Key Factors Influencing Effectiveness of Anti-Money Laundering Practices in Malaysian Commercial Banks: A Concept Paper

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Abstract

Money laundering seriously threatens the integrity and stability of the global financial system. Even with the existing laws and guidelines in place, criminals have become increasingly adept at circumventing the regulations and perpetuating sophisticated financial crimes. With the increasing prevalence of economic crimes and suspicious transactions within the banking sector, it is paramount to comprehend the factors influencing the effectiveness of anti-money laundering (AML) practices within the context of Malaysian commercial banks. The banks are expected to face more significant challenges in dealing with customers regarding money laundering. Effective AML practices empower banks to proactively detect, prevent and mitigate money laundering risk by implementing comprehensive customer risk assessments, strengthened reporting mechanisms, advanced technological integration, and an effective employee competency program. By focusing on Malaysian commercial banks, this study intends to fill the knowledge gaps by offering insights relevant to the Malaysian banking landscape.

Keywords: money laundering, anti-money laundering (AML), commercial banks, customer risk assessment, suspicious transaction reporting (STR)

1. Introduction

Money laundering is a prevalent and costly issue for banks worldwide. It encompasses a range of financial crimes such as bank fraud, credit card fraud, investment fraud, prepayment fraud, bankruptcy fraud and embezzlement, which employ diverse banking products and services to camouflage the illicit origins of the money (Sanusi et al., 2022). The scope of money laundering has broadened beyond traditional methods due to the emergence of the internet, the expansion of the electronic banking system and the innovation of digital technologies (Aziz & Daud, 2022). According to Biswakarma & Bhusal (2023), an estimated 2.7% of global GDP (gross domestic products) is laundered every year and the global bribery cost (which is a form of corruption) is estimated between $1.5 to $2 trillion yearly. This scenario erodes public trust in banks, disrupts financial markets and undermines economic stability. As illicit financial activities become more sophisticated and banks are the preferred mode to channel money, there is a need to understand and enhance the effectiveness of AML practices in commercial banks.

Safeguarding the integrity of the financial system and fighting against financial crime are two major reasons why AML has become an essential part of the banking sector. Commercial banks are responsible for detecting and combating money laundering activities since they lead the charge in implementing AML. While AML practices are vital for maintaining the smooth functioning of the global financial system, expensive compliance costs can be a challenge. On the contrary, failure to implement AML measures effectively can lead to detrimental impacts on the banks (Biswakarma & Bhusal, 2023). For instance, a recent report highlights the substantial penalties of $10.4 billion imposed on global financial institutions, demonstrating the severity of AML compliance breaches (Sanusi et al., 2022).

Based on Mahmud & Ismail (2023), AML legislation aims to curb money laundering using various strategies, policies, and laws. In Malaysia, AML practices are governed by the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 (AMLATFPUAA, previously known as AMLA). This legislation was enacted in 2002, with subsequent amendments in 2007 and 2013, to combat money laundering, terrorism financing and proceeds for unlawful activities. Malaysian commercial banks are required to comply with strict regulations to prevent the generation of funds from illegal activities as well as to protect customers. They are also required to adhere to foreign exchange restrictions introduced in 1998, where all cross-border transactions exceeding RM5,000 must be reported to the central bank (Mahmud & Ismail, 2023). As per Section 14 of AMLA, banks must promptly report to the central bank, Bank Negara Malaysia, about any transaction exceeding RM50,000 or any circumstance that raises suspicion of proceeds from unlawful activities.

Despite the stringent laws and regulations, the increasing complexity of financial crimes requires proactive and adaptive approaches for banks to mitigate money laundering risk. The banking sector in Malaysia has witnessed a rise in money laundering cases, explaining the need to understand what factors contribute to effective AML practices to tackle the issue. The most prominent case involving the country’s politically exposed person (PEP) was the 1Malaysia Development Berhad (1MDB) scandal. It involved misappropriating the state’s investment funds, followed by laundering activities in multiple financial institutions for personal gain. The investigation into this case revealed the weaknesses of the country’s control system in detecting and preventing money laundering (Jones, 2020).

A previous study conducted by Mahmud & Ismail (2023) established a significant nexus between customer record-keeping, suspicious transaction reporting (STR), employee training and the effectiveness of AML regulations in Malaysian commercial banks. Despite the consensus belief that IT infrastructure is essential for effective AML programs, empirical findings from Bahrin et al. (2022) revealed a negative relationship between the two. The study further suggested that challenges faced by the banks to keep pace with the rapid advancement of technology in implementing AML programs might be the underlying reason for the finding. Additionally, Aziz & Daud (2022) highlighted the concerns among bank customers regarding data breaches, underscoring the importance of robust customer record maintenance. In essence, AML practices are implemented through a combination of regulatory frameworks, banks’ internal policies as well as technological tools. Effective AML practices are not only essential for legal compliance, but they also empower banks to proactively detect, prevent and mitigate their vulnerability to money laundering risk. Therefore, this focus on understanding key factors influencing the effectiveness of anti-money laundering practices to help banking systems improvise their policy to combat any activities related to money laundering.

2. Background of Study

According to Isa et al. (2023), commercial banks are the backbone of the Malaysian financial system because they serve as the primary source of funding within the banking sector. Based on Bank Negara Malaysia, there are 26 commercial banks in Malaysia as of December 2021. Their core functions encompass retail banking services, such as accepting deposits, granting loans, and providing financial guarantees; trade finance facilities, including letters of credit, bill discounting, shipping guarantees, trust receipts, and banker's acceptances; treasury services; cross-border payment services; and custody services, such as safe deposit facilities. Additionally, commercial banks are authorized to facilitate foreign exchange transactions and hold the exclusive privilege of providing current account facilities. Being the key players in the financial system, commercial banks offer a vast array of products and services, making them prime targets for money laundering activities.

Furthermore, corruption remains pervasive in Malaysia, often intertwined with money laundering activities. According to Isa et al. (2023), Malaysia's ranking on Transparency International Malaysia's (TI-M) Corruption Perceptions Index (CPI) in 2021 dropped by five positions to 62, marking a second consecutive year of decline. This deterioration is aligned with PricewaterhouseCoopers' (PwC, 2020) findings that identify corruption as a significant disruptive economic crime in Malaysia. Other forms of fraud, including asset misappropriation, customer fraud, and cybercrime, account for nearly half of all financial crimes in the country (PwC, 2020). The 1MDB scandal is an example of massive corruption involving the misappropriation and laundering of billions of dollars stolen through bribery, bond pricing schemes and false declarations by the officials (Jones, 2020). Meanwhile, drug trafficking is another persistent problem in Malaysia, with millions of ringgits exchanged annually (Isa et al., 2023). Given these diverse crime types, criminals constantly devise methods to launder their illicit gains, often targeting banks as the most accessible conduits for their illegal activities.

Commercial banks, as the reporting institutions in the Malaysian AML regime, play a significant role in implementing the preventive measures to combat money laundering. They are also one of the most vulnerable financial sectors to money laundering risk apart from the money changer and non-bank remittance, as shown in Figure 1. This essentially calls for an enhanced understanding of the factors contributing to the effectiveness of AML practices.

Financial sectors	Vulnerability level	Non-financial sectors	Vulnerability level
Banking institutions		Casino	High
Money changing	High	Lawyers	
Non-bank remittance		Offshore trust	
Fund/Unit trust		Company secretaries	Medium
Offshore banking	Medium	Real estate agents	
Non-bank deposit taking		Onshore trust	
Stockbroking		Gaming	
Life insurance		Jewellers	
Money Lending	Low	Accountants	Low
Non-bank cards		Pawnbroking	
E-money		Notaries	

Figure 1. Inherent Vulnerabilities of Financial and Non-Financial Sectors to Money Laundering Risk

Source: Isa et al. (2023)

This study delves into four specific factors influencing the effectiveness of AML practices in Malaysian commercial banks, including comprehensive customer risk assessments and records, strengthened suspicious transaction reporting (STR) as the reporting mechanism, advanced technological integration, and an effective employee competency program. While this study offers valuable insights to enhance AML understanding and implementation in Malaysian commercial banks, it also acknowledges the potential challenges banks may encounter in exercising the practices effectively.

3. Problem Statement

Despite the legislation and implementation of AML, money laundering continues to pose significant challenges to Malaysian commercial banks, threatening the integrity and stability of the banking sector. Malaysia's reputation is again under threat following the release of The Financial Crimes Enforcement Network's (FinCEN) files, which contain suspicious activity reports from US banks to the US Treasury (Byrne, 2020). The files revealed the money laundering trails involving 23 high-profile transactions that account for the movement of over $18 million (RM74 million) through Malaysian banks. Consequently, the country has been accused of being a high-risk jurisdiction for money laundering and financial crime.

In 2022, there were 250,000 STRs filed with Bank Negara Malaysia's (BNM) Financial Intelligence Unit (FIU), representing an increase of nearly 30% compared to the previous year (The Star, 2023). This significant increase paints a concerning picture of the growing money laundering and terrorist financing exposure in Malaysia. The most prevalent crimes including fraud, corruption, smuggling, illicit drug trafficking and organized crimes accounted for approximately 70% of FIU's disclosures to local and foreign law enforcement agencies. The disclosure led to the arrest of 51 individuals, the freezing and seizing of assets worth over RM570 million and recovering RM372 million in revenue due to organized crimes and tax offences. Although this achievement demonstrates the effectiveness of BNM's measures to combat money laundering and terrorist financing, the crimes remain rampant in Malaysia and are still being exploited to launder illicit money.

Due to the advancement of technology, scam cases have been alarming problems for the nation and its citizens. The National Scam Response Centre, which was established in October 2022 has received over 15,000 scam cases, causing losses of RM141 million in Malaysia (The Star, 2023). This signals the growing concern of scams in the country, which has also been the preferred choice to launder money. Furthermore, the Royal Malaysia Police (PDRM) reported nearly 72,000 scam cases with losses exceeding RM5 billion over the past two years. Apart from that, the National Risk Assessment 2020 highlighted the increasing role of professionals such as lawyers, accountants, and company secretaries in facilitating crimes via their professional conduct. These issues demand an urgent call for banks to adopt a proactive approach in mitigating money laundering risk and remain cautious against any attempts to channel the illicit funds through their banking system.

Malaysian commercial banks, as key players in the financial system, must implement comprehensive AML practices including thorough customer risk assessments with robust customer due diligence (CDD) and know-your-customer (KYC) procedures to effectively identify and verify the customers' identities. Banks must also monitor closely customer transactions and strengthen the reporting mechanism to enable the accurate and timely report of suspicious transactions to the FIU. The combination of a competent workforce and advanced technological tools empowers the banks to achieve operational excellence in implementing AML strategies. Addressing these factors is important for enhancing the effectiveness of AML practices and safeguarding the financial system from money laundering risk.

4. The Gap in Research

Existing research on AML practices largely focused on other countries and emphasis on regulatory frameworks, leaving a gap in understanding the specific implementation challenges and opportunities faced by Malaysian commercial banks. While previous studies have provided valuable insights into AML practices worldwide, a comprehensive examination of AML implementation in Malaysian commercial banks remains scarce. This knowledge gap hinders the development of tailored strategies and interventions to effectively combat money laundering in the Malaysian landscape. This study explores key factors influencing the effectiveness of AML practices in Malaysian commercial banks including customer risk assessments and records, STR, technological integration as well as employee competency. It aims to provide a more comprehensive and nuanced understanding of AML implementation as well as provide insights to strengthen the key areas of AML practices in Malaysian commercial banks.

5. Literature Review

5.1 Effectiveness of Anti-Money Laundering Practice

The effectiveness of anti-money laundering (AML) practices within Malaysian commercial banks represents the desired outcome for the comprehension and enhancement of this study. Effectiveness in the AML context refers to the capability of a bank's policies, procedures, and mechanisms to successfully identify, prevent, and mitigate the risks associated with money laundering activities. This involves the seamless integration of regulatory compliance, internal controls, and the application of advanced technologies to establish a strong defence against illicit financial activities. All banking institutions are obligated to adhere to anti-money laundering requirements outlined in the Anti-Money Laundering Act (AMLA), with a specific focus on aspects such as Customer Due Diligence (CDD) (Section 16), record keeping (Section 17), ongoing due diligence and business relationship monitoring, suspicious transaction reporting, and internal controls (Amirah et al., 2018).

Enforcing AML requirements involves substantial costs, and the implementation process can be both extensive and expensive. Assessing the effectiveness of AML requirements becomes challenging due to the constant need for regulatory, enforcement, and reporting agencies to update, review, and enhance implementation, aiming to effectively combat money laundering on a national or global scale. The Malaysian Central Bank (Bank Negara Malaysia) has established specific requirements applicable to reporting institutions engaged in various activities outlined in the First Schedule to the Anti-Money Laundering Act (AMLA). These activities include (i) banking business and investment banking business, as defined in the Financial Services Act 2013 (FSA); (ii) Islamic banking business, as defined in the Islamic Financial Services Act 2013 (IFSA); (iii) activities conducted by a prescribed institution, as defined in the Development Financial Institutions Act 2002 (DFIA); and (iv) activities carried out by the Lembaga Tabung Haji established under the Tabung Haji Act 1995 (BNM, 2019).

The effectiveness of AML practices is paramount for maintaining the integrity of the financial system, protecting the reputation of Malaysian commercial banks, and ensuring compliance with regulatory standards. A high level of effectiveness reduces the risk of money laundering activities going undetected, thereby safeguarding the financial institution, its customers, and the broader economy. The effectiveness of anti-money laundering practices serves as the central focus of this study, representing the desired outcome that researchers aim to improve by examining the influence of key factors such as customer risk assessment and records, reporting mechanism (STR), technological integration and employee competency within the context of Malaysian commercial banks.

5.2 Customer Risk Assessment and Records

Bank Negara Malaysia (2019) requires all reporting institutions including commercial banks to adopt a risk-based approach in ascertaining and evaluating the money laundering risk concerning their customers, countries or geographical areas, products, services, transactions, or other relevant risk factors. Among the risk elements, customer risk is the primary source of money laundering risk (Isa et al., 2023). This is due to the inherent risks carried by the customers from their income sources, historical activities, and the nature of their intended banking transactions. Those deemed high-risk customers, including the politically exposed persons (PEPs), those with unusual customer/business relationship circumstances and unexplained wealth sources should be subjected to detailed scrutiny and enhanced due diligence.

Customer risk assessment encompasses various comprehensive evaluations of every customer, spanning from initial customer onboarding to continuous transaction monitoring. Know Your Customer (KYC) is a crucial process to ensure the banks verify the customers’ identity, conduct customers’ risk profiling, and assess their financial standing (Yusoff et al., 2023). This comprehensive process typically includes a Customer Identification Program (CIP), Customer Due Diligence (CDD), and Enhanced Due Diligence (EDD). At its core, KYC involves establishing the customers’ identity by collecting and recording information such as name, address, date of birth and government-issued ID which will then be used to understand the nature of the customers’ activities and assess the associated money laundering risk (Yusoff et al., 2023). Proper maintenance of customers’ records is also essential in AML practices because it provides a detailed history of customer transactions and identities, enabling the banks to identify and report suspicious activities. It also contributes to effective AML practices, minimizing the money laundering risk (Mahmud & Ismail, 2023).

By meticulously verifying the identity and background of their customers, Malaysian commercial banks can gain a deeper understanding of their customers’ profiles and identify potential red flags that may indicate suspicious activity. During the KYC process, bank officers can educate their customers about the importance of thorough KYC and CDD procedures. This enhanced awareness can encourage customers to furnish accurate and complete information to the banks, which in turn contributes to more effective risk profiling and risk management for each customer. A study by Aziz & Daud (2022) highlighted the lack of AML awareness among bank customers in Malaysia, which can be a challenge for banks to implement AML practices effectively.

Customer risk assessment, as outlined by Sanusi et al. (2022), involves evaluating factors, including geographic location, business type, industry, and individual customer characteristics, to pinpoint potential areas of money laundering risk and empower banks to implement proactive mitigation strategies. The empirical findings of their study showed a significant correlation between customer risk and money laundering risk judgement among bank analysts, indicating that banks perceive higher money laundering risk associated with high-risk customers. Further examining the correlation between customer risk and banks’ judgement regarding CDD, it demonstrated that enhanced due diligence measures are imposed on high-risk customers. This finding is in line with the FATF recommendation that emphasizes the paramount of customer risk assessment to mitigate money laundering risk in the banks.

Prompt and decisive action against high-risk customers is crucial to safeguard banks and maintain the stability of the financial system. The 1MDB scandal in Malaysia exemplifies how a lack of internal controls and a disregard for AML regulations can facilitate corruption. Banks must fortify their CDD procedures, particularly when dealing with substantial fund transfers, especially those involving shell companies (Jones, 2020). The Monetary Authority of Singapore serves as a prime example, having instructed banks to proactively identify and report suspicious shell companies’ transactions, as well as be prepared to terminate their accounts to combat money laundering. As a result, Singaporean banks have proactively detected illegal activities and closed numerous numbers of shell companies’ accounts over the past year. This approach should serve as a model for Malaysian commercial banks to adopt (Jones, 2020).

5.3 Reporting Mechanism: Suspicious Transaction Reporting (STR)

The timely and accurate reporting of transactions arousing suspicion is essential in disrupting money laundering activities and facilitating investigations by law enforcement. To ensure this, commercial banks need to establish robust procedures for Suspicious Transaction Reports (STRs), ensuring the identification and prompt reporting of transactions deemed suspicious. According to a study conducted by Yaacob & Harun (2019), there exists a correlation between the reporting of suspicious transactions and adherence to anti-money laundering regulations. The study reveals that regulations concerning the reporting of suspicious transactions have a discernible impact on the prevention of money laundering. In the context of reporting institutions under the purview of the Bank Negara Malaysia, which includes commercial banks, it is mandatory for these institutions to expeditiously submit suspicious transaction reports to the Financial Intelligence and Enforcement Department of Bank Negara Malaysia whenever there is a suspicion or reasonable grounds to suspect a transaction, regardless of its amount.

Examples of suspicious transactions are as follows; (a) appears unusual (b) has no clear economic purpose (c) appears illegal (d) involves proceeds from an unlawful activity or instrumentalities of an offence or (e) indicates that the customer is involved in money laundering or terrorism financing. Reporting institutions also must provide the required and relevant information that gave rise to doubt in the suspicious transaction report form, which includes but is not limited to the nature or circumstances surrounding the transaction and the business background of the person conducting the transaction that is connected to the unlawful activity and must establish a reporting system for the submission of suspicious transaction reports (BNM,2019).

Initially, banks are required to designate a compliance officer at the senior management level responsible for submitting Suspicious Transaction Reports (STRs) to the Financial Intelligence Unit (FIU). Additionally, each branch or subsidiary is mandated to appoint its compliance officer. Among other responsibilities, the compliance officer is tasked with channelling all internal reports of suspicious transactions received from branch or subsidiary employees to the FIU, as outlined by Rahman (2013). According to guidelines from the Central Bank of Malaysia in 2019, commercial banks are obligated to report any suspicious transactions by the next working day once the Compliance Officer establishes the suspicion.

While the Suspicious Transaction Report (STR) regime stands as a crucial component in the fight against money laundering, it encounters several challenges that impede compliance. These challenges include the absence of a centralized organizational focus and supporting governance arrangements, inconsistent training, inadequate communication between reporting sectors and regulators, a lack of feedback on law enforcement success, limited functionality for accessing and manipulating the central STR database, and uneven law enforcement utilization of disclosed information (Vingert, 2020).

In Malaysia, the Financial Intelligence Unit (FIU) has addressed these challenges by introducing the Financial Intelligence and Enforcement System (FINS). This system facilitates the secure submission of STRs by banks, emphasizing collaboration between the FIU, law enforcement agencies, and the banking industry for an effective STR system. Upon receiving an STR, the FIU not only enhances the information through additional intelligence but also conducts pre-investigative work to identify criminal activities. The FIU shares this intelligence with relevant law enforcement agencies, files documents for reference, and provides ongoing support to investigations (BNM, 2019). Additionally, the FIU and supervisory authorities offer guidance on STR reporting through enforceable guidelines and briefings to Compliance Officers Network Groups in the banking sector. Valuable feedback from the FIU and enforcement agencies is incorporated by banks into staff awareness training programs (Mahmud & Ismail, 2023).

5.4 Technological Integration

The literature underscores the significance of technological integration in the global efforts of financial institutions to combat the ever-evolving landscape of money laundering. Advanced Anti-Money Laundering (AML) technologies are recognized for their transformative potential in strengthening capabilities, particularly in the identification and tracing of suspicious transactions, rendering traditional investigation methods less effective (Nazri et al., 2019). The adoption of technologies such as data analytics and artificial intelligence enhances the speed and precision of transaction monitoring, enabling financial institutions to proactively address sophisticated laundering techniques. This integration not only improves the accuracy and efficiency of AML efforts but also reduces false positives, allowing for the timely detection and reporting of suspicious transactions.

Artificial intelligence (AI) and machine learning (ML) technologies further contribute by automating the analysis of transactions, alleviating the burden of manual review and investigation. This increased efficiency is particularly crucial for timely detection, where automated transaction monitoring enables swift analysis of large datasets, facilitating quick decision-making and the timely reporting of potential money laundering incidents. Empirical studies, such as the one conducted by Bahrin et al. (2022), highlight the consensus among respondents on the crucial role of IT infrastructure in achieving effective AML activities. The study also emphasizes the vulnerability of banks with legacy IT infrastructure to potential money laundering activities.

In the context of Malaysian commercial banks, the integration of advanced technologies into AML efforts brings substantial benefits. Automated Customer Due Diligence (CDD) processes enhance efficiency and accuracy in customer onboarding, allowing resources to be redirected to more complex tasks. Advanced transaction monitoring systems enable real-time identification of potential vulnerabilities and suspicious activities, facilitating prompt response and risk mitigation. The integration of data analytics aids in the analysis of large datasets, contributing to the identification of patterns associated with money laundering. However, challenges such as the rapid pace of technological changes, implementation costs, staff training needs, data security concerns, and integration with legacy systems require careful consideration to ensure the successful and secure adoption of advanced AML technologies.

5.5 Employee Competency

The effectiveness of bank employees in identifying and responding to potential money laundering activities is significantly influenced by continuous training and professional development. In countries that have implemented anti-money laundering (AML) and Financial Action Task Force (FATF) regulations, studies indicate a noteworthy 72%

partial employee training compliance rating in developing member countries, with Malaysia standing at 90% (Mahmud & Ismail, 2023). Recognizing the pivotal role of staff, especially frontline officers, as the 'first line of defence' in detecting money laundering, prior research by Bahrin et al. (2022) emphasises the importance of their understanding of customers.

Building on this foundation, Yaacob & Harun (2019) affirm a significant relationship between employee training and adherence to anti-money laundering regulations. Consequently, commercial banks are advised to conduct regular awareness and training programs on AML/CFT (Countering the Financing of Terrorism) practices and measures for their employees to enhance competency in AML activities. These programs should be complemented by periodic refresher courses, and employees should be made aware of their liability for any failure to observe AML/CFT requirements. Furthermore, commercial banks are obligated to provide AML/CFT policies and procedures to all employees, incorporating relevant documents issued by regulatory authorities. Training should be tailored to employees' responsibilities in detecting money laundering/terrorist financing activities and the associated risks identified by reporting institutions. Those directly dealing with customers should undergo AML/CFT training before customer interactions. General employee training may cover topics such as money laundering/terrorist financing background, Customer Due Diligence (CDD) requirements, and obligations to monitor and report suspicious transactions to the Compliance Officer.

In addition, training may be provided to specific categories of employees depending on the nature and scope of their functions: (a) Employees who deal directly with customers or establish business relationships may be trained to conduct CDD and ongoing due diligence, including circumstances where enhanced CDD is required in higher risk situations. This includes detecting suspicious transactions and taking necessary measures upon determining a transaction to be suspicious; (b) Employees who are supervisors and managers may be trained on the overall aspects of AML/CFT procedures and the appropriate risk-based approach to CDD. This includes consequences of non-compliance with requirements set out under this policy document (BNM,2019). Based on a prior study, most of the bank’s employees agreed that the bank should provide training or guidance to employees on the identification of suspicious transaction activities (Bahrin et al., 2022).

6. The Proposed Conceptual Framework

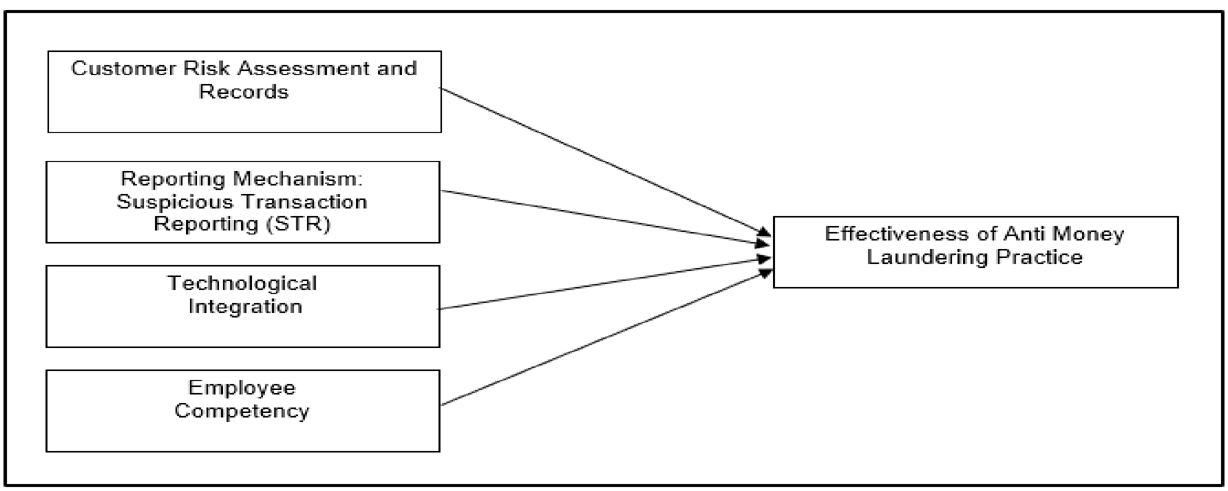

Figure 2. Proposed Conceptual Framework

Figure 2 is developed using a Simple systematic literature review. It is recommended by previous literature to understand the effectiveness of anti-money laundering practice. Table 1 explains the summarized result from the previous study.

Table 1. Systematic Literature Review results from Academia and Emerald web-based

No	Variable Study	No of Study	Source
1	Customer Risk Assessment and Record	422	Academia
2	Suspicious Transaction Reporting	103	Emerald
3	Technological Integration	44	Emerald
4	Employee Competency	213	Academia

In Table 1, the result shows the customer risk assessment and record is the highest to understand or further study. That result may help many researchers to understand the impact or relationship between customer risk assessment and money laundering. Employee competency is a second frequent suggestion by previous researchers. Most of the reasons stated that employee competency may influence money laundering. Good competency can help to avoid or prevent illegal activities. In comparison, other suggestions are suspicious transaction reporting and technological integration. This is a new variable focus since it is suggested and recommended under the Financial Action Task Force organization.

7. Conclusion

This study has explored the various factors influencing the effectiveness of Anti-Money Laundering (AML) practices in Malaysian commercial banks. The effectiveness of AML practices, as the dependent variable, is contingent upon the careful consideration and implementation of several independent variables, including customers' risk assessment and records, the reporting mechanism (specifically Suspicious Transaction Reporting), technological integration, and employee competency. The recommendations put forth highlight the need for a holistic approach, combining advanced technologies, ongoing training, and a proactive stance toward regulatory compliance. By implementing these recommendations, Malaysian commercial banks can fortify their AML practices, ensuring a robust defence against money laundering activities and contributing to the overall integrity of the financial system.

8. Recommendation

Banks need to upgrade their system and technology for an effective monitoring process. Advanced technology helps banks to analyse and identify unusual transaction activity and business relationships as well as to file a suspicious transaction report (STR) to diminish the risk. It is also important to store customers' profiles, accounts, and transaction records. Therefore, support from top management is needed as the decision for budget allocation for AML purposes will be reviewed and decided by them as the budget allocation will affect the investment in human resources and technology development (Amirah,2018).

In addressing the factors of effective Anti-Money Laundering (AML) practices in Malaysian commercial banks, the following recommendations are proposed. These recommendations aim to strengthen the key areas, including customer risk assessment, reporting mechanisms, technological integration, and employee competency. By attentively implementing these strategic measures, banks can strengthen their AML defences, foster a culture of compliance, and contribute to the sustained integrity of the financial sector.

8.1 Enhanced Customer Risk Assessment and Records

(1) Develop and implement comprehensive training programs for bank staff involved in customer due diligence to improve their ability to assess and manage customer risks effectively.

(2) Regularly update customer risk assessment methodologies to align with evolving financial landscapes and ensure accuracy in identifying potential money laundering risks.

(3) Invest in advanced technologies, such as artificial intelligence and data analytics, to enhance the accuracy of customer risk assessments.

8.2 Strengthened Reporting Mechanism (STR)

(1) Streamline and automate the suspicious transaction reporting (STR) process to reduce response times and improve the efficiency of reporting mechanisms.

(2) Establish clear communication channels between the bank and relevant regulatory bodies to ensure timely and accurate reporting of suspicious transactions.

(3) Conduct periodic training sessions for bank employees involved in the reporting process to enhance their understanding of reporting requirements and improve the quality of submitted reports.

8.3 Technological Integration

(1) Allocate resources for the continuous integration of advanced technologies into AML practices, focusing on automated transaction monitoring, machine learning algorithms, and blockchain technology.

(2) Regularly update and upgrade technological systems to stay ahead of emerging threats and ensure the resilience of the bank's AML infrastructure.

(3) Collaborate with technology experts and consultants to identify and implement innovative solutions that align with the dynamic nature of money laundering activities.

8.4 Employee Competency

(1) Develop a comprehensive training and professional development program to enhance the competency of employees involved in AML practices.

(2) Conduct regular assessments and evaluations to identify areas for improvement in employee knowledge and skills related to AML.

(3) Foster a culture of continuous learning and awareness regarding the latest developments in AML regulations, technologies, and best practices.

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