

**THE EFFECT OF ANTI MONEY LAUNDERING RISK
ASSESSMENT ON THE FINANCIAL PERFORMANCE OF
COMMERCIAL BANKS IN KENYA**

BY

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DECLARATION

This is to declare that this research project is my original work that has not been presented to any other university or institution of Higher Learning for an award of a degree.

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D61/ 70946 / 2014

Signature Date

This research project has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

This project is dedicated to my husband Frankline Ngeno and son Anaya Kalya, my parents and my-in-laws, brothers and sisters. I love you all and may God's blessings be showered upon you all.

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LIST OF ABBREVIATIONS

AML	Anti-Money Laundering
AMLRA	Anti-Money Laundering Risk Assessment
AMLRI	Anti-Money Laundering Regulation Implementation
ATM	Automated Teller Machine
CBK	Central Bank of Kenya
CDD	Customer Due Diligence
CFT	Combating Financing of Terrorism
CTR	Cash Transaction Report
FATF	Financial Action Task Force
FP	Financial Performance
GDP	Gross Domestic Product
ICT	Information and Communication Technology
IMF	International Monetary Fund
ID	Identification Card
IP	Internet protocol
I.T	Information Technology
ML	Money Laundering
PEPs	Politically Exposed Persons
PIN	Personal Identification Number
POCAMLA	Proceeds of Crime and Anti-Money Laundering Act
ROA	Return on Assets
STR	Suspicious Transaction Report

ABSTRACT

Financial institutions are faced with the cost of AML compliance. This is due to their extensive regulation. It is very difficult to quantify the incremental cost impact of implementing the set regulations. The board and management of the commercial banks have the overall responsibility in ensuring that their respective banks are AML compliant through undertaking an AML Risk Assessment. This is a cost that directly affects their profit which then reduces their return on Assets. This problem becomes more pronounced as a good number of commercial banks are engrossed with profit maximization and as such they tend to neglect the importance of AML Risk management. Towards this end, the research sought to establish the effect of AML Risk Assessment on the financial performance of commercial banks. The study adopted descriptive research design where secondary data was retrieved from the financial statements of 43 commercial banks for the period 2014. A multi linear regression model was developed to determine the relationship between the financial performance and independent variables including bank reporting, AML staff costs and AML cost of monitoring transactions. Pearson's correlation and regression analysis were used for the analysis. The results indicated that the relationship between AML Risk Assessment and financial performance is weak with an adjusted R^2 of 21.24%. The results further show that there is a negative relationship between the commercial banks AML risk assessment and ROA. This might be explained with the view that with AML compliance brings an additional operational cost to these banks, which reduce the net income of the banks and consequently, a lower ROA. The study concluded that AML Risk Assessment is not a contributor alone of the firm's financial performance and there exist other variable that influenced ROA. The study recommends that the banks' board and senior management should put in place policies to address AML risk assessment that will guide training for staff, monitoring of transactions and reporting of suspicious transactions. Furthermore, the banks should work with the regulator to ensure that they align their policies with the CBK's guidelines on AML risk assessment.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Money laundering is generally regarded as the practice of engaging in financial transactions to conceal the identity, source, and or destination of illegally gained money by which the proceeds of crime are converted into assets which appear to have a legitimate origin (Proceeds of Crime and Anti-Money Laundering Act 2009).

Anti-Money Laundering (AML) can be defined as an activity which prevents, or aims to prevent money laundering from happening. This is an oversimplification of a complex situation. The definition of ‘criminal income’ varies by jurisdiction (some activities are illegal in some countries and not in others). Similarly, the ‘aims’ of AML are not necessarily the same in different jurisdictions. The aims might include to deter and detect organized crime, to reduce drug dealing, to deter terrorism or to maintain the reputation of the financial services industry.

Despite the variety of methods employed, the laundering process is conventionally divided into three stages: the placement of funds derived from the crime, the layering of those funds in order to disguise their origins, and the integration of the funds into the mainstream economy. These stages, may occur as separate and distinct phases. Alternatively, they may occur simultaneously or, more commonly, they may overlap. How the basic steps are used

depends on the available laundering mechanisms and the requirements of the criminal organizations.

Bagenda (2003) agrees that money launders use criminal means in acquiring their money and try to use such dirty money in legally acquiring of properties. He defines Money Laundering as the manipulation and the use of money or property to hide its illegal source or the criminal origin by using it in a legal or illegal activity. Money laundering in Kenya has posed a threat to the growth of the economy. Commercial banks being one of the victims. The study tries to identify the effect of AML risk assessment on the financial performance of commercial banks in Kenya.

1.1.1 Anti-Money Laundering Risk Assessment

With the introduction of compliance requirements, management must determine the level of compliance desired and required, as well as taking into account the potential risk of noncompliance. This is called Risk assessment. According to (Proceeds of Crime and Anti-Money Laundering Act 2009), it provides the means for identifying the degree of potential money laundering and financing of terrorism risks associated with specific customers and transactions thereby allowing the institution to focus on customers and transactions that potentially pose a greater risk of money laundering and terrorism financing.

The Financial Action Task Force (FATF) permits countries to adopt a risk-based approach to combating money laundering and terrorist financing. By adopting a risk-based approach, competent authorities and financial institutions are able to ensure that measures to prevent or mitigate money laundering and terrorist financing are commensurate to the risks

identified. The risk-based approach encompasses recognizing the existence of the risk(s), undertaking an assessment of the risk(s) and developing strategies to manage and mitigate the identified risks.

The development of a risk assessment enables a thorough understanding of the inherent anti-money laundering risks present in its customer base, products, delivery channels and services offered (including products under development or to be launched) and the jurisdictions within which it or its customers do business. The risk assessment conducted by institutions should enable the institution adopt a risk based approach towards managing and mitigating risks related to anti-money laundering and the financing of terrorism. Institutions are advised to undertake enhanced measures to manage and mitigate AML/CFT risks where higher risks are identified; correspondingly, where risks are lower, simplified measures may be permitted.

These risk assessments should not be static. They should change over time, depending on how circumstances develop, and how threats evolve. The strategies to manage and mitigate the identified ML risks in financial institutions are typically aimed at preventing the activity from occurring through a mixture of deterrence (e.g. appropriate CDD measures), detection (e.g. monitoring and suspicious transaction reporting), and record-keeping so as to facilitate investigations.

1.1.2 Financial Performance of Commercial Banks

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is used as a general measure of

a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Wawira, 2013). There are many different ways to measure firms' performance, but all measures should be taken in aggregation. Management researchers prefer accounting variables as performance measures such as return on equity (ROE), return on investment (ROI), and return on assets (ROA), along with their 5 variability as measures of risk. The problems with these measures are well known.

ROA is the most frequently used performance measure in previous studies. It is defined as net income (income available to common stockholders), divided by the book value of total assets (Donaldson & Preston, 1995). According to Flemings (2004), financial institutions such as insurance companies, banks, securities and credit unions have very different ways of reporting financial information.

Obudho (2014) refers Return on Assets (ROA) to the amount of net income returned as a percentage of total assets. Bourke (1989) was one of the first who discovered in his research that exactly the internal factors of financial performance for financial institutions especially banks, such as net income before and after tax against total assets and capital and reserves factors, have the greatest impact on profitability and performance indicators. Financial performance of financial institutions is usually expressed as a function of internal and external factors.

The financial statement variables which determine performance include: expense management, loan composition and credit, composition of deposits, market interest rates, earning and operating efficiency, changes in capital and liquidity management. The non-

financial statement variables which determine financial performance include number of branches, company size and location. The external determinants include: financial regulation, competitive condition, concentration, market share, market growth and ownership.

1.1.3 Effect of AML Risk Assessment on Financial Performance

Commercial Banks seek to minimize potential financial losses and would, presumably, try to minimize the risk of paying the large penalties and fines for non-compliance that would affect their bottom-line. At the international level, a blacklisted or noncompliant jurisdiction may be shunned by legitimate customers and investors, who may bypass it for 'safer' ones. A decision not to implement AML policies would then result in commercial losses. Similarly, at the domestic level, in a highly competitive market for services, a bank with low AML norm implementation may be at a competitive disadvantage to other similar businesses with more stringent policies. A strong AML compliance regime and an aura of good reputation may become a drawing point for customers, and thus be in a bank's (or any institution's) best commercial interest. The reverse may also be true, however.

By adopting a risk-based approach, through the use of risk assessments, the commercial banks are now faced with increased risk as well as the cost of compliance. At the very least, a well prepared commercial bank applying risk assessment requires to have at minimum; skills in identifying risk, skills in developing risk reduction strategies, implementation of a thorough risk assessment, a system of internal controls, independent testing of AML compliance, designation of individuals responsible for managing AML compliance and adequate, accurate and complete training of the appropriate personnel.

Having presented the risks that banks are exposed to in compliance with money laundering legislation in previous sections, this section focused on the costs that banks have to assume regarding the same matter trying to identify if those costs reflect the effectiveness of the legal system. Money laundering legislation requires banks to comply with main activities such as: KYC process, internal control, record keeping and reporting suspicious activities. Those kinds of activities increase the economic cost of services and products. In order to detect unusual or suspicious transactions, banks need to develop internal procedures, acquire technological tools and increase the human resources to comply with legislation requirements.

Regarding reporting and record-keeping rules, institutions have to keep physically and magnetically documentation and data for at least seven years. Training staff is another cost in which banks need to invest if they want a successful implementation of the system to prevent money laundering. Another important and considerable cost is the one related to the process of verifying the identity of the customers - it is a key process to comply with regulation - FATF legislation recommend entities to develop a process of identification.

It can be concluded that in light of the considerable resources invested in the AML implementation; if the regime's effectiveness is questionable, then the enormous AML industry might eventually impose more costs on commercial banks, than the criminals it is supposed to help apprehend (Beare, 2005). In other countries there seems to be the same quandary; a money laundering reporting officer interviewed in the United Kingdom about costs of the AML system there commented that ML sums recovered by the authorities are

“negligible and totally out of proportion with the amount being spent on compliance” (Kochan, 2005, p. 255) .

1.1.4 Commercial Banks in Kenya

For the period ended 31st December 2014, there were 43 commercial banks Kenya. They are classified into three peer groups using a weighted composite index that comprises net assets, customer deposits, capital and reserves, number of deposit accounts and number of loan accounts. A bank with a weighted composite index of 5 per cent and above is classified as a large bank. A medium bank has a weighted composite index of between 1 per cent and 5 per cent while a small bank has a weighted composite index of less than 1 per cent.

The Banking industry in Kenya is governed by the Banking Act, the Companies Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). These regulations are clearly set out in the banking Act chapter 488. Regulators are increasingly broadening the spectrum of reportable conditions, commercial banks should be aware that entities may need to expand their scope of monitoring for, and reporting of, suspicious activity to cover certain types of frauds, including even identity theft and computer intrusion (FATF, 2003).

1.2 Research Problem

Money laundering is not an isolated case, present in a single state or a series of states, but a worldwide phenomenon (Bjelajac, 2011). Banking represents a useful field for different types of offenses related to money laundering. Traditional financial instruments are increasingly repressed by the use of the new technological systems and replaced by new

electronic payment systems. However, the utilization of the new electronic payment systems introduces a variety of risks associated to numerous opportunities of abuse due to money laundering. Money laundering causes fluctuations in the exchange rate and undermines the credibility of the banking system. Facilitating the activities of launderers can push the banks into problems with law enforcement agencies and also governments. In some reported cases, the banks survival has come under threat.

Kenya has made significant strides in protecting the integrity of its financial sector from illicit financial crimes. It was removed from the gray list of countries sanctioned by IMF of countries not compliant with AML guidelines. It is evident that most commercial banks operating in the banking industry in Kenya face challenges in implementing the AML regulations. Compliance to the guidelines increases operational costs. The government and Central Bank of Kenya (CBK) are making strides to battle out money laundering but very little has been achieved.

In order to reduce the risk, reporting entities are obliged to undertake an AML risk analysis. Bwayo (2004) wrote a paper on the Strategies Applied by Commercial Banks in Kenya in Anti-Money Laundering Compliance Programs; Mutheu (2008) examined the Perceived Effects of Money Laundering on International Business using a case study of banks in Kenya. Njagi (2009) investigated the effectiveness of Know Your Customer (KYC) policies adopted by commercial banks in Kenya in reducing money laundering and fraud incidences. Murithi (2013) conducted a study on the effect of Anti-Money laundering regulation implementation on the financial performance of commercial banks in Kenya.

This paper present an assessment of the effect of AML risk assessment in as far as the financial performance commercial banks is concerned. In addition, though there are numerous studies in the literature that critically examine the effect of AML risk assessment, the numbers of studies specific to Kenya are lacking. It is against this background that this study hoped to fill this void in money laundering. The study seeks to answer the research question, does AML risk assessment affect the financial performance of commercial banks in Kenya?

1.3 Objective of the Study

To establish the effect of anti-money laundering risk assessment on the financial performance of the commercial banks in Kenya.

1.4 Value of the Study

The study is of value to the following;

The Central bank of Kenya. The study would help the bank as the regulator in financial industry realize the areas of attention and where it needs to improve in order succeed on its objective in combating money laundering in Kenya.

Commercial banks would benefit from the study as it intends to provide insight on compliance with AML policies by assessing the current level of industry compliance with the Regulations, and to identify financial activities and sectors that are most vulnerable to the risk of money laundering activity. This would facilitate informed decision making on compliance with AML policy.

Academic researchers would benefit from this study as it would serve as a point of reference and source of literature in their reviews while carrying out further studies on the topic under study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews the different ideas and writings advanced by different scholars, academicians and researchers in the field of money laundering of commercial banks.

2.2 Theoretical Review

This section reviewed theories on money laundering. These theories have been widely used and cited in various studies and researches.

2.2.1 A Theory of “Crying Wolf”: The Economics of Money Laundering Enforcement

Takáts (2007) was the first to point out the danger of strategic over-reporting, which might emerge, when switching from a rule-based to a risk-based approach. Takats (2007) said that excessive reporting, called “crying wolf”, can dilute the information value of reports. Excessive reporting is investigated by undertaking the first formal analysis of money laundering enforcement. Banks monitor transactions and report suspicious activity to government agencies, which use these reports to identify investigation targets. Banks face fines should they fail to report money laundering. However, excessive fines force banks to report transactions which are less suspicious, thereby diluting information.

The empirical evidence is shown to be consistent with the model's predictions. The model is used to suggest implementable corrective policy measures, such as decreasing fines and introducing reporting fees. Excessive reporting fails to identify what is truly important by diluting the information value of reports. The intuition can be best understood through an analogy with the tale: "The boy who cried wolf". In the tale, the boy rendered his cries useless by resorting to them too often, and failing to identify the wolf's presence. Similarly, excessive reporting, which is referred to as "crying wolf", fails to identify what is truly relevant. More generally, the crying wolf phenomenon shows that information is not only data, but also able and expert identification of truly important data. The reporting problem is investigated through the first formal analysis of money laundering enforcement.

The model explores the agency problem between the bank and government law enforcement agencies. The bank monitors transactions and reports suspicious activity to the government, which identifies targets for investigations based on these reports. The bank undertakes costly monitoring and reporting, because the government fines it if money laundering is successfully prosecuted and the bank did not report the transaction. Though Masciandaro (1999) abstracted from this agency problem in the first economic analysis of money laundering, it is crucial as the later survey by (Filotti, 2001) shows.

Thus, crying wolf can fully eliminate the information value of reports. Crying wolf can arise because excessively high fines for false negatives force the uncertain bank to err on the safe side and report transactions which are less suspicious. In the extreme case the bank is forced to report all transactions, thereby fully diluting the information value of reports.

As money laundering becomes more harmful, optimal government investigation increases as the marginal benefit of prosecuting money laundering increases. However, the bank's incentives should be constant so as not to trigger crying wolf. Thus, the model shows that the fine increases of the Patriot Act could have been intuitive, but mistaken measures.

2.2.2 Transparency-Stability Theory

Regulation has now gone beyond the dichotomous language of public authority versus private interests (Hancher and Moran 1989). It has become apparent that differences between national regulatory requirements have led to distorted consequences. This has prompted regulation across the globe using multi-level governance through a specialized discourse involving specialist epistemic communities, broad financial policy and advocacy networks. Indeed, regulatory action brings about discursive practices by building upon participants shared understandings of problems and solutions. Tadesse (2006) for example, suggests banking crises are less likely to occur in countries with greater regulated disclosures and transparency.

Tadesse (2006) puts forward a transparency-stability theory which holds that greater disclosure and thus greater transparency facilitates efficient resource allocation by reducing informational asymmetry. If accounting information is viewed as public good (Watts and Zimmerman, 1986) central banks are funded by the public's conscripted taxpayers (and thus conscripted investors) then it is not unreasonable for central banks to produce extensive disclosures to satisfy the information needs of that public. This, of course, flies in the face of transparency-fragility theory which avers that greater disclosure may indicate widespread problems in the banking system which in turn creates negative externalities

such as runs on money and concern about the financial system's vulnerability. But as Smellie (2004) explains, that there is now a global acceptance that the struggle against organized crime cannot be won unless some kind of enforcement is put in place. Such enforcement should be found in the contribution of central banks' extensive disclosure practices.

2.2.3 Economic Theory

Geiger (2006) put forward the classical economic theory. Here, two basic forces determine the behavior of an individual. First, every individual acts rationally and aims to maximize his personal utility. This principle is taken into account for most decisions an individual takes. For criminal ventures which are committed to acquire personal wealth in particular, the decisions are governed by this principle. Second, the personal utility of an economic venture is mainly determined by its expected costs and revenues, which in turn are governed by the fundamental laws of demand and supply (Smith, 1846).

In this classical world of (Smith, 1846), it is not the individual person or company who looks after the wellbeing of the nation. "He [the individual] generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. Smith (1846) intends only his own security; he intends only his own gain, and he is in this, as in other cases, led by an invisible hand to promote an end which was no part of his intention." The state should protect its citizens from "violence" and "injustice". Adam Smith proposed the "obvious and simple system of natural liberty", where "every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way,

and to bring both his industry and capital into competition with those of any other man, or order of men.” (Smith, 1846).

But these principles only work, if the legal framework, e.g. AML rules, does not lead to distortion of competition. Given the differences in economic law and implementation worldwide, and also the different impact of AML rules and other regulation on the participants of the economy, this is assumption is questionable. State regulation often actively sets competitive incentives and therefore promotes certain institutional structures. This is dangerous, as could it retard, “instead of accelerating, the progress of the society towards real wealth and greatness; and diminishes, instead of increasing, the real value of the annual produce of its land and labour (Smith, 1846).

2.3 Determinants of AML Risk Assessment in Commercial Banks in Kenya

The Anti-Money laundering risk assessment is affected by various factors such as customers, products and services, transaction activity and geographic presence.

2.3.1 Customers

Certain customers for example politically exposed persons (PEPs), may pose a higher risk of money laundering with respect to unique characteristics. PEPs potentially represent higher risk because they either are in a position to exert undue influence on decisions regarding the conduct of business by private sector parties, or have access to state accounts and funds. Under this approach, the bank should obtain information at account opening sufficient to develop an understanding of normal and expected activity for the customer’s occupation or business operations. This understanding may be based on account type or

customer classification. This information should allow the bank to determine the customer's risk profile at account opening.

Banks should monitor their lower-risk customers through regular suspicious activity monitoring and customer due diligence processes. If there is indication of a potential change in the customer's risk profile (e.g., expected account activity, change in employment or business operations), management should reassess the customer risk rating and follow established bank policies and procedures for maintaining or changing customer risk ratings.

Other customers who might pose a higher risk include; Customers conducting their business relationship or transactions in unusual circumstances, such as: significant and unexplained geographic distance between the institution and the location of the customer; frequent and unexplained movement of accounts to different institutions; and; frequent and unexplained movement of funds between institutions in various geographic locations. Customers whose structure or nature of the entity or relationship makes it difficult to identify the true owner or controlling interests, foreign financial institutions, including banks and foreign money service providers such as forex bureaus, and money transmitters, non-bank financial institutions such as money services businesses, casinos and brokers/dealers in securities, and dealers in precious metals.

2.3.2 Products and Services

FATF (2012) has recognized that specific products, services, transactions or delivery channels may pose a greater risk of money laundering. Examples include private banking,

anonymous transactions (which may include cash), non-face-to-face business relationships or transactions, and payment received from unknown or un-associated third parties. Commercial banks avail products and services that pose a higher risk of money laundering. This depends on the nature of the products and services and the capacity in which they may be used. Particular products or services may support a higher degree of anonymity for example internet banking or facilitate the handling of high volumes of currency across less regulated jurisdictions.

Corrupt public officials use similar money laundering techniques as those used by organized criminals to conceal the proceeds of corruption. For example, the use of cash, wire transfers and/or the creation of offshore shell corporations and trust accounts is present in nearly all recent cases of grand corruption. In the business bribery context, the use of intermediaries is often present. Additionally, a wide range of products and services offered by financial institutions have been found to be vulnerable to abuse by PEPs. These include private banking, retail banking products, correspondent and concentration accounts, transactions with non-client corporate accounts, and wire transfers.

2.3.3 Transaction Activity

High volume of transactions, large aggregate dollar amounts of transactions entering or leaving accounts at high speeds may warrant further attention as money laundering often involves transaction activity characterized by complex flows, higher speeds and sometimes larger dollar amounts so as to obscure audit trails of select transactions. These types of transactional behavior and patterns maybe indicative of potential money laundering.

Cash is a favorite method of laundering corruption related proceeds. Notwithstanding the significant risks involved in doing so, it appears that PEPs are willing to engage in significant cash transactions with reporting institutions. A number of instances were noted in which PEPs engaged in significant cash transactions with reporting institutions, (FATF, 2012). This included the deposit of nearly USD 13 million over a three year period into accounts controlled by a foreign PEP (and his wife), often in million dollar, shrink-wrapped, increments. In another instance, the daughter of a foreign PEP was able to place USD 1 million in cash, in USD 100 bills, wrapped in plastic, into a safe deposit box at a reporting institution.

2.3.4 Geographic Presence

There are certain jurisdictions that are recognized as being more susceptible to money laundering based on their potential to facilitate the movement, concealment and use of illicit funds. Geographies that are characterized by weaker regulatory environment, higher levels of corruption, legal uncertainty and political and economic instability.

Factors that may result in a country or region posing a higher risk include: countries that are subject to sanctions, embargoes or similar measures issued by credible organizations such as the United Nations (UN), the Financial Action Task Force (FATF), countries identified by credible sources as lacking appropriate AML laws, regulations and other measures or countries identified by credible sources as providing funding or support for terrorist activities or that have designated terrorist organizations operating within them (Prudential Guidelines, 2013).

2.4 Empirical Studies

Various local and international studies have been carried out to determine the relationship between AML risk assessment and the financial performance in the commercial banks in Kenya. Some of the empirical studies are summarized below.

2.4.1 International Evidence

Ping He (2010) did a study on the various money-laundering techniques by use of the case study method. He found out that criminals often prefer to launder money through non-face to face transactions. Money laundering can be committed through simple ways such as cash smuggling and complicated ways such as via financial institutions, realty or gambling as well; money laundering can be committed through surface legal activities such as international trade and illegal activities such as underground banks and shell companies as well. Money-laundering schemes could be through loopholes in the domestic financial supervisory and administrative system and loopholes between different jurisdictional areas as well. With the wide use of electronic money and internet, criminals prefer to launder money through non-face to face transactions.

Bjelajac (2011) did a study on the contemporary tendencies in money laundering methods and measures for its suppression using descriptive analysis. He found that money laundering represents important organized crime activity, that is, its' typical and characteristic behavior. Traditional financial instruments are increasingly repressed by the use of the new technological systems and replaced by new electronic payment systems. However, the utilization of the new electronic payment systems introduces a variety of

risks associated to numerous opportunities of abuse due to money laundering. In order to prevent money laundering and the wrongful consequences it causes in different spheres of society, competent authorities should engage in a number of preventive processes and actions, applying specific methods and measures developed for combating this phenomenon. He found it important to update and develop international cooperation and coordination in response to cross-border character of this complex phenomenon.

Cindori (2012) did a study on the correlation between risk assessment and suspicious transactions using a case study method. He found out that there is a variety of possibilities to convert illegal into apparently legal money suggests that money laundering is a complex activity. Without prejudice to the unbounded sophistication, inventiveness and imagination of money launderers in finding perfect way to launder money, preventive measures to this effect include the detection of cash and suspicious transactions through risk assessment, i.e. the application of a risk-based system. This raises the issues of implementation of the idea of money laundering prevention through risk assessment, the legality of its practical consequences and logicity of its realization. Resolving these issues requires understanding of the definition and nature of risk assessment. In this context, suspicious transactions represent the backbone of any money laundering prevention system, the analysis of which showed how the risk assessment operates in practice

2.4.2 Local Evidence

Mbwayo (2005) did a study on the strategies applied by commercial banks in Kenya in anti-money laundering compliance programs. He found out that “As anti-money laundering measures are implemented in financial institutions, the risk of detection becomes greater for those seeking to use the banking system for laundering criminal proceeds. Increasingly, money launderers seek out the advice or services of specialized professionals to help facilitate their financial operations. Solicitors [and] accountant provide advice to individuals and businesses in such matters as investment, company formation, trusts and other legal arrangements, as well as optimism of tax situation. Additionally, legal professionals prepare and, as appropriate, file necessary paperwork for the setting up of corporate vehicles or other legal arrangements. He concluded that strict adherence procedures and standards have been implemented to ensure that money laundering is contained in Kenya.

Mutheu (2008) did a study on the Perceived Effects of Money Laundering on International Business using a case study of banks in Kenya. In view of these risks and the global impact of money laundering, the Kenyan Government enacted new anti-money laundering and counter-terrorist financing legislation, which regulates the activities of the financial sector, the gambling sector and bullion dealers. Legislation regulating the legal profession and other classes of professionals has also been drafted but has not yet been enacted. Like their colleagues in the developed countries, lawyers and accountants in Kenya would now have to implement an effective program to ensure they are compliant

Toroitich (2010) conducted a study on the challenges faced by the Central Bank of Kenya in combating money laundering primarily by use of a case study method. The study found that ensuring compliance with money laundering requirements can be tedious and time-consuming for financial institutions and non-financial institutions. The researcher recommended that there is need to also carry out research to determine how well the country is prepared on the fight to eradicate money laundering and the effect that developments in the information technology is having on the money laundering.

Murithi (2013) conducted a study on the effect of Anti-Money laundering regulation implementation on the financial performance of commercial banks in Kenya through a descriptive survey. The study concluded that bank reporting affects AML. This has led to increased transactional costs due to screening and the reporting frequency that the bank has instituted as well as broadened the types of reports prepared. The study was limited by the fact that the researcher only administered the questionnaires to the top functional head and departmental heads of the commercial banks. Therefore only the managerial perspective informed the findings of the study while the perspective of junior employees was not factored.

Mugarura (2014) did a study on Customer due diligence (CDD) mandate and the propensity of its application as a global AML paradigm through the use of a case study method. He found that it has become customary for states or regulatory domains to come together and evolve normative regimes to deal with overlapping exigencies such as money laundering. This is because there has been a proliferation of global AML laws designed to foster international cooperation against money laundering and its predicate crimes. In this same vein, some states had adopted domestic AML laws designed with an ethos of extra-

territorial dimension as a caution against the threats posed by money laundering crimes. His findings corroborated that much as CDD is an important AML measure, it needs to be streamlined and implemented with care to apply across the board.

2.5 Summary of the Literature Review

This chapter reviewed literature on the work of past scholars in the area of anti-money laundering and its effects on an economy. The study used the Theory of crying wolf, Transparency-Stable Theory and the Economic Theory. Bartlett (2002) argued that Money Laundering facilitates illicit capital flight from developing economies and that financial institutions in the developing countries could be eroded through three main means: the possibility that individual customers could be defrauded by corrupt staff of the institutions; by increasing probability that the institution itself could be corrupted and controlled by criminal interest and thirdly the institution itself been defrauded.

The depth of an anti-money laundering check and the amount of time spent on evaluation depends on how big the risk is perceived to be. Once the risk of money laundering or terrorist financing has been assessed, appropriate controls are designed and implemented to mitigate the risks. Firms are able to apply greater levels of CDD to those individuals and corporate entities deemed a higher risk to the business. Politically exposed persons must be thoroughly examined as they are considered a higher business risk due to their level of influence and exposure to corruption. The Risk Based approach is intended to offer a better, less time intensive and more cost-effective alternative to the prescriptive approach, enabling firms to spend time only on customers perceived to be risky in order to meet compliance requirements more efficiently (Ryder, 2008).

In this study an attempt is being made to review the applied literature of money laundering to define money laundering, to explain the risk based approach to money laundering and to tackle the topic of estimating the effect of AML risk assessment on the financial performance of commercial banks in Kenya.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter illustrates how the research was carried out. It includes the research design, area of study, population, sample size and selection methods, data collection tools, data management, data processing, data analysis and limitation.

3.2 Research Design

A research design is the determination and statement of the general research approach or strategy adopted for a particular project. The study adopted a descriptive research design. A descriptive research describes the characteristics of objects, people, groups, organizations, or environments, and tries to “paint a picture” of a given situation, (Zikmund, Babin, Carr, & Griffin, 2010). Descriptive design provides the general overview giving some valuable pointers as to what variables are worth testing quantitatively. This is appropriate since it offers the researcher dual opportunities of observing and analyzing the historical data without bias (Waweru, 2011).

3.3 Target Population

The population of the study consisted of 43 commercial banks operating in Kenya as at 31st December 2014 (Appendix I). The bank under statutory management was not considered because of its legal status, uncertainty in its continuity and the fact that it is not actively dealing with customers or transacting. Target population is the specific population about

which information is desired (Touliatos & Compton, 1988). The study focused on financial institutions because they are highly regulated as far as their compliance is concerned.

3.4 Data Collection

This study used secondary data. Secondary data on suspicious transaction reports, costs of AML staff salaries and AML training and AML monitoring software recurrent costs was collected from the organization's documents such as their returns to the Central Bank of Kenya, annual reports, internal audit reports, risk and compliance report and reports to the Financial Reporting Centre for the period 31 December, 2014.

3.5 Data Analysis

Data analysis is a process of analyzing all the information and evaluating the relevant information that can be helpful in better decision making, Silvia and Skilling (2006). The data was analyzed using correlation analysis and multiple regression analysis. The Eviews version 8 software was used in data analysis because of its ability to simplify repetitive tasks and handling complex data manipulations and analyses.

3.5.1 Analytical Model

A multiple regression model was employed to estimate the combined effects of anti-money laundering regulation implementation on the financial performance of the 43 commercial banks registered in Kenya. Along the line of Hassan (2011), the AML Regulation Implementation (AMLRI) is estimated as a function of the firm's characteristics, which have been defined in this study as Banks Reporting (BR), Staff Cost (SC) and Cost of

Monitoring Transactions (CMT). The significance of the research model was to show that there is a relationship between banks reporting, fine for concealing information and monitoring transactions and financial performance of commercial banks in Kenya.

A multiple linear regression analysis was used to estimate the relationship as follows:

$$FP = \alpha + \beta_1 BR + \beta_2 SC + \beta_3 CMT + \epsilon$$

Where:

α = Constant Term

$\beta_1, \beta_2, \beta_3$; are regression coefficients or parameters;

ϵ = Error

FP = Financial Performance as measured by ROA

BR = AML Reporting as measured by the log of suspicious reports filed with the Financial Reporting Centre in the year 2014

SC = AML Staff Costs as measured by the ratio of the cost of AML staff salaries and AML Staff training development costs to the total Staff costs for the Year 2014

CMT = AML Cost of Monitoring Transactions as measured by the ratio of the AML monitoring Software recurrent costs to the total software recurrent costs in the year 2014

3.5.2 Tests of Significance

The F- test was used to determine the significance of the regression while the coefficient of determination, R^2 , was used to determine how much variation in dependent variable is explained by independent variables. The study was tested at 95% confidence level and 5% significant level. If the significance number was found to less than the critical value () set, then the conclusion was that the model was significant in explaining the relationship between AML risk assessment and financial performance of commercial banks in Kenya.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND INTERPRETATION

4.1 Introduction

This chapter presents the results and findings of the study based on the research objective. The results are presented in the form of summary tables. Regression and correlations analysis are used to answer the research objective.

The regression analysis was conducted using measures of ROA and control variables. Test of significance was carried out for all variables studied using t-test at 95% level of significance. From the observation any p-value that is less 0.1 was deemed to have significant relationship with the dependent variable, else the relationship was considered insignificant. The adjusted R-square was used to measure the degree of variability of the dependent variable due to the changes in the independent variables. The results are indicated in sections 4.3 and 4.4 while source data is presented in a tabular format in appendices 2 to 5. The researcher used annual data for ROA, number of suspicious transaction reports, AML Staff costs and AML system recurrent costs. 3 commercial banks did not have adequate information required, this represented 86.36% response rate.

4.2 Descriptive Statistics

The summary of statistics of variables included in the regression model is presented in table 1 below.

Table 4.1 Summary Statistics

	ROA	STRs	AML SC	AML CMT
Mean	0.02102	0.47284	0.00938	0.21504
Standard Error	0.00354	0.0634	0.00151	0.0526
Median	0.023	0.47712	0.00756	0.10417
Mode	0.041	0	0	0
Standard Deviation	0.0232	0.41573	0.00993	0.34492
Sample Variance	0.00054	0.17283	0.0001	0.11897
Kurtosis	3.40567	-0.80289	4.38325	23.48061
Skewness	-1.24785	0.44595	1.97709	4.35447
Range	0.131	1.43136	0.04526	2.13759
Minimum	-0.065	0	0	0
Maximum	0.066	1.43136	0.04526	2.13759
Sum	0.9037	20.33215	0.40327	9.24666
Count	43	43	43	43

Source: Research Findings

From table 4.1 above, the mean ROA of the commercial banks studied was 2.10% suggesting that they have a relatively average return on assets. With a maximum of 6.60%, a minimum of -6.5% and standard deviation of 2.32%, the implication is that financial institutions ROA varies significantly for the commercial banks in Kenya. The descriptive statistics for STRs indicates a mean of 0.47 a standard deviation of 0.42 and a maximum of 1.43. This implies that suspicious transactions reporting for commercial banks vary significantly. The AML staff costs revealed

a mean of 0.009, standard deviation of 0.009 with a maximum value of 0.045 and a minimum of 0.000. This suggests that the AML staff costs of commercial banks varies but not significantly. The AML Cost of Monitoring Transaction revealed a mean of 0.215, standard deviation of 0.345 with a maximum value of 2.138 and a minimum of 0.000. This suggests that the AML CMT of commercial banks varies significantly.

4.3 Inferential Statistics

4.3.1 Correlation Analysis

Table 4.2 Pearson's Correlation Coefficient

	Pearson's Correlation Coefficient			
	ROA	STRs	AML STAFF COSTS	AML CMT
ROA	1			
STRs	0.44521	1		
AML STAFF COSTS	-0.01458	-0.2448	1	
AML CMT	-0.00716	-0.16898	0.04483	1

Source: Research Findings

From table 4.2, one of the factors has a positive correlation with the dependent variable while others have a negative correlation with the dependent variable. This indicates that, AML reporting by commercial banks has a positive association with their financial performance. However, AML staff costs and Cost of transaction monitoring have negative association with their financial performance. A correlation value of 1 indicates a presence of a perfect association between the variables. The magnitude of the association (+ or -) indicates the nature of association (positive or negative association).Based on these intervals, the table illustrates that, AML bank reporting of the commercial banks and ROA has a correlation coefficient of

0.44521. This is an indication of a weak positive association between AML Risk Assessment and financial performance. However, AML Staff costs and Cost of Monitoring Transactions and the financial performance of commercial banks have a negative correlation. This is according to the obtained coefficient of 0.01458 and 0.00716 respectively indicating that the variables are weakly associated.

4.3.2 Regression Analysis

From table 3 below the established multiple linear regression equation becomes:

$$\text{ROA} = 0.00510 + 0.02686 \cdot \text{BR} + 0.23406 \cdot \text{SC} + 0.00469 \cdot \text{CMT}$$

Table 4.3 Result of General Least Square

	Coefficients	Standard Error	t Stat	P-value
Intercept	0.005107727	0.007023481	0.72723582	0.47142476
STRs	0.026869890	0.008289787	3.24132456	0.00243770
SC	0.234055736	0.342480917	0.68341249	0.49838657
CMT	0.004688983	0.009697221	0.48353877	0.63141711

Source: Research Findings

The table 4.3 above shows that the coefficients of the intercept and independent variables all have p-values greater than 0.1 except for CMT which has less than 0.1 hence significant. The results show that the dependent variable is positively related to the independent variables. The C in table 3 above is constant representing where the regression line intercepts the y-axis. It represents the ROA when all other variables are at zero. It has a p-value of 0.4714 hence significant.

The results show that there is a significant positive relationship between a firms AML Risk Assessment and the ROA. This might be explained with the view that the cost of regulatory compliance is a burden that can drain the resources out of even the most robust and well-run banks. These costs include large monetary remediation penalties from regulators, AML/CTF training and professional development, AML/CTF staff recruitment, AML/CTF staff salaries, AML/CTF monitoring software establishment costs, AML/CTF monitoring software recurrent costs and AML/CTF external consultancy costs. These compliance costs lead to a reduction in the income of institutions and consequently, return on assets.

4.3.3 Analysis of Variance

The study further conducted an Analysis of Variance to check on the significance of the Model. The findings are as shown in table 4.2 below:

Table 4.4 Analysis of Variance (ANOVA)

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	3	0.00480	0.00160	3.50627	0.0024103
Residual	39	0.01780	0.00045		
Total	42	0.02260			

Source: Research Findings

Analysis of Variance (ANOVA) consists of calculations that provide information about levels of variability within a regression model and form a basis for tests of significance. From the findings the significance value is 0.002410 which is less than 0.05 thus the model is statistically significant in predicting how AML Risk Assessment affect the financial performance of commercial banks in Kenya. The F critical at 5% level of significance was 3.50627.

4.3.4 Robustness Check

This refers to how well the study model explains the changes in the dependent variable. This is measured by adjusted R-square.

Table 4.5 Summary of multiple regression

R	R-square	Adjusted R-square	Std error of estimate	F-statistics
0.46089	0.21242	0.15183	0.02136	3.50627

Source: Research Findings

Table 4.4 above shows the adjusted R-square at 21.24%. It also called the coefficient of multiple determinations and it is the percentage of the variance in the dependent variable explained uniquely or jointly by the independent variables. This means that 21.24% changes in financial performance as measured by ROA was explained by the changes in independent variables while remaining 78.76% was explained by other factors not in the model.

4.4 Interpretation of the findings

The study findings established that bank reporting, staff costs and cost of monitoring transactions have high influence on the return on assets. AML staff costs and AML cost of monitoring transactions were found to inversely relate to return on assets while bank reporting was found to be directly related to the Return on Assets. Increase in staff costs and AML system recurrent cost led to increased expenditure by the banks and consequently, this lowers return on assets. The direct influence of bank reporting on the Return on assets could be attributed to the improvement in the operations and reduction in the money laundering incidences in banks.

Moreover, when bank diligently report on any suspicious transactions, they will not be penalized for non-compliance which would be a cost saving to the respective commercial banks and consequently, this increase the return on assets.

The study found out that banks had increased transactional Screening as well as reporting frequency and that the banks had broadened the types of reports prepared. These efforts could have been made to improve bank reporting so as to effectively fight money laundering in Kenya. With advancement in technology, money laundering could occur more easily, hence necessitating improvement in reporting. The study findings established that bank reporting had a great impact on the financial performance on commercial banks in Kenya.

The AML is expected to trigger increased compliance cost as banks have to put on mechanisms to fight money laundering. This can be as a result of acquiring modern technology as well as enhancing the capacity of staff through training. Moreover, commercial banks have to dedicate a given number of staff solely to AML. These staff members have to be senior officers in these institutions. They have to have officers reporting to them who constantly vet all the alerts generated by their AML systems which is a cost to the banks. The study findings established that AML risk assessment had led to increased staff costs and this affects the financial performance of commercial banks in Kenya.

The study found out that the commercial banks have heavily invested in AML systems to screen transactions and help in carrying out an AML risk assessment on all their customers, products and geographical presence. This monitoring of transactions has to be done against a sanction list for example the UN 1267 list, which is updated continuously. The banks have to renew their

license in order to access the watch lists. This is a cost to the institution which ends up reducing the net income and consequently, the return on assets.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents summary of key findings of the study as well as conclusions, limitations of the study and recommendations for future research. Data on ROA, STRs, AML staff costs and AML system recurrent costs for the 43 commercial banks as at 31.12.2014 were collected for the period 2014. The research involved the use of regression analysis of financial performance as measured by ROA as the dependent variable while STRs, AML staff costs and AML system recurrent costs were the independent variables.

5.2 Summary

From the data analysis in chapter four, there exist a positive relationship between financial performance and AML Risk Assessment of commercial banks in Kenya as represented by the positive values of R from the regression analysis. The study revealed that there was a strong positive relationship between the study variables as shown by 0.2124. This means that 21.24% changes in financial performance as measured by ROA was explained by the changes in independent variables while remaining 78.76% is explained by other factors. The regression equation that estimates the relationship between financial performance and liquidity is as below.

$$\text{ROA} = 0.00510 + 0.02686 * \text{BR} + 0.23406 * \text{SC} + 0.00469 * \text{CMT}$$

5.3 Conclusion

The data analysis results in chapter four indicate that AML Risk Assessment is one of the determinants of financial performance of commercial banks in Kenya. The study findings established that bank reporting, operational costs and cost of monitoring transactions had high influence on the return on assets hence the relationship was found to be very strong. Operating costs and cost of monitoring transactions were found to negatively relate to return on assets while bank reporting was found to positively relate to the Return on Assets. Increase in operating cost leads to increased expenditure by the banks and therefore lowering return. Also, increase in the cost of monitoring transactions leads to increase in the expenditures incurred by the in turn reduced the returns obtained. The direct influence of bank reporting on the Return on assets could be attributed to the improvement in the operations and reduction in the money laundering incidences in banks.

5.4 Recommendation for Policy and Practice

The study recommends that the banks' board and management should lead by example in AML initiatives. This would be by them not using their positions to allow for suspicious transactions to go through without notifying the Financial Reporting Centre. They should have a policy on AML that is shared to all the members of staff and they should get a Compliance Officer to check compliance of the banks to the respective AML policies.

The study recommends that the banks' board and management should build capacity for all staff on AML by offering staff training during orientation and continuously thereafter. They

should also ensure that they dedicate a good number of staff to deal with AML issues who not only at the head offices but also at the branches.

The study further recommends that to ensure the stability and integrity of the financial system the financial action task force (FATF) recommendations should continue to be implemented in addition to regulatory and institutional framework under the Proceeds of Crime and Anti-Money Laundering Act (POCAMLA) 2009, in collaboration with the Prudential Guidelines 2003 from the Central Bank of Kenya (CBK).

The study also recommends that the board and management should get robust AML systems that can screen all transactions passing through the institutions. This would be by having a system that sits between the core banking system and any other system like SWIFT to screen and report any suspicious transactions. This will also help in the AML risk assessment for the institution.

5.5 Limitations of the Study

The study depended on the published financial data. It was hence subject to all limitations that are inherent in the condensed published financial statements. Out of the 43 commercial banks in Kenya, three of them did not have adequate. Again, the study is based on the data and information relating to the period 2014. This represents a limitation in case one wanted to establish the relationship in a different period. The study focused only on the commercial banks in Kenya. This has locked out other financial institutions in Kenya that are vulnerable to Money laundering which may have different profiles in as far as their financial performance and AML Risk Assessment is concerned.

The study undertook to establish the effect of AML risk assessment on financial performance of commercial banks in Kenya as at 31 December, 2014 using ROA employed as measure of financial performance, and bank reporting, AML staff costs and AML CMT as measures of AML Risk Assessment. The inherent limitations on the selected measures for AML risk assessment and financial performance may have an impact on the conclusions drawn from the study. The study did not undertake to establish which other factors apart from the above affected financial performance. Other factors that could have played a part in financial performance of the commercial banks, over the research period present limitations on the findings for the study.

5.6 Suggestions for Further Studies

Since this study explored the effect of AML risk assessment on the financial performance of commercial banks in Kenya, the study recommends that; similar studies should be done in other countries for comparison purposes and to allow for generalization of findings on the relationship between AML risk assessment and financial performance of commercial banks. This study excluded other financial institutions in Kenya like insurance companies, SACCO's and investment firms. The study recommends further research for these sectors to confirm if there is indeed a relationship between AML risk assessment and profitability in these firms. This may help come with recommendations to better their financial performance and AML compliance management.

The study recommends that; similar studies should be done with increased variables for both financial performance and AML risk assessment. For financial performance, the studies can add return on equity while for AML, the studies can add the cost of independent testing by

audit. This would help to show clearly the relationship between financial performance and AML risk assessment of the commercial banks in Kenya.

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APPENDICES

Appendix I: List of Commercial Banks in Kenya as at 31 December, 2014

1. Kenya Commercial Bank	23. Gulf African Bank
2. Co – operative Bank	24. African Banking Corporation
3. Equity Bank.	25. Victoria Commercial Bank
4. Standard Chartered Bank	26. K - Rep Bank
5. Barclays Bank Of Kenya	27. Giro Commercial Bank
6. Cfc Stanbic Bank	28. Jamii Bora Bank
7. Commercial Bank Of Africa	29. Fidelity Commercial Bank
8. Diamond Trust Bank	30. Development Bank Of Kenya
9. I&M Bank	31. Equatorial Commercial Bank
10. NIC Bank	32. Guardian Bank
11. Chase Bank	33. First Community Bank
12. Citibank N.A. Kenya	34. Habib Bank A.G. Zurich
13. National Bank Of Kenya	35. Consolidated Bank Of Kenya
14. Family Bank	36. Tran - National Bank
15. Bank of Baroda (K)	37. Paramount Universal Bank
16. Imperial Bank	38. Oriental Commercial Bank
17. Bank of Africa (K)	39. Habib Bank
18. Prime Bank	40. Credit Bank
19. Housing Finance	41. Middle East Bank (K)
20. Ecobank Kenya	42. Uba Kenya
21. Bank of India	43. Dubai Bank
22. Guaranty Trust Bank	

Source: Bank Supervision Report 2014

Appendix II: Commercial Banks Return on Asset for the period

1. Kenya Commercial Bank	0.0450	23. Gulf African Bank	00.0130
2. Co – operative Bank	0.0410	24. African Banking Corporation	0.0110
3. Equity Bank Ltd.	0.0660	25. Victoria Commercial Bank	0.0310
4. Standard Chartered Bank	0.0420	26. K - Rep Bank	0.0430
5. Barclays Bank Of Kenya	0.0440	27. Giro Commercial Bank	0.0260
6. Cfc Stanbic Bank	0.0310	28. Jamii Bora Bank	0.0070
7. Commercial Bank Of Africa	0.0220	29. Fidelity Commercial Bank	0.0170
8. Diamond Trust Bank (K)	0.0290	30. Development Bank Of Kenya	0.0170
9. I&M Bank	0.0410	31. Equatorial Commercial Bank	(0.0240)
10. NIC Bank	0.0310	32. Guardian Bank Ltd	0.0230
11. Chase Bank	0.0240	33. First Community Bank	0.0060
12. Citibank N.A.	0.0330	34. Habib Bank A.G. Zurich	0.0460
13. National Bank Of Kenya	0.0130	35. Consolidated Bank Of Kenya	(0.0150)
14. Family Bank	0.0380	36. Tran - National Bank	0.0170
15. Bank of Baroda (K)	0.0370	37. Paramount Universal Bank	0.0130
16. Imperial Bank	0.0410	38. Oriental Commercial Bank	0.0090
17. Bank of Africa (K)	0.0020	39. Habib Bank	0.0540
18. Prime Bank Ltd	0.0280	40. Credit Bank	(0.0080)
19. Housing Finance	0.0207	41. Middle East Bank (K)	0.0080
20. Ecobank Kenya	(0.009)	42. Uba Kenya	(0.0650)
21. Bank of India	0.0350	43. Dubai Bank	0.0010
22. Guaranty Trust Bank	0.0190		

Source: Financial Statements for the year ended 31 December, 2014

Appendix III: Log of Suspicious Transactions Reported for the period

1. Kenya Commercial Bank	1.4314	23. Gulf African Bank	0.4771
2. Co – operative Bank	1.2304	24. African Banking Corporation	-
3. Equity Bank.	1.1761	25. Victoria Commercial Bank	-
4. Standard Chartered Bank	1.2041	26. K - Rep Bank	0.3010
5. Barclays Bank Of Kenya	0.9542	27. Giro Commercial Bank	0.8451
6. Cfc Stanbic Bank	0.3010	28. Jamii Bora Bank	0.9031
7. Commercial Bank Of Africa	0.6990	29. Fidelity Commercial Bank	0.7782
8. Diamond Trust Bank	0.4771	30. Development Bank Of Kenya	-
9. I&M Bank	0.4771	31. Equatorial Commercial Bank	0.3010
10. NIC Bank	0.9542	32. Guardian Bank	-
11. Chase Bank	0.6990	33. First Community Bank	0.4771
12. Citibank N.A. Kenya	0.9542	34. Habib Bank A.G. Zurich	0.6990
13. National Bank Of Kenya	0.3010	35. Consolidated Bank Of Kenya	0.3010
14. Family Bank	-	36. Tran - National Bank	-
15. Bank of Baroda (K)	0.6021	37. Paramount Universal Bank	-
16. Imperial Bank	-	38. Oriental Commercial Bank	-
17. Bank of Africa (K)	0.9031	39. Habib Bank	0.6021
18. Prime Bank	0.3010	40. Credit Bank	-
19. Housing Finance	0.3010	41. Middle East Bank (K)	-
20. Ecobank Kenya	0.6021	42. Uba Kenya	-
21. Bank of India	0.7782	43. Dubai Bank	-
22. Guaranty Trust Bank	0.3010		

Source: Kenya Mutual Evaluation Report on AML/CFT 2014

Appendix IV: AML Staff Costs for the period

1. Kenya Commercial Bank	0.0011	23. Gulf African Bank	0.0132
2. Co – operative Bank	0.0007	24. African Banking Corporation	0.0074
3. Equity Bank.	0.0016	25. Victoria Commercial Bank	0.0094
4. Standard Chartered Bank (K)	0.0030	26. K - Rep Bank	0.0102
5. Barclays Bank Of Kenya	0.0016	27. Giro Commercial Bank	0.0152
6. Cfc Stanbic Bank (K)	0.0028	28. Jamii Bora Bank	-
7. Commercial Bank Of Africa	0.0053	29. Fidelity Commercial Bank	0.0107
8. Diamond Trust Bank (K)	0.0060	30. Development Bank Of Kenya	-
9. I&M Bank	0.0077	31. Equatorial Commercial Bank	0.0083
10. NIC Bank	0.0044	32. Guardian Bank	0.0074
11. Chase Bank	0.0050	33. First Community Bank	0.0106
12. Citibank N.A. Kenya	-	34. Habib Bank A.G. Zurich	0.0087
13. National Bank Of Kenya	0.0032	35. Consolidated Bank Of Kenya	-
14. Family Bank.	0.0034	36. Tran - National Bank	0.0181
15. Bank of Baroda (K)	0.0145	37. Paramount Universal Bank	0.0340
16. Imperial Bank	0.0087	38. Oriental Commercial Bank	0.0088
17. Bank of Africa (K)	0.0062	39. Habib Bank	0.0453
18. Prime Bank	0.0076	40. Credit Bank	-
19. Housing Finance	0.0363	41. Middle East Bank (K)	0.0253
20. Ecobank Kenya	0.0147	42. UBA Kenya	0.0146
21. Bank of India	0.0095	43. Dubai Bank	-
22. Guaranty Trust Bank	0.0129		

Source: Published Financial Statements for the period 31 December, 2014

Appendix V: AML System Recurrent Costs for the period

1. Kenya Commercial Bank	0.0830	23. Gulf African Bank	0.0444
2. Co – operative Bank	0.0833	24. African Banking Corporation	0.0879
3. Equity Bank.	0.3007	25. Victoria Commercial Bank	0.0195
4. Standard Chartered Bank	0.2335	26. K - Rep Bank	0.1490
5. Barclays Bank Of Kenya	0.0148	27. Giro Commercial Bank	0.0086
6. Cfc Stanbic Bank (K)	0.0593	28. Jamii Bora Bank	0.0367
7. Commercial Bank Of Africa	0.2417	29. Fidelity Commercial Bank	0.3696
8. Diamond Trust Bank (K)	0.0500	30. Development Bank Of Kenya	-
9. I&M Bank	0.4982	31. Equatorial Commercial Bank	0.1042
10. NIC Bank	0.3107	32. Guardian Bank	2.1376
11. Chase Bank	0.2124	33. First Community Bank	0.2347
12. Citibank N.A. Kenya	-	34. Habib Bank A.G. Zurich	-
13. National Bank Of Kenya	0.1554	35. Consolidated Bank Of Kenya	0.0990
14. Family Bank.	0.1282	36. Tran - National Bank	0.0250
15. Bank of Baroda (K)	0.3091	37. Paramount Universal Bank	0.4310
16. Imperial Bank	0.5458	38. Oriental Commercial Bank	-
17. Bank of Africa (K)	0.3770	39. Habib Bank	-
18. Prime Bank	0.6893	40. Credit Bank	0.0636
19. Housing Finance	0.2561	41. Middle East Bank (K)	0.2360
20. Ecobank Kenya	0.2553	42. UBA Kenya	0.3559
21. Bank of India	-	43. Dubai Bank	-
22. Guaranty Trust Bank	0.0400		

Source: Published Financial Statements for the period 31 December, 2014