategies in other Financial Institutions in Kenya, which include insurance companies, micro-finance organizations, non-bank credit providers, mobile money lenders, stock brokerages and fund managers. This will assist in providing greater insights on the challenges of money laundering across the financial industry and assist in minimizing the adverse consequences of money laundering in the country.

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APPENDICES

APPENDIX I: QUESTIONNAIRE

SECTION A: Background Details

Please indicate

1. Name of the bank_____ (optional)

2. Your current role / position (or equivalent) in the Bank

   Head of Business   ( )
   Head of Products   ( )
   Head of Strategy   ( )
   Head of Compliance & AML   ( )
   Head of Operations   ( )
   Other   _____

3. How long have you served in your current role?

   0 - 1 year   ( )
   1 – 2 years   ( )
   2 – 3 years   ( )
   Over 3 years   ( )

4. How many branches does your Bank have in Kenya?

   0 - 10   ( )   11 – 20   ( )
   21 – 50   ( )   Over 50   ( )

5. Which regions does your Bank have presence?

   Kenya ( )   East Africa ( )   Africa-wide ( )   Global ( )

6. Which is your customer segment?

   Corporate Clients   ( )
   Small & Medium Enterprises   ( )
   Retail / Individual Customers   ( )

SECTION B: CHALLENGES OF IMPLEMENTING EFFECTIVE ANTI-MONEY LAUNDERING STRATEGIES IN KENYAN COMMERCIAL BANKS

7. To what extent do you agree with the following statements?

	Agree to a great	Agree	Neutral	Do not agree	Do not agree to a

	extent				great extent
The Bank employs and retains employees who have adequate knowledge of Anti-money laundering (AML) policies, processes and procedures					
All staff are trained on AML, on identification and reporting of suspicious activities at least once every year					
Anti-money laundering training is conducted and accessed on-line					
The bank has AML compliance targets or incentives for staff					
Staff are regularly updated on AML strategies and Regulations					
Information on AML policies and procedures can be accessed easily					
All staff are screened for AML purposes periodically after joining the Bank					

8. To what extent do you agree with the following statements?

	Agree to a great extent	Agree	Neutral	Do not agree	Do not agree to a great extent
The AML strategy is carefully designed and implemented					
Board members have been trained on AML compliance					

There is a Board member(s) who over-sees AML compliance in your organization					
The Bank's Senior Executives follow through on AML activities and controls					
There are appropriate structures that support AML activities with clear lines of responsibilities for controls and reporting					
The Bank allocates sufficient resources for Anti-money laundering activities					
Stakeholders from various departments are involved in coming up with AML activities					
Exposure to money laundering risk is considered a high risk area in your business risk assessment					
The Bank can estimate its potential losses due to money laundering activities					

9. To what extent do you agree with the following statements?

	Agree to a great extent	Agree	Neutral	Do not agree	Do not agree to a great extent
The Bank complies with local and international AML regulations					
AML regulations and compliance needs change rapidly					
The Bank invests considerable time and effort to keep up with changing regulations					

Anti-money laundering compliance costs have risen in the last 2 years					
The number suspicious activities / transactions reported by the Bank has increased in the last 2 years					
Controls are in place to ensure compliance with internal & external AML requirements					
In the past 3 years, Regulators have brought actions against your Bank due to money laundering or terrorist financing					
It is challenging for the Bank to keep up with tactics or ploys employed by money launderers to disguise the proceeds of criminal activities					

10. To what extent do you agree with the following statements?

	Agree to a great extent	Agree	Neutral	Do not agree	Do not agree to a great extent
The Bank reviews and updates its Anti-money laundering technology and controls when it launches new products or banking channels					
The Bank updates its AML technology applications at least once every 2 years					
All Bank products have been assessed for Anti-money laundering risk					
The Bank uses intelligent systems and data analytics for transaction monitoring					

	Agree to a great extent	Agree	Neutral	Do not agree	Do not agree to a great extent
The Bank has multiple processes and technology solutions that consolidate know your customer data and systems in a single repository					
Many of the Bank's systems are interconnected					

11. To what extent do you agree with the following statements?

	Agree to a great extent	Agree	Neutral	Do not agree	Do not agree to a great extent
Due diligence checks (KYC) and regulations and processes are applied uniformly across the Banking industry					
The Bank's Due diligence (KYC) process is standardized and uniformly applied across client segments					
Account opening at the Bank is centralized					
There is a centralized anti-money laundering function responsible for coordinating and monitoring AML compliance					
The identity of all customers is verified at the inception of a Banking relationship.					
The Bank has accurate and up to date information on its customers					
The Bank conducts risk sensitive due diligence on all clients					
A clients AML risk rating is a factor that					

determines the kind of products offered to them					
Accounts rated Low risk for Money laundering purposes are reviewed at least once every 3 years					
Accounts rated High risk for Money laundering purposes are reviewed at least once every 3 years					

12. To what extent do you agree with the following statements?

	Agree to a great extent	Agree	Neutral	Do not Agree	Do not Agree to a great extent
The Bank has a dedicated online site used for screening politically exposure persons, sanctions and allegations of bribery and corruption					
A change in a client's AML risk rating results in a review of the clients due diligence records.					
Customers co-operate with the Bank on provision of anti-money laundering information					
No waivers are given to allow customers to operate their accounts if they are not compliant with anti-money laundering requirements					
Over the last 2 years, the Bank has closed accounts that are not compliant with its anti-money laundering requirements					

	Agree to a great extent	Agree	Neutral	Do not Agree	Do not Agree to a great extent
The Bank has lost customers or deals due to anti-money laundering requirements					

13. To what extent do you agree with the following statements?

	Agree to a great extent	Agree	Neutral	Do not Agree	Do not Agree to a great extent
Globalization has changed the way the Bank operates					
The frequency of cross border transactions has increased over the past 3 years					
The Bank's customers use mobile e-banking and other channels for product delivery					
The bank keeps on innovating products and services to retain and attract customers					

Thank you for taking your time to complete this questionnaire.

APPENDIX II: LIST OF COMMERCIAL BANKS IN KENYA

1. ABC Bank (Kenya)
2. Bank of Africa
3. Bank of Baroda
4. Bank of India
5. Barclays Bank of Kenya
6. Chase Bank Kenya (In Receivership)
7. Citibank
8. Commercial Bank of Africa
9. Consolidated Bank of Kenya
10. Cooperative Bank of Kenya
11. Credit Bank
12. Development Bank of Kenya
13. Diamond Trust Bank
14. Dubai Islamic Bank
15. Ecobank Kenya
16. Equity Bank
17. Family Bank
18. First Community Bank
19. Guaranty Trust Bank Kenya
20. Guardian Bank
21. Gulf African Bank
22. Habib Bank AG Zurich
23. Housing Finance Company of Kenya
24. I&M Bank
25. Imperial Bank Kenya (In receivership)
26. Jamii Bora Bank
27. Kenya Commercial Bank
28. Mayfair Bank
29. Middle East Bank Kenya
30. National Bank of Kenya
31. NIC Bank
32. Oriental Commercial Bank
33. Paramount Universal Bank
34. Prime Bank (Kenya)
35. SBM Bank Kenya Limited
36. Sidian Bank
37. Spire Bank
38. Stanbic Bank Kenya
39. Standard Chartered Kenya
40. Trans National Bank Kenya
41. United Bank for Africa
42. Victoria Commercial Bank

Source: The Central Bank of Kenya