

UNIVERSITY OF GHANA BUSINESS SCHOOL

**ANTI-MONEY LAUNDERING COMPLIANCE AND
PERFORMANCE OF COMMERCIAL BANKS IN GHANA**



BY

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DECLARATION

I Barbara Obieley Commey, sincerely declare that this work was solely done by me except for references to other works by other researchers which I have duly acknowledged. This work has never been submitted to this University in whole or part for the ward of Master Degree in Development Finance

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.....
DATE

CERTIFICATION

I declare that this Long essay was supervised in accordance with the procedures and guidelines laid down by the University.

.....
PROF. JOSHUA YINDENABA ABOR
(SUPERVISOR)

.....
DATE

DEDICATION

I Dedicate this work to my late Father, Mr. Edmund Commey and to my Mum Mrs. Edith Commey for their immense contribution and sacrifice for bringing me this far. And to my siblings, I dedicate this work

ACKNOWLEDGEMENT

For every hardwork, indeed there is a reward. This storms came whilst working on this project but through dedication and hardwork I have been able to chalk this success. Working on this project has been a learning experience for me and this project wouldn't have been possible but for the support of many who assisted me in diverse ways.

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TABLE OF CONTENT

DECLARATION	i
CERTIFICATION	ii
DEDICATION	iii
ACKNOWLEDGEMENT	iv
TABLE OF CONTENT	v
LIST OF TABLES	viii
LIST OF FIGURES	ix
ABSTRACT.....	x
CHAPTER ONE	1
INTRODUCTION	1
1.0 Background of Study	1
1.1 Statement of the Problem.....	5
1.2 Objective of the Study	7
1.3 Research Questions	7
1.4 Significance of the Study	7
1.5 Research Design.....	8
1.6 Scope of the Study	8
1.7 Limitation of the study	9
1.8 Organization of the Study	9
CHAPTER TWO	10
LITERATURE REVIEW	10
2.0 Introduction.....	10
2.1 Concept of Money Laundering Compliance.....	10
2.2 The Three Stages of Money Laundering	11
2.3 Forms of Money Laundering	12
2.3.1 Cash Smuggling	12
2.3.2 Offshore Accounts (Shell Banks)	12
2.3.3 Shell Company.....	13
2.3.4 Underground Banking.....	14
2.3.5 Money Laundering in Ghana	14
2.3.6 Role of Government in Combating ML/TF	16
2.3.7 Cost of AML/CFT.....	18
2.3.8 Effects of Non-Compliance on the Financial Sector	20
2.3.9 Effects of Non-Compliance on the Economy of a Country	21
2.3.10 Factors inhibiting AML Compliance	21

CHAPTER THREE	24
RESEARCH METHODOLOGY	24
3.0 Introduction.....	24
3.1 Research Design.....	24
3.2 Research Approach	24
3.3 Quantitative vs Qualitative	25
3.4 Study Population.....	25
3.5 Sampling Technique and Size.....	26
3.6 Source of Data Collection.....	26
3.7 Data Collection Instruments	27
3.8 Data Collection Procedure	28
3.9 Pilot Survey.....	28
3.10 Data Processing and Analysis	29
3.11 Ethics.....	29
CHAPTER FOUR	30
ANALYSIS AND DISCUSSION OF FINDINGS	30
4.1 Introduction.....	30
4.2 Demographic Characteristics of Respondents	30
4.2.1 Gender Distribution of Respondents.....	30
4.2.2 Job Title	31
4.2.3 Academic Background.....	32
4.3 Objective One: Anti-Money Laundering Policies of Commercial Banks in Ghana.....	33
4.4 Objective Two: Factors inhibiting AML Policy compliance of commercial Banks in Ghana	37
4.5 Objective three: Factors inhibiting AML Policy compliance of commercial Banks in Ghana	39
4.6 Cost implications of AML compliance of Commercial Banks in Ghana	41
4.7 Objective four: Direct Impact of Anti-Money Laundering Compliance on Performance of Commercial Banks in Ghana	44
4.7.1 AML Compliance and Profitability of Commercial Banks in Ghana.....	44
4.7.2 Anti-Money Laundering compliance and Sustainability of Commercial Banks in Ghana	46
4.7.3 AML compliance and Customer Retention of Commercial Banks in Ghana.....	47
CHAPTER FIVE	49
SUMMARY, CONCLUSIONS& RECOMMENDATIONS	49
5.1 Introduction.....	49
5.2 Summary of findings.....	49

5.3 Conclusions.....	50
5.4 Recommendations.....	51
5.5 Suggestions for further studies.....	52
REFERENCES	54
QUESTIONNAIRE	57

LIST OF TABLES

Table	Page
Table 4.1: Job Titles of respondents.	32
Table 4.2.3: Academic Background of Respondents.....	33
Table 4.3: ANOVA Table on AML Compliance and Profitability of Commercial Banks in Ghana	45
Table 4.4: Coefficients Table on AML Compliance and Profitability of Commercial Banks in Ghana	45
Table 4.5: ANOVA Table on AML Compliance and Sustainability of Commercial Banks in Ghana	46
Table 4.6: Coefficients of AML Compliance and Sustainability of Commercial Banks in Ghana	46
ANOVA Table4.7: AML Compliance and Customer Retention of Commercial Banks In Ghana	47
Table 4.8: Coefficients of AML Compliance and Customer Retention of Commercial Banks In Ghana.....	48

LIST OF FIGURES

Figure	Page
Figure 4.1 Genders of Respondents	31
Figure 4.2: Level of compliance with FATF recommendations.....	34
Figure 4.3 Level of compliance with FIC/BOG Guidelines	35
Figure 4.4The Level of compliance with the AML Act (Act 749).....	36
Figure 4.5The presence of an AML reporting officer in the bank.....	37
Figure 4.6Internal factors that inhibit AML Policy	38
Figure 4.7External factors that inhibit AML policy.	39
Figure 4.8 Internal factors that inhibit AML Policy	40
Figure 4.9External factors that inhibit AML policy.	41
Figure 4.10 Existence of an AML Budget in Bank	42
Figure 4.11Cost Implication of AML compliance.....	43
Figure 4.12Implications of Non-compliance.	44

ABSTRACT

The advent of technological innovation in the global financial architecture has created upturn in uncertainties and financial risks; prompting stakeholders to re-engineer their financial systems to enhance stability and security. Even though effort in such regard is underway regarding anti-money laundering policies and regulations, the threats of money laundering continue to emerge in dynamic formats. To contribute to the growing scholarly works on anti-money laundering, this study formulates four objectives to principally to identify the various AML policies adopted by commercial banks, examine the challenges impeding implementation of anti-money laundering compliance, cost of ensuring anti-money laundering in commercial banks and the impact of anti-money laundering compliance on performance of commercial banks in Ghana. The study employed quantitative research methods, survey design, descriptive approach and simple random sampling technique to sample select 40 respondents from 10 commercial banks in Ghana. Self-administered questionnaire was used to collect data while descriptive and regression analysis was used to analyze the field data. The study result show that the banks surveyed in this study have adopted FATF recommendations, the FIC-BoG guidelines and the Anti-Money Laundering Act (Act 749) to prevent the money laundering. The study also found that, nature of fraud and cybercrimes, lack of support from the board of directors and lack of trained and skilled personnel are the factors impeding anti-money laundering implementation among commercial banks in Ghana. The study result also show that anti-money laundering compliance positively impact bank profitability, sustainability and customer retention. On average, commercial banks spend between GHS 100,000 and GHS 500,000 to ensure AML compliance yearly. The study therefore, recommends that Bank of Ghana must task external auditors to conduct periodic auditing of the budgetary allocations of all commercial banks

operating in Ghana. The BOG must ensure every bank in Ghana create AML reporting officer. Government may acquire standardized AML software for banks at subsidized prices.

CHAPTER ONE

INTRODUCTION

This chapter of the study present the general background to the entire work which creates a general context for the study. The principal aim of this current chapter provides a comprehensive background to the study on anti-money laundering practices of commercial banks, implementation challenges, effect on performance and the cost associated with implementing anti-money laundering initiative, especially in the Ghanaian banking sector. Additionally, the chapter brings to the fore the research problem, the research objectives, research questions, the motivation for the study, the scope and limitation of the study, as well as the synopsis of entire study.

1.0 Background of Study

The global financial system has been plagued with varied degrees of uncertainties and risk, thus calling for stakeholders to institute proactive measures to ensure it stability and security (FATF, 2010; IMF, 2001, White, 2009). The financial sector which includes banks (FATF, 2010) have been at the forefront of major economic development programmes by channeling funds from surplus units to deficit units, risk mitigation and transparency. In the last decades, banks have traditionally suffered from credit, concentration, reputation, interest rate, exchange rate and legal risks (Dionne, et al., 2010). However, Money laundering (ML) has also been identified as high emerging risk phenomenon facing financial institutions in most developing countries.

ML have become a topical issue where practitioners, policy makers, governments, enterprises and regulators are advocating for reforms in the laws and regulatory frameworks to minimize their negative effect on economic systems. Anti-money laundering measures have emerged strongly in these discusses, aimed at reducing the risk of money laundering. To Madzima

(2009), money laundering represents “any act or attempted acts to conceal or disguise the identity of illegally obtained proceeds so that they appear to originate from legitimate sources”.It also involves the placement, layering and integration of funds from illegal activities through the financial system to legitimize the sources of such funds (FATF, 2010).

The concept of ML was originally used by the American enforcement officers in the 1920s in reference to the mafia ownership of Laundromats in America during Prohibition (Baxter & Babbie, 2014; Bartlett, 2012; Agarwal & Agarwal, 2012), where people try to legitimize the proceeds made from their criminal enterprises by venturing rightly legitimate businesses, thereby, laundering the proceeds from the criminal enterprises they acquired. This practice of legalization illegal proceeds represents a common component in the definitions of money laundering (Agarwal & Agarwal, 2012). Largely, the principal aim of money laundering is to cover up the predicate offences from which proceeds are derived and to ensure that the criminals can enjoy their proceeds, by conserving or investing them in the legal economy.

The financial services sector has witnessed immense growth around leading to increased cross-border activities enhancing global financial intermediation. Unfortunately, this development has been accompanied by a spate of transnational financial crimes. Financial crimes involve prohibited acts yielding financial benefit or the unlawful conversion by the wrongdoer of the ownership of property belonging to another person to the wrongdoer’s own personal use and benefit (Baxter & Babbie, 2014; Cyber Laundering; 2002; Duyne, 2003). The most prominent form of financial crimes that has attracted the attention of policy and law makers alike in recent times is Money Laundering in banking institutions. However, little seem to have been done by developing economies to protect their financial systems from being used as transit point for ill-gotten monies, and Ghana is no exception (Basel, 2012).

The act of ML creates uncertainties which negatively influence firm's reputation, profitability, shareholder value and effectiveness. For instance, the reputation for integrity of a financial institution depends heavily on the perception that it functions within a framework of high legal, professional and ethical standards (Masciandaro, 2009; Leong, 2007). An institution could be drawn into active complicity with criminals and become part of the criminal network if funds from criminal activity are processed through their particular institution. Evidence of such complicity will have a damaging effect on the attitudes of other financial intermediaries and of regulatory authorities, as well as ordinary customers (FATF, 2006). This will have negative repercussions on the performance of the institution.

Again, potential negative macroeconomic consequences of unchecked money laundering can lead to changes in money demand, prudential risks to bank soundness, contamination effects on legal financial transactions, and increased volatility of international capital flows and exchange rates due to unanticipated cross-border asset transfers. Also, as it rewards corruption and crime, successful money laundering damages the integrity of the entire society and undermines democracy and the rule of the law (Ricardo, 2010; Rider, 2006). In effect, financial institution and its affiliated or allied institutions will suffer-low performance effect from legal actions or total closure of the bank. On the other hand, a full implementation of anti-money regulations will make the bank more credible and attract more clients and in return the bank will make substantial profits (FATF, 2003).

Literature has also espoused on the social and economic consequences of ML (FATF, 2012, IMF, 2010).Report shows that money laundering cost is estimated between USD 500m to USD 1.5 billion annually (IMF, 2012). In spite of the absence of a robust metric to give early warning signals on ML, a lot of effort has been made financially and non-financially to ensure financial soundness and stability in the global and economic financial systems. In

some African states for instance, there is evidence of financial institutions that have collapsed due to their involvement in money laundering and parallel banking activities.

Other far reaching effects of money laundering on majority of developing economies and least developed economies in Africa include; Distortion of market prices by fuelling inflationary tendencies in essential commodities and real estate market by increasing money supply that is not matched by production of goods and services; Eliciting unfair competition against genuine businesses thus killing entrepreneurship; Diverting capital away from meaningful national economic activities to activities that enhance individual gain at the expense of economic development; Oiling corruption particularly through the process of compromising the criminal justice system and the rule of law with the resultant consequence of increased criminality and ultimately depressing Foreign Direct Investments (Cooper & Schindler, 2013; Dan, 2009).

In view of the negative consequences of ML, banks in Ghana have been tasked by regulatory bodies to continually implement and comply with risk management policies and procedures, which include anti-money laundering laws to detect, prevent, mitigate and respond to the threat of money laundering and other risks, which may affect their activities (Reuter & Truman, 2004). However, very little empirical evidence exists on the specific measures taken by financial institutions to combat ML. Studies have also rarely documents policy implementation challenges and the impact of MI on performance of financial institution.

The motivation for this study is that, indeed, there is a development in the Ghanaian banking industry which is explained by the influx of foreign banks. There appears to be a well sequenced financial sector liberalization policies, mergers and acquisitions of banks; continuous integration of technology into financial transactions coupled with the increase in

integration of world economies. This global agenda make Ghana's financial system prone to illicit financial flows. Quite importantly, Ghana's banking system constitutes about 87.9 per cent of the total assets of Ghana's financial system (BoG, 2013) and as such if not well insulated could be used as a conduit for proceeds of crime. There is therefore the need to empirically understand these issues such as; the anti-ML policies that banks are adopting, their implementation challenges, the impact on their performance and the cost associated with implementing anti-ML policies. This will help provide knowledge for policy makers, government and financial sector operators on the global problem money laundering.

1.1 Statement of the Problem

Ghana is a becoming interesting case of money laundering due to its unique role in the West Africa sub region and its blacklisting by FATF in 2012. The banking industry in Ghana is dominated by banks and NBFIs whose share of the total banking assets is 90 percent of the financial sector. The industry has seen some significant growth over the years with an increase in the number of commercial banks, specifically twenty three (23). However, the industry reveals emergence of money laundering risks which threaten the survival and performance of the industry (Annor, 2014). Ghana has established several laws such as the Law Enforcement Coordinating Bureau under Section 4(2) of the Executive Instrument 2012 (E.I.8), AML Act 2008 Sections 5(b), 28(2), 35 and 49 of Act 749 and is made up of several institutions such as BoG, BNI and GRA. These laws were meant to ensure that Ghana is not a safe haven for money laundering activity.

Even though, there is no empirical evidence to establish terrorist financing through laundered funds in Ghana (Adu-Amankwa, 2015), the preconditions for money laundering, are ripe in Ghana which need proper empirical understanding. These include but are not limited to: high volumes of cash-based transactions (approximately GH¢1.13trillion), pervasive corruption,

wide spread poverty, high rate of unemployment, internet frauds, thriving shadow financial system, organized prostitution, booming real estate business and electronic payment systems such as mobile money. Welbeck (2013) recommended for a proper empirical understanding of the anti-money laundering initiatives being implemented by financial institution to mitigate the effect of money laundering threats.

It has however been indicated that the ECOWAS countries including Ghana have been lagging behind in fighting money laundering on the continent. It has been suggested, for instance, that implementation measures adopted to compliment already existing international conventions and protocols on ML (the International Convention for the Suppression of the Financing of Terrorism, Vienna Convention of 1988, relevant UN Security Council Resolutions, and the FATF 40+9 Recommendations made in Paris 1989) have not been effective.

In a more worrying situation, dialogues on the issue of ML in West Africa seem to suggest that the governments in the sub-region appear not to fully comprehend the full threat of ML situation to the security of their countries and the sub-region. In the absence of such a comprehensive understanding, it may be difficult to fully harness state power deal with the problem. Again, it will be very difficult to identify the challenges inhibiting full implementation of an anti-money laundering initiative. Very few papers present an assessment of the challenges and prospects of combating money laundering in Ghana's banking industry. Again, studies examining drivers of anti-money laundering are rather scarce. Since limited empirical evidence exists in Ghana on the, this study seeks to establish the impact firm performance would have on AML adoption, the challenges and cost of implementing AML initiative.

1.2 Objective of the Study

The overall objective of the study is to assess Combating Money Laundering in Ghana with focus on the Challenges and Prospects for the Banking Industry. Specific objectives in respect of this include:

- i. To identify the various AML policies adopted by commercial banks in Ghana?
- ii. Identify the factors inhibiting the implementation of Anti-Money Laundering Policies regulations in Ghana.
- iii. To ascertain the costs incurred by commercial banks in Ghana in implementing Anti-Money Laundering regulations.
- iv. To assess the direct impact of anti-money laundering compliance on the performance of commercial banks in Ghana

1.3 Research Questions

The objectives of the study will be guided by the following research questions;

- i. What are the AML policies adopted by commercial banks in Ghana?
- ii. What factors inhibit the implementation of Anti-Money Laundering Policies regulations in Ghana?
- iii. What are the costs incurred by commercial banks in implementing Anti-Money Laundering regulations?
- iv. What is the effect of AML compliance on performance of commercial banks in Ghana through customer retention?

1.4 Significance of the Study

The central bank of Ghana: They would benefit from this study as it will bring insight into the understanding of the issue of Money Laundering and how to counter various cases of money laundering in the country. The study would also highlight the advantage of banks

complying with the anti-money laundering policies hence leading to reduction in money laundering cases.

Commercial Banks in the banking industry: They would benefit from the study as it intends to provide insight on compliance with anti-money laundering (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.

Further Researchers: They 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.

1.5 Research Design

The research was conducted through a descriptive survey which was aimed at assessing the challenges and prospects for combating money laundering in the banking industry of Ghana. A descriptive survey study is concerned with finding out what, where and how of a phenomena Cooper and Schindler (2006). The main focus of this study was qualitative. This approach was used in order to gain a better understanding and possibly enable a better and more insightful interpretation of the results from the qualitative study.

1.6 Scope of the Study

Due to time and other resource constraints, the study was limited to bank officials and its customers within the Accra Central Metropolis as a case study of this study. The use of a case study will allow generalization beyond the scope of the study. Therefore, though the study is focused only on this sample, the results nonetheless will reflect similar situation around the country with other banks.

1.7 Limitation of the study

One of the challenges the researcher anticipated to encounter is the access to and collection of data from the respondents of this study. This situation compelled the researcher to limit the study to views and opinions of selected respondents in the selected organization. The researcher also anticipates unwillingness of some respondents to complete the questionnaires promptly and possibly failing to complete the data collection instrument at all. In order to address this issue, the researcher distributed the data collection instrument to the respondents and gave them enough time to complete it; also, the researcher went through all the data collection instruments to ensure all items have been answered and assist those that have difficulties to complete the questionnaire.

1.8 Organization of the Study

The study was partitioned into five (5) distinct chapters so as to facilitate reading and understanding. Chapter one introduces the study by looking at the background to the study, statement of the problem, objectives of the study, research questions, significance of the study, scope of the study, limitations of the study and organizations of the study. Chapter two consists of the review of related literature from various books, articles, related research works and internet resources which helped the researcher in extracting the relevant literature on combating money laundry. Chapter three focuses on the outline and the details of the research methodology. Chapter four presents the analyzed data together with its interpretation of the findings as well as discussion on the research findings. Chapter five presents the recommendations based on the significant findings, summarize the study and draw useful conclusions.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

Money laundering has fast risen to become not only an emerging issue but a topic of concern the world over (FATF, 2012). Fuelled by the proliferation of modern technology, money laundering has become widespread and even more difficult to detect by agencies tasked with fighting the menace (Schroeder, 2001). This chapter delves into both theoretical and empirical frameworks on which this study is built.

2.1 Concept of Money Laundering Compliance

The Financial Action Task Force (FATF) which is the main body tasked with fighting money laundering across the globe defined the term as the processing of criminal proceeds to disguise their illegal origin (FATF, 2007). The United Nations Office on Drugs and Crime also defined the money laundering as the method by which criminals disguise the illegal origins of their wealth and protect their assets bases, so as to avoid the suspicion of law enforcement agencies and prevent leaving a trail of incriminating evidence (UNODC, 2014). In a recent publication by the International Monetary Fund (2004), Money Laundering was defined as the process by which the illicit source of assets obtained or generated by criminal activity is concealed to obscure the link between the funds and the original criminal activity. Individual authors like Unger (2014) who also defined money laundering as the process of disguising the illicit origins of proceeds of financial manipulation, drug trade, fraud, corrupt enrichment, or other crimes, bringing back money into the financial circuit of the legal economy.

2.2 The Three Stages of Money Laundering

The process of money laundering is a very intricate and complicated process, and mostly involves series of numerous transactions and financial institutions across several countries (Buchanan, 2006, Williams, 2001). The process of money laundering can be categorized into three main stages; the Placement, Layering, and Integration stages (Schneider & Windischbauer, 2008; Madinger, 2012).

The Placement Stage is the first stage where the illegally obtained funds are transferred physically to another location or into another form which disguises the origin of the funds, hence making it difficult for such funds to be traced by authorities tasked with detecting such suspicious transactions (Madinger & Zalopany, 1999). The placement stage is usually the most critical of all the three stages since the success of the entire laundering process is predicated on this Stage. It is also at this stage that financial institutions are first introduced into the laundering process (Watkins et al., 2003).

From the Placement stage, the next stage is the Layering stage. At this stage the origin and even the ownership of the funds are concealed or disguised, by using banks and other financial institutions, bank cheques, collective accounts, payable-through accounts, loans at low or no interest rates, back-to-back loans, fake invoices and insurances, fictitious sales and purchases, shell companies, trust offices or special purposes entities, wire transfers and monetary instruments as conduits (Welbeck, 2015). The Layering stage is the most intricate of all the stages, this is because it involves several transfers of illicit funds from financial institution to financial institution and the disguising of such funds from one class of financial instrument to the other (Watkins, et al., 2003).

The final stage of the money laundering process is known as the Integration stage; it is at this final stage that launderers attempt to integrate illegally obtained proceeds into legitimate

businesses. The integration stage completes the laundering process, at this stage, the ‘washed funds’ or ‘clean money’ are now invested in various legal businesses or commercial activities completing the Money Laundering process. This three-stage process of money laundering provides a useful and comprehensive breakdown of what is hitherto a complex and sometimes overlapping process of Money Laundering (Mekpor, 2017). The graph below paints a clear picture of how money laundering is achieved through Placement, Layering and Integration.

2.3 Forms of Money Laundering

Money laundering techniques are complex; however, the salient feature of money laundering is the number of different methods used. Some of the techniques include the following:

2.3.1 Cash Smuggling

Cash smuggling is one of the oldest methods used for general smuggling of currency. The bulk shipments of cash hidden in cargo are driven across the border, though it is illegal to export a bulk amount of cash. Every country has its limit of carrying cash legally across the border. For instance, the United States restricts the currency movement to \$10,000 without filing a report under the International Transportation of Currency or other Monetary Instruments (CMIR).

2.3.2 Offshore Accounts (Shell Banks)

Offshore accounts are often used by criminals to obscure the audit trail as many different countries in the world offer strict laws for bank secrecy to attract money in their countries. In respect of this law, the country can also refuse to assist international authorities in revealing the information of customers. Many of these countries also attract clients by selling Shell banks, which means a bank which is incorporated in a jurisdiction in which the bank has no physical presence and also unaffiliated with the regulated financial institution. These kinds of

banks, Shell banks, are generally developed in a financial haven country for providing the appearance of legitimacy. A customer only needs a false name to open an account in these kinds of bank which provides the customer complete secrecy and protects the customer from investigation and possible prosecution and after establishing the shell bank the customer may gain advantage of "payable though" or "pass through" accounts. The domestic bank offers these accounts to foreign institutions and they are used to shift the funds of foreign client's into the domestic country without giving any information to the domestic institution on the client.

2.3.3 Shell Company

The other method or technique involved is criminal developing a "Shell company". It means that the criminal will open an account as a corporation rather than opening an offshore account as an individual (Koker, 2002). Usually it is essential for the company to have participated already in the legal business dealings to develop an arena of legitimacy. And once the shell company developed, it can easily transfer a huge amount of money to the offshore haven and at the same time avoid the taxes and registration regulations. Koker says that a shell company in South Africa have been known to sell for as less as \$9,000. The criminal owing that shell company may transfer the ownership of the company to a trust in order to make investigation difficult and the actual control of the company still remains with the criminal though it has been transferred in the name of trust and the clients have full access to the assets of the company. Further the company may also issue bearer shares which means that no record of the owner of the company and hence the company is owned by whosoever person who possess the shares of the company physically.

2.3.4 Underground Banking

The Criminals considers this as the safest way of laundering money and also one of the most common methods used for the purpose. Basically, there are two types of underground banking systems which are known as *Hawala/Hundi* and *Chitti/Chop banking* (Trehan 2002). The term *Hawala* in Indian and Pakistani language means reference and in Arabic it means transfer related to money whereas word '*Hundi*' means 'trust'. *Chitti* means a mark whereas chops are the seals used to ease the money transactions. Both of these forms of underground banking are ingrained in ancient tradition and facilitate the practices of western banks by centuries (Gilligan 2001). These methods were introduced in order to avoid risk of carrying large amount of money by traders. The idea behind these concepts was that a trader would show a letter of credit or a symbol to the distant banker and that foreign distant banker would be the representative of the trader's local banker and then the foreign banker would honor the letter or token (Trehan, 2002). The use of underground banking has been recognized in many countries and the reason behind the success of this technique was that this banking was based on trust and virtually there is no paper trail involved in that

2.3.5 Money Laundering in Ghana

This study seeks to investigate factors that inhibit AML, the level of awareness of AML as well as the cost implications of AML to commercial banks in Ghana. Since the context of this study is Ghana, it is important to consider the provisions of Money Laundering as spelt out in the constitution of Ghana. In the constitution of Ghana, the Anti-Money Laundering Act 2008, Act 749, provides that, "a person commits an offence of money laundering if the person knows or ought to have known that property is or forms part of the proceeds of unlawful activity and the person.

- (a) Converts, conceals, disguises or transfers the property,
- (b) Conceals or disguises the unlawful origin of the property, or
- (c) Acquires, uses or the takes possession of the property.

The AML provisions enshrined in the constitution of Ghana is in tandem to the international laws of AML enacted by the Financial Action Task Force (FATF). The underlying fact that cuts across both national and international AML laws is that there is the presence of criminal or unlawful activity to acquire funds, concealment, disguise and subsequent use of such funds as though they were lawfully obtained. Ghana as a developing country is largely characterized by weak and inadequate institutions and porous borders, which makes the fight against money laundering a difficult task for agencies tasked with fighting the menace (Mekpor, 2017). Consequently, Ghana's economy is faced with a huge threat since it represents a good and suitable destination for money launderers. Ghana's vulnerability to money laundering threats is deepened owing to the strong economic desire to attract foreign direct investment in different sectors of the economy.

Ghana's susceptibility to money laundering threats is largely detrimental financial institutions (mostly commercial banks) since they provide a gateway to foreign direct investment into the economy (PWC,). Activities of money launderers have many adverse effects on a nation as a whole, most directly on the financial sector; these effects are even more devastating in developing countries. Schott (2006) posits that "while money laundering and the financing of terrorism can occur in any country, they have particular significant economic and social consequences for developing countries, because those markets tend to be small and, therefore, more susceptible to disruption from criminal or terrorist influences."

Schott (2006), further highlight some consequences of money laundering for developing countries which include but are not limited to increased crime and corruption, international

consequences on foreign investment, undermining of the financial sector and the private sector, and damaged privatization efforts.

Steel (2006) also elaborated on how the menace of money laundering has had a negative impact on the legal and financial position of financial institutions as well as the huge burden that compliance costs also have on financial institutions. He argues that, “Financial institutions are at the forefront of the battle against the money launderers. It is not only these financial institutions that the money launderers target to use to perpetuate their schemes but under current legislation they are responsible for policing the financial dealings and reporting any suspicious transactions and also transactions over a reporting limit of £10,000 (in the UK).”

2.3.6 Role of Government in Combating ML/TF

Although Anti-money laundering policy has existed at national level in some countries for couple of decades, the events of September 11th brought to urgency to the topic in the international community. “Anti-money laundering policy has evolved into a major issue in many nations, particularly the United States after the 9/11 jihadist attack. Compliance with the FATF recommendations has now become a major requirement for nations with dire repercussions for nations that fail to comply. This has caused many nations to join in the crusade against the menace of money laundering and terrorist financing across the globe (Ferwerda, 2009).

One of the recommendations by FATF to individual countries is to set up a well-functioning Financial Intelligence Centre or Unit (FIC/FIU) to be the main body tasked with collating suspicious transactions reports (STRs) and safeguarding the financial system and the entire economy from being used by money launderers (FATF, 2001). The Financial Intelligence Centre in Ghana was established under Section 4 of the Anti-Money Laundering Act, 2008

(Act 749) as a corporate body to receive, analyze and disseminate financial intelligence in Ghana and abroad. The Centre started operations on 4th January, 2010.

The Anti-money Laundering Act 2008 (Act 749), and the Anti-Money Laundering Regulations, 2011 (L.I. 1987) issued thereunder, serve as a formidable legislative backbone upon which the Centre would coordinate and operate as the fulcrum around which a secured and robust anti-money laundering regime intended to break the cycle used by organized criminal groups to benefit from illegitimate profits could be achieved (Yamoah, et al., 2014). By doing this, the Act and Regulations aim to safeguard the integrity of the financial system.

This strongest of regulations which constitute the AML policy framework obligates accountable agencies and institutions to conduct thorough customer due diligence (CDD) on both existing and potential customers, keeping proper and up-to-date records and report suspicious transactions to the FIC. The AML policy framework also requires accountable institutions to draft and implement internal rules to enhance compliance with these obligations.

Other relevant enactments which complement Anti Money Laundering Act, 2008 (Act 749), and the Anti-Money Laundering Regulations, 2011 (L.I. 1987) in the AML/CFT framework are the Anti-Terrorism Act, 2008 (Act 762), the Economic and Organized Crime Act, 2010 (Act 804) and the Mutual Legal Assistance Act, 2010 (Act 807).

The Role of Financial Institutions in Anti-Money Laundering and combating the financing of Terrorism.

AML policy frameworks are usually broad and intricate in nature, involving several phases of planning implementation and monitoring in order to ensure success, therefore it is not prudent to leave the entire task in the hands of financial institutions. To guarantee success of the AML policy framework, it is important to task other sectors of the economy with some responsibilities especially suspicious transactions reporting (Yamoah, et al., 2014). Notwithstanding, this study will emphasize the role of financial institutions (commercial banks) in safeguarding the economy against activities of money launderers.

2.3.7 Cost of AML/CFT

There has been a longstanding debate regarding the cost of implementing AML policy by financial institutions. It is interesting to know that given the increase in the scale of Money Laundering, the cost of Anti-Money Laundering compliance also keeps increasing at a high rate. In the year 2014 alone, compliance cost increased by a rate of 53% globally for just banking institutions and shows no signs of slowing down (PWC, 2014). Compliance costs range from cost of acquiring softwares, cost of training staff, salaries of compliance function staff and even include AML fines and penalties (FINCEN, 2013). While some institutions advocate for the substantial allotment to AML activities (see: CEB: UNODC, IMF, WEO, 2014) other authors like Demetis (2010) exhibit a lot of pessimism about the huge costs incurred in combatting money laundering and whether such huge financial outlay would yield any substantial benefits in terms of a reduction in the scale of funds laundered.

The primary goal of AML policy is to eradicate or at least curb the activities of money launderers thereby preventing the numerous repercussions that come along with the menace. This research, with the help of extant literature will prove, that taking a passive stance with regards to anti-money laundering activities just because of the monetary expenses leads to serious implications that could go as far as crippling an economy and loss of lives and property. It is not only important but necessary to ascertain the cost involved in complying

with AML policy not only for accounting purposes, but also to compare the cost incurred in actively fighting money laundering to the cost (especially social costs) of ignoring AML activities.

Hagan (2011) believes that while there are always costs associated with regulations, these costs tend to differ from country to country. It may be greater in countries noted for a culture of poor compliance. “Challenges for financial service providers in complying with AML/CFT measures arise from the requirement to undertake customer due diligence and to absorb the potential costs involved in implementing new regulation” (FATF-GAFI, 2011). Financial institutions most likely will not bear these costs by themselves and may pass them on to their customers through the products they sell to them. Veris Consulting (2013), concurs with this in the statement, “Like with any other financial regulation, the costs of complying with AML/CFT measures may increase the end cost of services.” It appears that the cost of complying with AML/CFT increases over time. Veris Consulting further states that,

“Overall, survey participants reported that the cost of AML and OFAC compliance has been increasing and will continue to increase as new challenges emerge. 57% of respondents indicate that their compliance budgets and costs have increased in the last 12 months. This is not a short term trend. The survey results also show that 66% of all respondents reported that their AML and OFAC compliance budgets and costs have been increasing over the last three years.”

Industry associations can play a vital part by helping members to reduce their costs while complying with various regulations. For example, they could consult with the banking association in a country to see if AML/CFT software is available. They could work with

national authorities to provide such software and begin by offering public and employee training on AML/CFT awareness and compliance (Yamoah, et al., 2014).

2.3.8 Effects of Non-Compliance on the Financial Sector

The financial sector of the Ghanaian economy is made up of commercial banks, microfinance institutions, savings and Loans companies, insurance companies and equity markets. All these financial institutions are collectively pivotal to the Ghanaian economy due to the fact that they represent the capital resources pooled together for a country and how these resources are distributed and redistributed by means of investment which in turn maintains an increasing economic development (Yamoah et al, 2014).

As argued earlier, the consequences of money laundering to financial institutions are dire if the fail to check against the problem, however, deliberately refusing to implement AML policies also pose severe repercussions to non-compliant institution. Punitive measures including fines and penalties are among some dire consequences that financial institutions could face as a result of failing to adhere to AML stipulations (Doyle, 2001, Sharman, 2008).

AML fines account for the highest percentage of the punitive fines charged to financial institutions annually (FINCEN, 2013). These fines that are usually monetary, mostly amount to billions of dollars, ridding financial institutions off their limited financial resources. Studies show that the compound annual growth rate of these fines from 2007 to 2014 stood at a staggering 187% (CEB, 2014). Since 2007, banks have paid out \$21b in cumulative fines, and \$12.4b of these fines was paid in 2014. These fines have injurious effects on the financial performance of the financial institutions found culpable, in addition to the reputational damages suffered. The dire nature of the repercussions on financial institutions as a result of AML fines usually leads to the winding up of most of these financial institutions (Mekpor, 2017).

2.3.9 Effects of Non-Compliance on the Economy of a Country

Failure on the part of financial institutions to comply with AML regulations has a spillover effect on the entire nation. The actions or inactions of financial institutions which lead to non-compliance with AML regulations usually have negative impact on the entire economy. Such countries stand the risk of being blacklisted by the FATF, like Ghana was in 2012. The impact that blacklisting has on nations is so damning that most of them are that suffer that fate are unable to fully recover for a good number of years. According to a report by a senior official at an international bank in the Caribbean, the small island countries -- St. Kitts and Nevis, St. Vincent, and Dominica are still reeling from the effects of having been blacklisted by FATF and the OECD in the 1990s (Online Brokers Block Trinis, 2011). Liechtenstein officials recalled the period that they were under FATF sanction as ‘a real disaster’ (Sharman, 2009).

This evidence may not be necessarily quantifiable but AML/CFT sanctions must be taken seriously and complying with these regulations in the long run proves beneficial to countries. Extant literature provides enough evidence to prove that compliance with AML/CFT regulations has a positive relationship, economic stability and development (Yepes, 2011).

2.3.10 Factors inhibiting AML Compliance

There are several factors that inhibit AML policy in the banking sector for instance; the main inhibiting factor is the ability to identify suitable preventive measures to curtail the activities of launderers. Although a general policy framework for AML exist in the industry, individual banks must identify the policies that best suit them because failure to do so puts them at risk of being fined or charged by responsible authorities (Cataveica, 2017). The measures applied by the compliance department range from preventive to coercive. The more effective are the preventive measures and tools, the less frequent will apply the coercive ones he argued. The banking industry is a high-risk industry because of how vulnerable it is to the activities of

money launderers making punitive measure leveled against them for non-compliance very dire.

Cataveica(2017) further posited three main challenges of anti-money laundering that inhibit compliance among commercial banks. The first challenge identified by Cataveica (2017) is banks' difficulty to find the perfect balance between preventive measures and customer satisfaction. He argues that in a bid to prevent financial systems being used as conduits for launderers' banks make use of compliance verifications when customers' transactions are flagged. These red flags work in such a way that they pop up when a customer's transaction threshold breached or violates the usual activity pattern on the particular account. Flagging of accounts creates a lot of inconvenience to customers and sometimes the bank in question. Therefore the higher the number of red flags on customers' transactions, the higher the inconvenience created to the customers involved. This means that stringent the AML regulations usually have a negative impact on customer satisfaction and, as a result, the more restricting is the money laundering preventive system, the fewer will be the number of clients that will patronize the services of banks.

The second challenge of anti-money laundering policy discussed by Cataveica (2017) is the difficulty of banks to keep up with emerging technology used by the money launderers. This assertion is also supported by Mekpor (2017) when he reechoed the suggestion that AML Agencies must have a strong technology system in order to be well equipped to fight 'tech savy' money launderers. Unfortunately, money launderers can afford and for that matter have access to new technologies and enhanced weapons to the detriments of banks and even some security agencies. As painful as it might sound, banks tend to be most of the time reactive rather than proactive in the incidence of money laundering. Until banks are well equipped with emerging technology, the fight against launderers will be that of a 'cat and mouse race'.

The third challenge of anti-money laundering faced by banks according to Cataveica (2017) is the difficulty of understanding emerging trends by the banks. The business of banking has evolved over the years and banking operations have been reengineered thanks to the proliferation of technology. The inception of alternative online payment/transfer systems powered by new technology, traditional banks have a lot of reasons to be concerned. These new systems have made modern banking very easy and convenient giving a lot of freedom to customers through technology that enhances ubiquity. This new and modern system of banking presents new risks to commercial banks making it difficult for them to protect their individual institutions from being used as conduits to launder money. Other challenges face by banks in relation to anti-money laundering policy compliance is increased governance, lack of skilled personnel and complicated processes and technology (Muppayyanamath, 2017)

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This study examined the hindrances implementation AML policy by on commercial banks and the influence of implementation of AML policies on performance of commercial banks in Ghana. This current chapter report on the procedures and design employed by the researcher to gather data to answer the research questions. Specifically, methodological issues discussed in this chapter includes: research design, research approach, research strategy, study population, sampling technique and sampling size, data collection instruments, data collection procedures, data analysis and ethics.

3.1 Research Design

A research design can take the form of experiments, surveys, ethnography, grounded theory and case study (Creswell, 2011). This study used a survey research design to investigate the hindrances to implementation AML policies and the influence of implementation of AML policies on performance. The research opted for survey design because, this design allowed the researcher to generate a quantitative description of the study population (Malhotra & Birks, 2007). Again, the study needed primary data from commercial banks in Ghana. Hence, the main purpose of using the survey design is to ensure that the phenomenon and attributes of the sample population are evaluated more precisely and also the findings could be generalised.

3.2 Research Approach

This study employed descriptive research approach. Descriptive research approach was employed because, Saunders et al. (2009) noted that it provides support for studies to measure accurately a causal relationship between variables. This is the objective of this

current study, which is to investigate the influence of AML policies on performance of commercial banks in Ghana. Again, descriptive research approach provides a comprehensive assessment of knowledge, preferences, beliefs and satisfaction in the general population (Kotler & Keller, 2009). In view of the above reasons, the researcher belief that, employing descriptive technique is important to properly describe the factors inhibiting adoption of AML initiative as well as it influences AML policies of commercial banks on their performance.

3.3 Quantitative vs Qualitative

This study used quantitative research method to analysis the field data. A quantitative method to research means a form of research that measures data using mathematical or statistical tools in the analysis. Quantitative research has several advantages, hence used in this study. A quantitative approach was employed because it is considered ideal for studying large samples and is relatively cost-effective and time saving. Again, a quantitative research permits the researcher to generalise the research findings to the study population, when the findings are reliable and valid (Leedy & Ormrod, 2005). The rationale for the quantitative approach was also influenced by the choice of survey design, the theory and how the study data is generated and analysed. Quantitative approach is flexible, and also allows for replication of the research procedure, thus enhancing validity of research findings (Davis, 2000; Malhotra, 2004).

3.4 Study Population

Although the financial sector in Ghana is not only made up of commercial banks, this study limits its population to commercial banks because they constitute a large proportion of the financial sector and therefore represent the main conduit through which illicit funds are laundered. More so, commercial banks are the main targets of anti-money laundering policies formulated by FATF and financial intelligence units of various states thereby making them

critical in the fight against money laundering. Other financial institutions that make up Ghana's financial sector include Microfinance institutions, Insurance companies, Rural and community banks, Investment companies, Broker-dealers and Savings and loans institutions.

3.5 Sampling Technique and Size

This study employs a simple random sampling technique is a method used by a researcher to draw out a subset or portion from the entire population for testing. The sampling technique used must be efficient enough in selecting an appropriate sample which is representative of the population. Failure to obtain a sample that is not representative of the population renders the results from the research biased and flawed. This research adopted the random sampling technique in selecting the appropriate sample. A simple random sample is a subset of a statistical population in which each member of the subset has an equal probability of being chosen. This sampling technique was used to select 10 commercial banks from the current industry total of 35 banks.

The sample frame include 40 respondents for this study consists of managing directors, operations managers, compliance officers or AMLROs (AML Reporting officers), financial controllers and any other random employees of 10 selected commercial banks drawn from the twenty three (23) commercial banks in Ghana. These people were sampled because the researcher believes that these respondents possess adequate and extensive knowledge on how social media is used and it influence on the sales of the organisation or the brand.

3.6 Source of Data Collection

The data used for this study is predominantly primary in nature. Krishnaswami and Satyaprasad (2010) noted that primary sources of data are original sources from which the researcher directly collects data that have not been collected, used or refined previously. On the other hand, secondary sources are data that have been collected and compiled for another

purpose in the past (Krishnaswami & Satyaprasad, 2010). Primary data for this research was collected using the research questionnaires.

3.7 Data Collection Instruments

In order to collect quantitative data a questionnaire is considered the best tool to collect the data. A questionnaire is a research instrument used to collect data with maximum reliability and validity (Yin, 2003). Generally, a questionnaire is used for quantitative research in order to generate factual information required from large respondents. Another reason for choosing questionnaire was based on Kumeckpor (2002) who noted that a questionnaire is less expensive when respondents are not stationed at one particular place. A questionnaire was chosen because it is deemed suitable for gathering a large amount of accurate and reliable data (Bushiri, 2014).

The questionnaire was made up of closed-ended research questions where respondents were asked to select the appropriate alternatives from possible responses provided. It was designed in line with the objectives of this study. Despite the importance of questionnaire as a research instrument, there is the degree that the researcher may gain limited information and possibly distorted information from respondents.

A total of 41 questions were adopted for the research. These questionnaires formed the basis of the data presentation and analysis. The researcher designed the questionnaire with assistance from the supervisor. The types of question used were probing in nature. This was to help in the analytical character of the work.

The results of this work are derived from respondents using a likert scale and graphs. Responses to questions pertaining to the cost implications of AML compliance were graphed and analysis was done based on the results produced by the graphs. On the other hand, all responses to questions bothering on the AML compliance frameworks of commercial banks as well as questions relating to challenges of AML policy are obtained from the likert scale.

The aggregate of the average of each response represents the score for that particular section or variable. The aggregate of each section is regressed on the total score for AML compliance framework variable to determine which variables have an impact on AML compliance. For objective one, the scores for the various factors inhibiting AML compliance policy are ranked to determine which factor inhibits AML compliance policy the most.

3.8 Data Collection Procedure

The purpose of the study was explained to the respondents and this paved way for the administering and retrieval of questionnaires from respondent without difficulty. The questionnaires were self-administered and this resulted in establishing rapport with the respondents' and ensuring higher recovery rate (Leedy & Ormrod, 2005). Most respondents could do the reading themselves, while the researcher provides assists for those respondents' who had challenges in reading to fill the questionnaires. This eliminates the possibility of unreturned or lost questionnaires. The entire questionnaire administration took 3 hours on each day for twenty-eight (28) days at the various banks. 40 Questionnaires were issued to ten (10) commercial banks and interview was conducted were also conducted.

3.9 Pilot Survey

Before the questionnaires were issues to the respective respondents, a pilot survey was conducted on two banks. The respective AMLROs were visited with the initial version of questionnaire to verify whether those questions could be well understood, easily answered by respondents and if the questions were appropriate for the topic being researched. Subsequently, corrections and modifications were made where necessary. Afterwards, the research supervisor was duly consulted to approve the final questionnaire which was then sent out to the various commercial bank respondents.

3.10 Data Processing and Analysis

Data analysis involved a systematic process of selecting, categorizing, comparing, synthesizing and interpreting data to provide explanation to single phenomenon of interest. In this study, responses from the questionnaires were edited, coded and entered into Statistical Package for Social Science (SPSS) version 20.0 for analysis. This statistical software is recommended for us in studies in social sciences (Zikmund, 2000). Descriptive statistics and regression was used to analyse the data.

3.11 Ethics

Ample time was given to respondents to respond to the research questions. This was to avoid errors, inaccuracies and misrepresentation of the study findings. Again, researcher's confidentiality was they were assured that their responses were solely for academic purposes. The purpose is make the respondents feel more comfortable and confident to provide all valuable information required.

CHAPTER FOUR

ANALYSIS AND DISCUSSION OF FINDINGS

4.1 Introduction

The analysis and discussions section of this study presents and analyses the data collected and also contains a critical analysis of the information from the sampled population. This section also presents information obtained from the survey of AML compliance on banks performance. The questionnaire (see appendix section), was answered by compliance officers of various financial institutions. Other respondents include monitoring officers, operations managers and bank tellers. In all, forty (40) questionnaires were administered to 10 commercial banks and thirty (30) were received, however on of the thirty had a significant number of questions without response.

4.2 Demographic Characteristics of Respondents

This section of the research covers the gender distribution, level of education, position held and tenure of that position as well as the regulating body of the various financial institutions.

4.2.1 Gender Distribution of Respondents

The survey showed that out of the 30 respondents, 14 (46.67%) were males and 16(53.33%) were females. This shows that women are not being ignored in the training process where AML is concerned, thus issues of gender equality may not be raised in the banking sector where AML awareness is concerned.

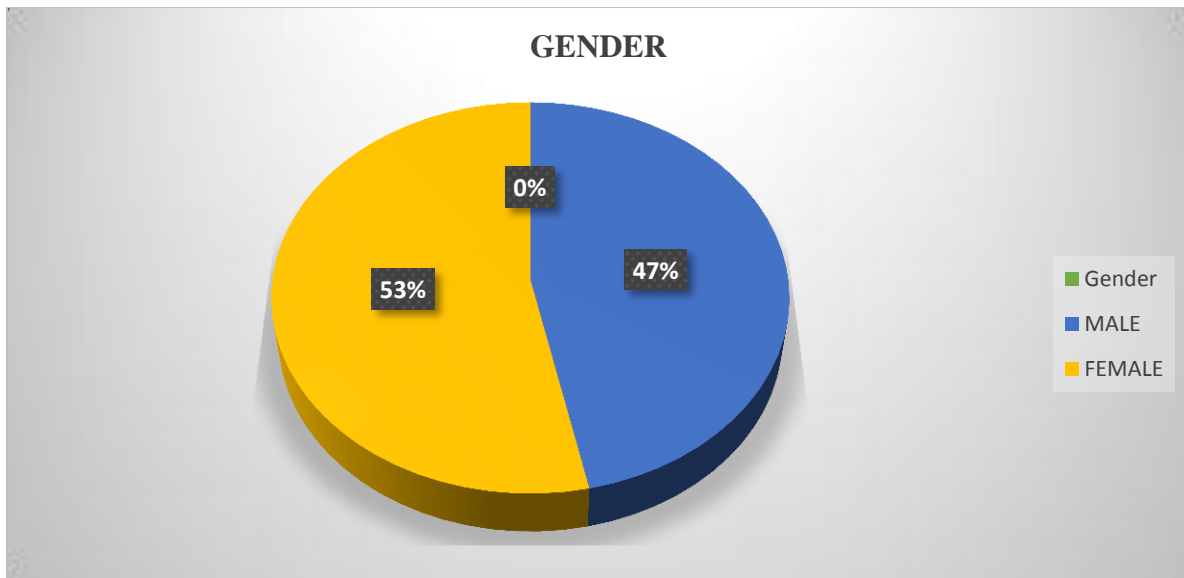


Figure 4.1 Genders of Respondents

4.2.2 Job Title

Of the 30 questionnaires returned, more than 50% of the respondents were compliance officers. From Table 4.1, the collected data shows that all the financial institutions questioned do have senior staff members acting in the capacity of compliance officers. As such they are equipped to know whether their financial institutions comply with AML/CFT regulations as well as other regulations that have to do with their financial institutions. This is definitely an indication that these institutions do not leave the task of AML/CFT to just any lower level personnel and hence take the fight against ML seriously.

Table 4.1: Job Titles of respondents.

Job Title	Frequency	Percent
Compliance officer	16	53.33%
Financial crime officer	2	6.67%
Monitoring and evaluation officer	4	13.33%
Business advisory officer	1	3.33%
Blank	7	23.33%
Total	30	100%

Source: Field survey, 2018

From table 4.1 above, it can be observed that majority of the respondents were compliance officers or staff of the compliance function of the banks considered. Two financial crime officers also responded to the questionnaire making up 6.67% of the respondents. Other respondents who answered the questionnaire were 4 monitoring and evaluation officers and 1 business advisory officer, making up 13.33% and 3.33% of the questionnaires respectively. However for 7 of the questionnaires, the job title space was left blank, indicating that those respondents opted to maintain their anonymity which is understandable given the sensitive nature of the topic being studied.

4.2.3 Academic Background

According to the FIC/BoG AML/CFT Guidelines, “Each anti-money laundering reporting officer shall be equipped with the relevant competence, authority and independence to implement the institution’s AML/CFT compliance programme.” Inferring from the guidelines, it is essential that those in the positions of AMLRO have a healthy academic background of at least a First’s degree. Unfortunately, 60% of the sampled population had AMLROs with only First-degree qualifications. Also 60% of the population also had professional qualifications and most of them were made up of the First-degree holders.

Table 4.2.3: Academic Background of Respondents

Academic Background	Frequency	Percent
Master Degree	12	40%
First Degree	13	43.33%
Professional Certificate	3	10%
Blank	2	7%
Total	30	100%

Source: Field survey, 2018

The author was interested in the educational background of the respondents because the extent to which the various compliance officers have been trained to pick up the task of combating money laundering is a very essential factor. The more educated bank staff, especially compliance officers are, the better equipped they are to detect and report money laundering activities. Therefore, it is safe to say that the more educated a bank staff, the better that bank's chances of combating money laundering and terrorist financing.

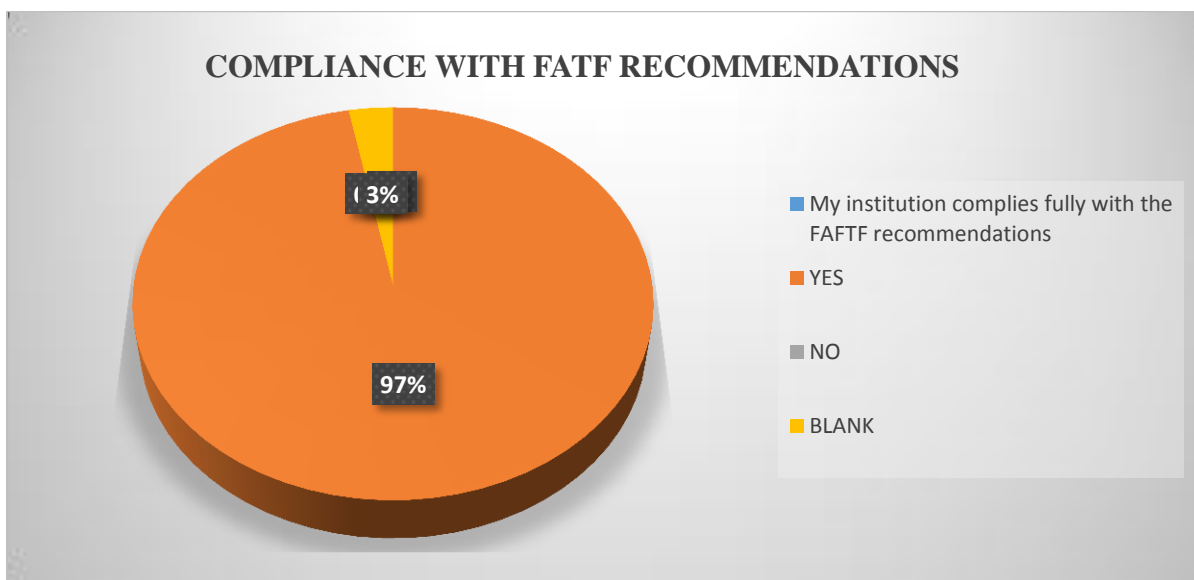
4.3 Objective One: Anti-Money Laundering Policies of Commercial Banks in Ghana

Objective one of this study sought to identify the AML policies that commercial banks in Ghana have instituted to be complied with. According to Dan (2009), to combat money laundering activities, commercial banks have been given a greater role by Anti- Money Laundering legislations. Financial institutions, especially commercial banks over the years have served as the main conduits through which money launderers perpetuate their criminal activities. As stated earlier, one of the recommendations by FATF to individual countries is to set up a well-functioning Financial Intelligence Centre or Unit (FIC/FIU) to be the main body tasked with collating suspicious transactions reports (STRs) and safeguarding the financial system and the entire economy from being used by money launderers (FATF, 2001).

The Financial intelligence centre of Ghana implements its AML policies through the commercial banks. Therefore, the success of a national AML policy framework depends on the extent to which the individual commercial banks ratify AML policies initiated by the FATF and FIC. For commercial banks in Ghana, there are at least three main AML policies that they must ratify and comply with to ensure the success of the national AML policy framework. These three legislations include the FATF recommendations, the FIC-BOG guidelines and the Anti-Money Laundering Act, 2008 (Act 749).

The findings from this study reveal that approximately 97% of the respondents answered ‘Yes’ to whether their banks comply fully with FATF recommendations and 3% of the respondents left the question blank. This figure is a good indication of AML compliance among commercial banks in Ghana since the FATF recommendations represent the universal model for AML policies. The figure below gives a pictorial view of this finding.

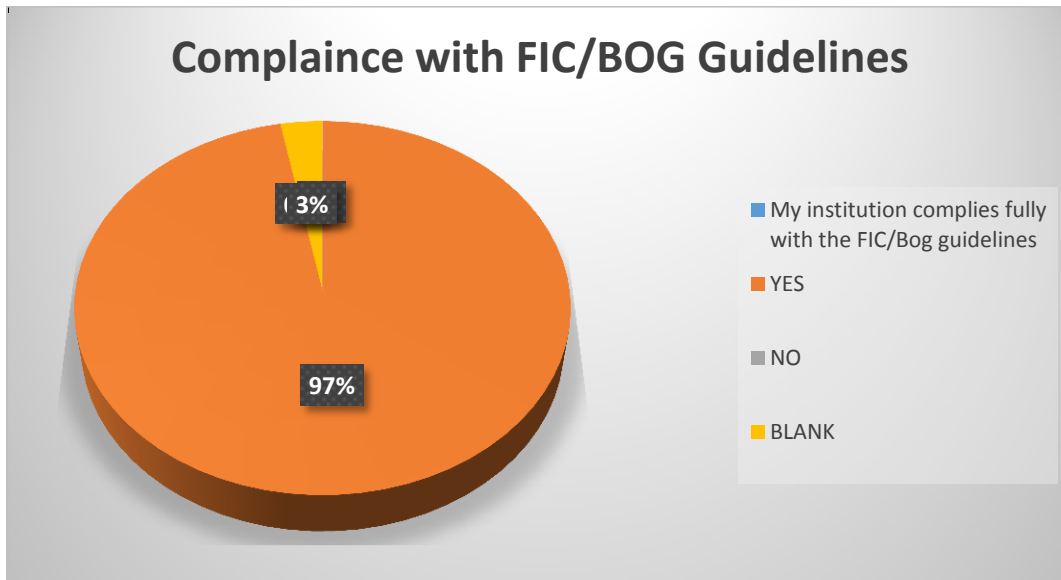
Figure 4.2: Level of compliance with FATF recommendations.



The second AML policy reviewed was the Financial Intelligence Centre (FIC) guidelines, which represents the policies set up by the bank of Ghana to combat money laundering in the Ghanaian context. The FIC guidelines detail the procedures for suspicious transactions reporting (STR) and the thresholds that should trigger a report. From the findings of this

research, a very large number of commercial banks in Ghana have subscribed to the FIC guidelines, with close to 97% of the banks under this study confirming that their individual institutions comply fully with the FIC guidelines. Figure 4.2 confirms this assertion.

Figure 4.3 Level of compliance with FIC/BOG Guidelines



The last major legislation that Ghanaian banks are required by law to comply with is the Anti-money laundering act 2008 (Act 749). Act 749 spells out all the laws pertaining to the crime of money laundering and stipulations regarding how to combat the menace. Act 749 has been well-drafted by legislators to encapsulate all risk areas of money laundering and how to mitigate them. For the Anti-money laundering act also, about 97% of the respondents affirmed that their banks comply fully with the act and 3% declined to answer the question.

Other questions in the questionnaire required respondents to answer 'Yes' or 'No' to whether the bank has appointed an AML reporting officer, whether the bank has acquired an AML software to help in suspicious transactions reporting and whether periodic AML training is conducted for staff at all levels. The average responses for all the above mentioned questions is summed up to 97% answering 'Yes' affirming that their individual banks comply with the

policies while on average, 3% declined to answer. Wrapping up on the first objective, the findings derived from the survey conducted indicates that Ghanaian banks' compliance with the three main AML policies namely, the FATF recommendations, FIC-BoG guidelines and the Anti-money laundering act (ACT 749) is at a very good level (an average of 97%). This signals good prospects for the AML regime of the Ghanaian banking industry. It also indicates that banks are taking the necessary steps required to safeguard the Ghanaian financial system from being used as a conduit for money laundering and terrorist financing.

Figure 4.4 *The Level of compliance with the AML Act (Act 749)*

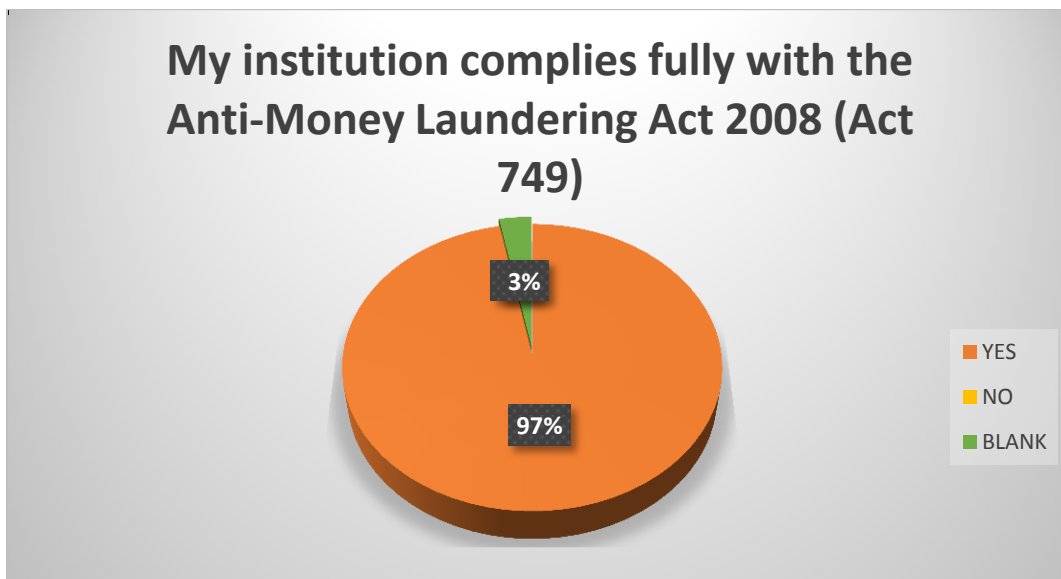
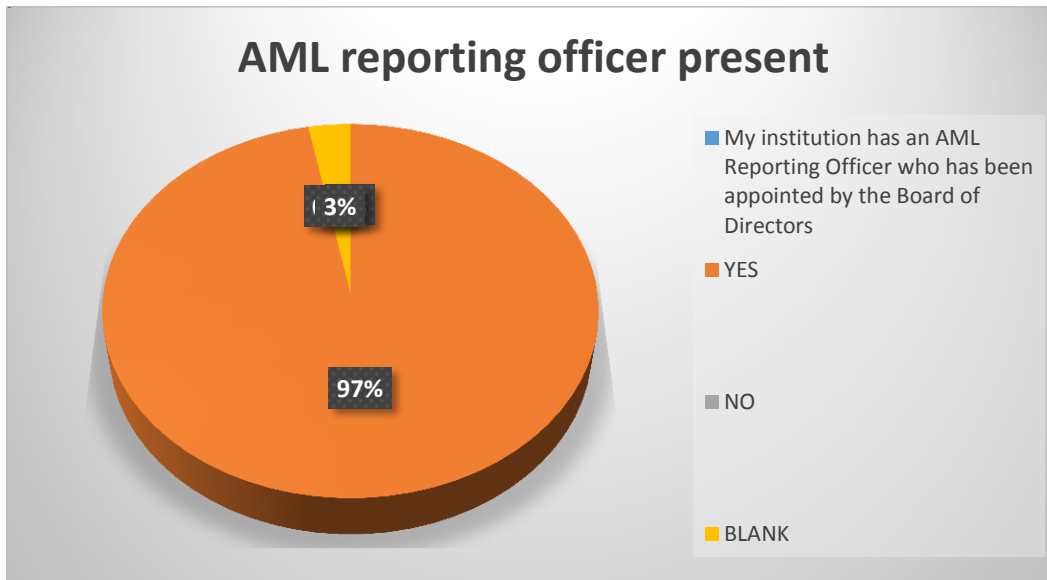


Figure 4.5 *The presence of an AML reporting officer in the bank.*



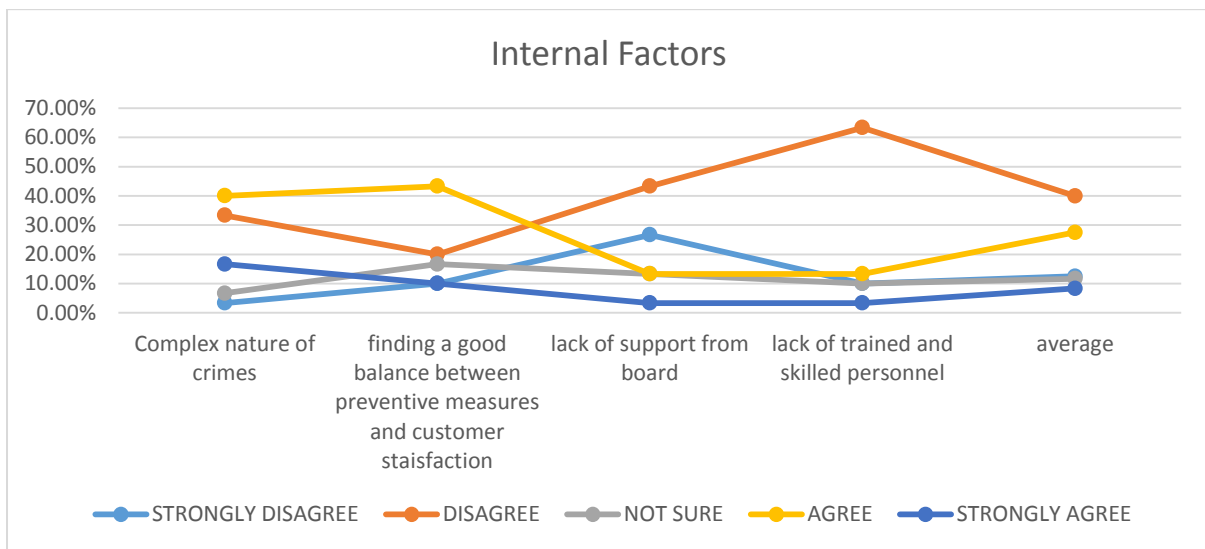
4.4 Objective Two: Factors inhibiting AML Policy compliance of commercial Banks in Ghana

The third objective of this study is to uncover the factors that stand in the way of banks' efforts to combat money laundering and terrorist financing. Cataveica (2017) posits three main challenges to AML policy of banks. The first challenge to AML policy according to Cataveica (2017) is the difficulty of finding the right balance between banks' AML preventive measures and customer satisfaction. This challenge, he said, mostly leads to loss of customers by most banks.

The second challenge of anti-money laundering policy discussed by Cataveica (2017) is the difficulty of banks to keep up with emerging technology used by the money launderers. The third challenge of anti-money laundering faced by banks according to Cataveica (2017) is the difficulty of understanding emerging trends in banking. This study divides challenges of AML policy into two; external factors and internal factors. The external factors identified by the author that challenge banks; AML policy include; fines or penalties by regulators and

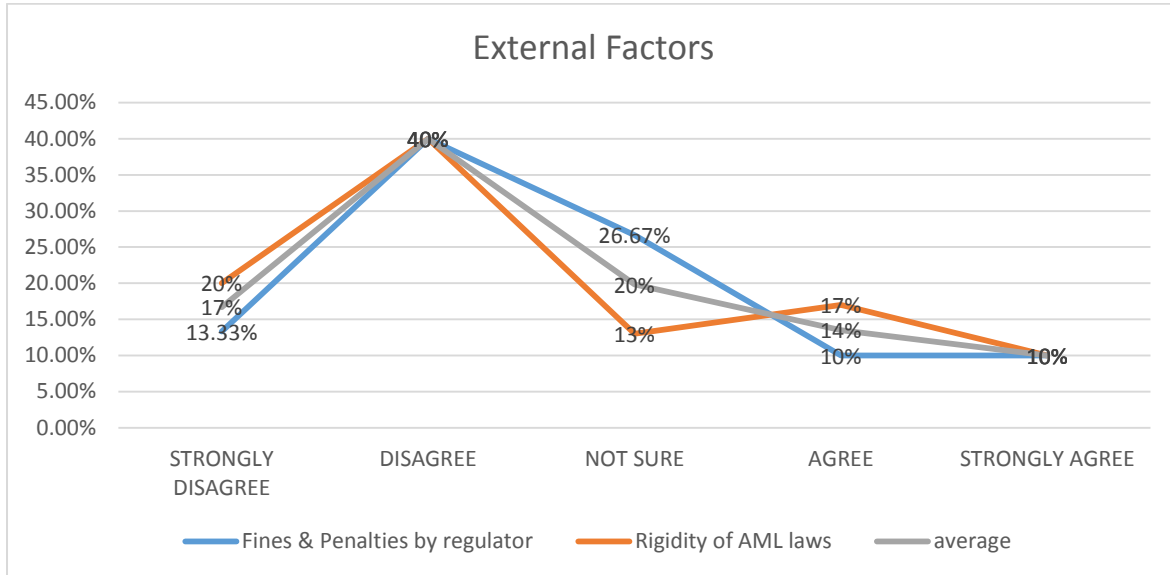
rigidity of AML laws. Internal factors on the other hand include; the complex nature of fraud and cybercrimes, lack of support from banks’ board of directors and lack of skilled personnel. The results from the study suggest that on average, 12.5% and 40% of the respondents strongly agreed and agreed to the fact that internal factors do challenge efforts of banks to comply with AML policy, while 27.5% and 8.33% of respondents agreed and disagreed to the fact that internal factors inhibit banks’ compliance with AML policy respectively. The graph below enumerates this relationship.

Figure 4.6 Internal factors that inhibit AML Policy



For the external factors, 17% and 40% on average answered strongly disagreed and agreed respectively to the fact that external factors are responsible for banks’ inability to successfully comply with AML policy. Although 20% of the respondents were unsure of their position on the question, 14% and 10% answered agree and strongly agreed on the question. It can be gleaned that majority of the respondents (57%) disagreed with the fact that external factors like fines and penalties by regulators and rigidity of AML laws can serve as a challenge to banks’ AML policy which is in also in contrast to the findings of Cataveica (2017).

Figure 4.7 External factors that inhibit AML policy.



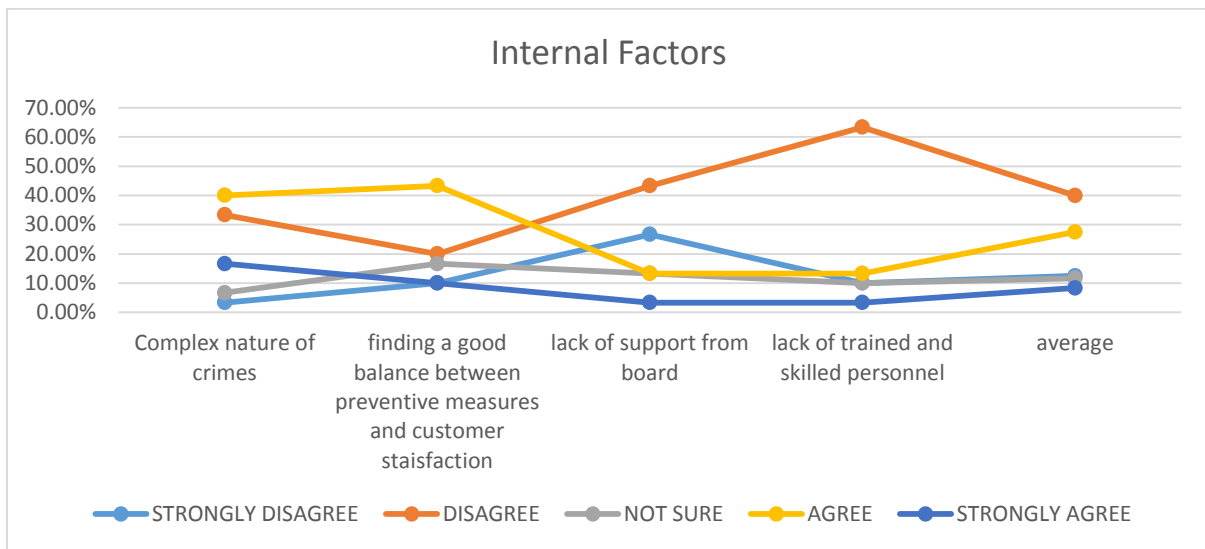
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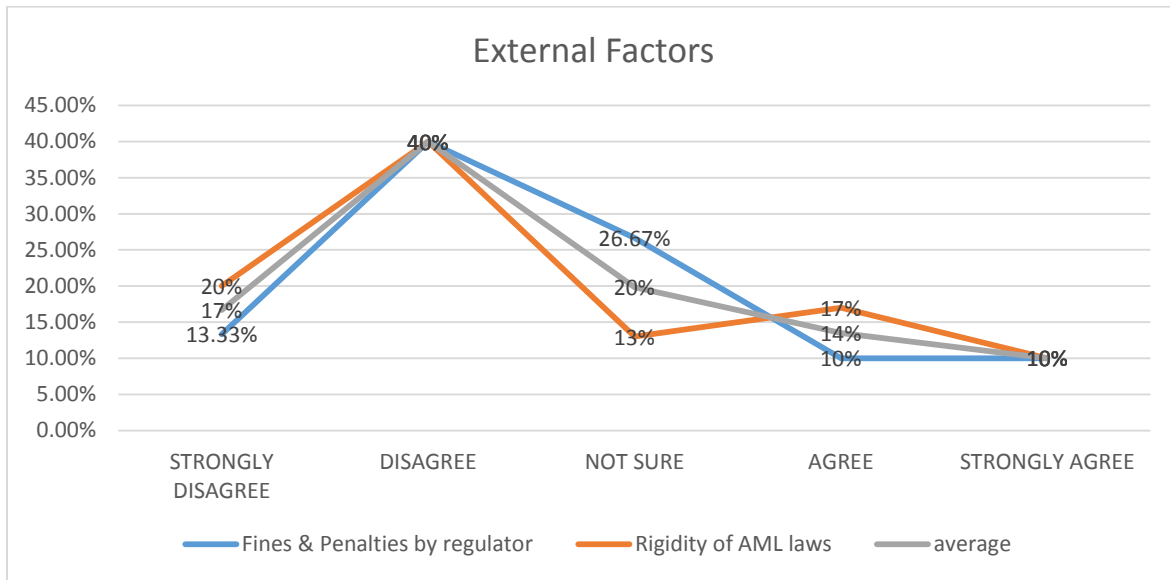
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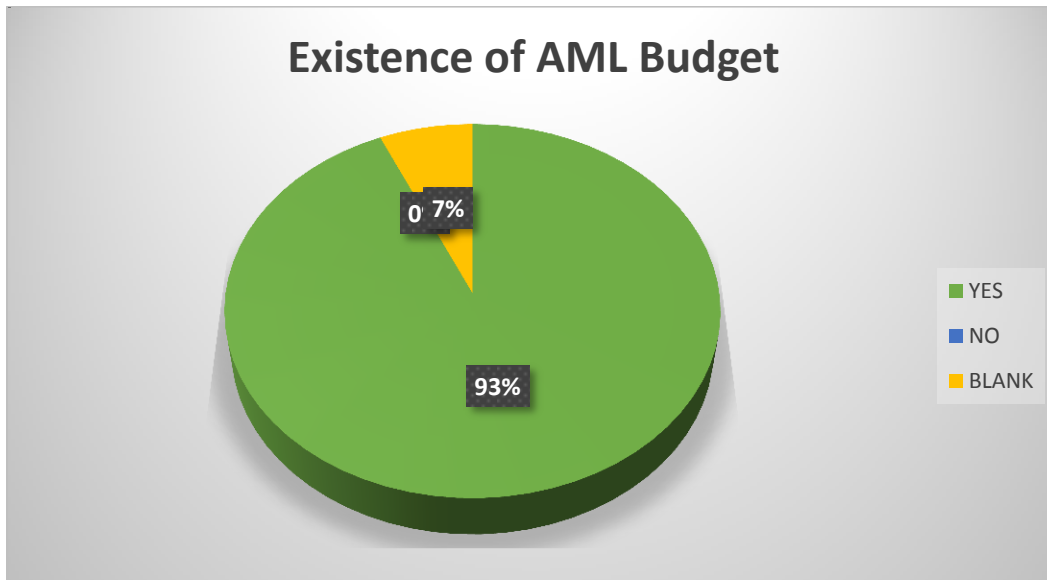
Figure 4.9 External factors that inhibit AML policy.



4.6 Cost implications of AML compliance of Commercial Banks in Ghana

According to PWC (2014), in the year 2014 alone, compliance cost increased by a rate of 53% globally for just banking institutions and shows no signs of slowing down. Banks usually incur high compliance costs in AML software acquisition, training of staff and payment of salaries of compliance function staff as well as AML fines and penalties (FINCEN, 2003). Though some institutions support the huge expenditure on AML (see: CEB: UNODC, IMF, WEO, 2014) other authors like Demetis (2010) express a lot of pessimism about the huge costs incurred in combatting money laundering and whether such huge financial outlay would yield any substantial benefits in terms of a reduction in the scale of funds laundered. Although the relationship between the high compliance cost and the effectiveness of the AML framework will be an interest study to be conducted in future, this study concerns itself with the assessment of the level of compliance cost incurred by banks in Ghana.

Figure 4.10 Existence of an AML Budget in Bank

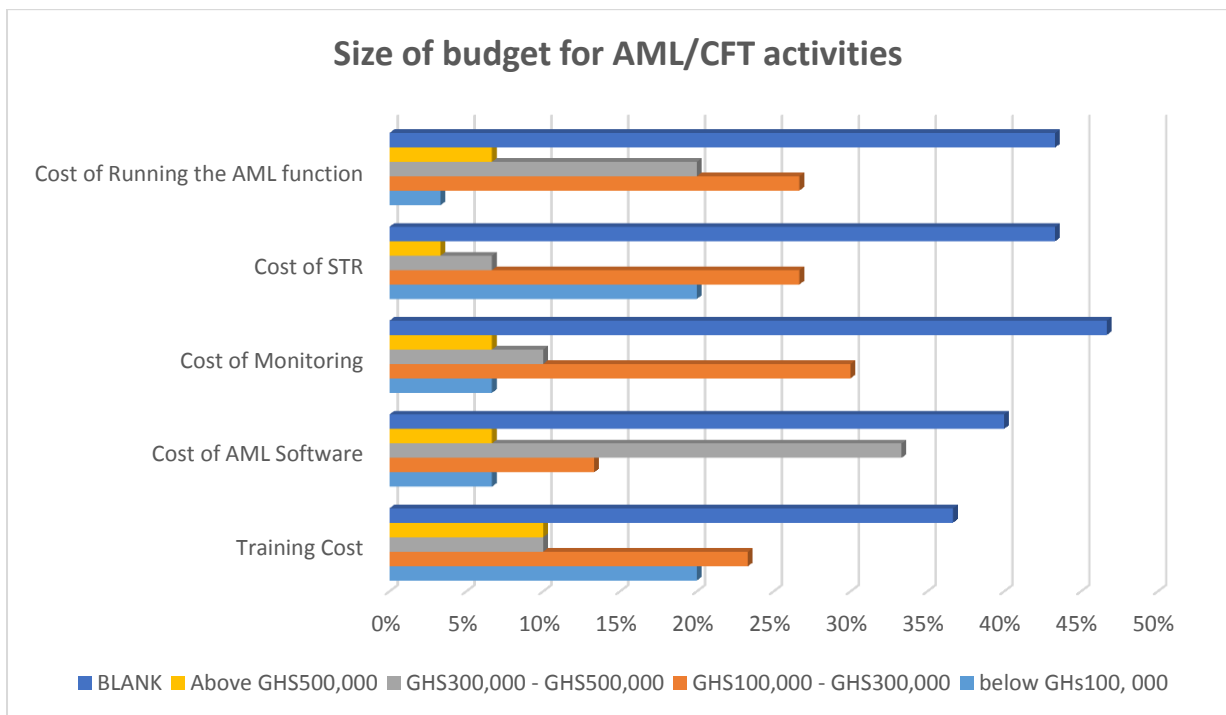


Results from the study suggest that 20%, 23.33%, 10% and 10% of the banks considered spend below GHS 100,000, between GHS 100,000 and GHS 300,000, between GHS 300,000 and GHS 500,000 and above GHS 500,000 respectively on AML training for staff at all levels, whereas 36.67% declined to answer the question. Although the number of blank spaces for respondents is high, it is understandable due to the sensitive nature of the question, however given the number of respondents who fell between GHS 100,000 and GHS 500,000, it is safe to say that banks in Ghana have a high budgetary allotment for AML training for their staff at all levels, which is a positive sign for the entire banking sector of Ghana. The graph below adds some more clarity to this finding.

Another aspect of AML cost that was found to take a chunk of most banks' AML budgetary allotment was software acquisition. According to Yepes (2011), technology has aided criminals across the globe to successfully carry out money laundering activities, where in most cases the level of technology criminals use are more advanced compared to banks and other reporting agencies. Therefore for banks to be able to successfully protect their institutions from the activities of money launderers, they need to adopt the needed

technological tools to aid them in their fight against money laundering. Due to the huge number of suspicious transactions that banks are required to report, most of them make use of software to help them flag and report these suspicious transactions when they arise. This study found that 6.67%, 13.33%, 33.33%, and 6.67% of the respondents claimed their respective banks spend below GHS 100,000, between GHS 100,000 and GHS 300,000 and above GHS 500,000 respectively on AML software, this time, 40% of the respondents left the question blank for obvious reasons.

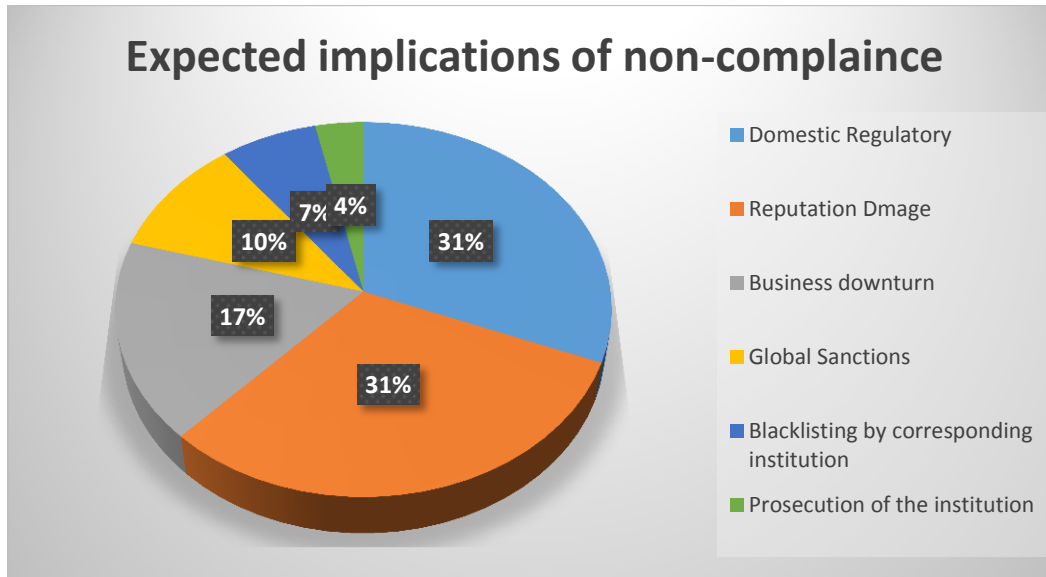
Figure 4.11 Cost Implication of AML compliance.



The author also sought to assess the cost of non-compliance with AML policy to banks in Ghana. These costs were not measured in monetary terms, a number social and reputational costs were provided for respondents to choose from. Of the 30 bank staff who responded to the questionnaire, 30% of them selected domestic regulatory fines as the cost of non-compliance to their individual banks, while 30%, 16.67%, 10%, 6.67% and 3.33% of the respondents ticked reputational damage, business downturn, global sanctions, blacklisting by

corresponding institutions and law suits as the costs that their firms are likely to face as a result of non-compliance with AML laws. The chart below details this finding.

Figure 4.12 Implications of Non-compliance.



4.7 Objective four: Direct Impact of Anti-Money Laundering Compliance on Performance of Commercial Banks in Ghana

The second objective of this study examines the impact of AML compliance on performance. Cataveica (2017) argued that anti-money laundering has an adverse effect on banks’ performance, customer satisfaction and retention, to be precise. Cataveica (2017) posits that AML presents new challenges which make it difficult for banks to find the perfect balance between preventive measures and customer retention. In effect, this study assesses the impact of AML compliance on performance, measured as profitability, sustainability and clients retention.

4.7.1 AML Compliance and Profitability of Commercial Banks in Ghana

Here, respondents were asked to indicate their opinion on the probability that, when they comply with various AML policies, their profit margins are likely to increase. Regression analysis of the result showed the following ANOVA and Coefficient result shown in Table 4.3 and 4.4 below.

Table 4.3: ANOVA Table on AML Compliance and Profitability of Commercial Banks in Ghana

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	13.443	1	13.443	17.932	.000 ^b
Residual	77.215	29	.750		
Total	90.658	30			

a. Dependent Variable: Profitability

b. Predictors: (Constant), AML_Compliance

Source: Field Survey (2019)

Table 4.4: Coefficients Table on AML Compliance and Profitability of Commercial Banks in Ghana

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.800	.443		4.060	.000
AML_compliance	.444	.105	.385	4.235	.000

a. Dependent Variable: Profitability

Source: Field Survey (2019)

Table 4.4 and table 4.5 shows the ANOVA and coefficient result on the effect of compliance with AML policies and profitability of commercial banks in Ghana. From ANOVA Table 4.3 the study found a significant effect ($F=17.932$, $P=0.00 < 0.000$) of compliance with AML and profitability of commercial banks at 5% significance level (i.e, $\alpha = 0.05$). The coefficient table 4.4 also confirms that compliance with AML policies significantly influence profitability ($t=4.235$, $\beta = .385$, $p=0.000 < 0.05$). The results deduced from the survey revealed that when commercial banks comply with AML policies, there is the tendency that profitability will improve.

Largely, the financial sector in Ghana is regulated by several policies and regulatory framework but implementation has been the main challenges. In view of this, findings from

this study have provided the empirical support that, compliance or implementation of the AML regulatory policies is important to increase profitability. This result corroborate with previous studies (Steel, 2006;Mekpor, 2017) that found that money laundering has a positive significant influence on the financial position of an organisation.

4.7.2 Anti-Money Laundering compliance and Sustainability of Commercial Banks in Ghana

Secondly, the researcher asked respondent to answer whether there is the tendency that, when they comply with AML policies, their business will be sustainable. Responses from the 30 respondents are presented in ANOVA and Coefficient table 4.5 and 4.6 below.

Table 4.5: ANOVA Table on AML Compliance and Sustainability of Commercial Banks in Ghana

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	26.406	1	26.406	42.330	.000 ^b
Residual	64.253	29	.624		
Total	90.658	30			

- a. Dependent Variable: Sustainability
 - b. Predictors: (Constant), AML_Compliance
- Source: Field Survey (2019)

Table 4.6: Coefficients of AML Compliance and Sustainability of Commercial Banks in Ghana

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.912	.277		6.903	.000
AML_Compliance	.524	.081	.540	6.506	.000

- a. Dependent Variable: Sustainability
- Source: Field Survey (2019)

Similar to the earlier questions, a question was posed to the respondents relating to whether AML compliance has any effect this time on bank sustainability. ANOVA table 4.5 and

coefficient table 4.6 shows a significant effect of AML compliance and sustainability of commercial banks in Ghana ($F=42.330$, $P=0.000$) and ($t=6.506$, $\beta = .540$, $p<0.000$) respectively. This result shows that, compliance with AML regulations has an impact on the bank. Furthermore, this result means that when commercial banks comply with various regulations and policies on anti-money laundering, there is a greater possibility that the banks can continue or sustain its operation to the long run.

4.7.3 AML compliance and Customer Retention of Commercial Banks in Ghana

This questions relating to research objective two, asked the respondents to answer whether compliance with AML policies and regulation result in customer retention or reduction in customer loss. Linear regression analysis of the responses from the respondents are presented below in ANOVA and Coefficient table 4.7 and 4.8.

ANOVA Table4.7: AML Compliance and Customer Retention of Commercial Banks In Ghana

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	21.175	1	21.175	31.389	.000 ^b
Residual	69.483	29	.675		
Total	90.658	30			

a. Dependent Variable: Cust_Ret

b. Predictors: (Constant), AML_compliance

Source: Field Survey (2019)

Table 4.8: Coefficients of AML Compliance and Customer Retention of Commercial Banks In Ghana

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.536	.384		3.998	.000
1 AML_Compliance	.509	.091	.483	5.603	.000

a. Dependent Variable: Cust_Ret
Source: Field Survey (2019)

The third question was to uncover the relation between AML compliance and loss of customers and customer retention as argued by Cataveica (2017). Results from the survey communicated that there is a significant effect of compliance with AML policies on customer retention. The Analysis of variance result ($F=31.389$, $P=0.00<0.000$) of compliance with AML and profitability of commercial banks at 5% significance level (i.e, $\alpha = 0.05$). Again, the coefficient analysis also confirms that compliance with AML policies significantly influence customer retention ($t=5.603$, $\beta = .483$, $p=0.000<0.05$).

This result is was much expected because, banking activities rely on customer trust. Therefore, this study finding provides that, when commercial banks comply with the anti-money laundering regulations and policies, customers will be very much satisfied to continue doing business with the bank. No customer will be willing to do business with a bank who engages in money laundering activities, knowing the effect of such act on the survival of the bank. In effect, this result confirms the fact that AML compliance lead to customer retention which confirm the study earlier study Cataveica (2017).

CHAPTER FIVE

SUMMARY, CONCLUSIONS& RECOMMENDATIONS

5.1 Introduction

Chapter five draws the curtains on this insightful research. In this chapter, the author seeks to dissect the findings as well as conclude on those findings. Through the data collection process, many new and eye-opening revelations were acquired which this chapter seeks to discuss and conclude on so that it can be a useful information for future research, planning and management of financial institutions.

5.2 Summary of findings

This section gives a synopsis of the major findings that were produced by this research. Before this research was conducted, extant literature could not provide adequate information on the level of adoption and implementation of AML policy among commercial banks in Ghana. The factors that inhibit and prevent Ghanaian banks from successfully implementing AML policy were also not detailed in extant literature. More so, it was difficult to assess the costs incurred by Ghanaian banks in order to combat the menace of money laundering and how AML affects the financial performance of banks.

This study found that approximately 97% of Ghanaian banks have adopted the three major AML laws that have been initiated to prevent the crime money laundering. These three legislations are the FATF recommendations, the FIC-BoG guidelines and the Anti-Money Laundering Act (Act 749). This high percentage of adoption of the AML policies by banks signals that commercial banks in Ghana are taking the right steps to a sound financial system devoid of financial crimes.

This study also found that internal factors impact AML compliance more than external factors. The internal factors identified include complex nature of fraud and cybercrimes, lack

of support from the board of directors and lack of trained and skilled personnel and external factors that inhibit AML compliance according to Cataveica (2017) include fines or penalties by regulators and rigidity of AML laws.

Another major finding of this thesis includes the impact of AML compliance on bank performance. The three performance indicators that were used were bank profitability, bank sustainability and customer retention. It was found that AML significantly affect customer retention. Again, the study found that compliance with AML policies and regulations significantly impact on bank profitability and sustainability. The responses together suggest that on average, compliance with AML policies has a positive influence on bank profitability, sustainability and customer retention.

Finally, when the cost implications of AML were assessed, it was found that on average, most banks spend between GHS 100,000 and GHS 500,000 on AML compliance. The main aspects of the AML budgetary allocation that were identified by Yamoah et al. (2014) include cost of training of staff, cost of acquisition of AML software and salaries of employees in the AML compliance function.

5.3 Conclusions

The objectives of this study were to identify the various AML policies adopted by commercial banks and the factors inhibiting anti-money laundering policy among commercial banks in Ghana, to assess the impact of anti-money laundering on the performance of commercial banks in Ghana, and to ascertain the costs incurred by commercial banks in Ghana in implementing Anti-Money Laundering regulations. After the survey was conducted and analysis was conducted, it was found that most Ghanaian banks have implemented the three main AML policies enacted by FATF, the Bank of Ghana and the Parliament of Ghana.

The high level of implementation of AML policies by Ghanaian banks signals positive prospects for the future of AML compliance in Ghana.

The study also concludes that, compliance with AML policies and regulations significantly impact on profitability, sustainability and customer retention of commercial banks in Ghana.

Again, factors that relate to the internal operations of banks were found to affect banks' level of compliance more than factors that exist outside the bank. It was also found that regulatory fines and reputational damage are the two main repercussions that banks fear will happen to them when they fail to comply with AML laws. Other repercussions that could happen to non-compliant banks include business downturn, global sanctions, blacklisting by corresponding institutions and law suits.

5.4 Recommendations

In this section, the author provides recommendations to all stakeholders of AML. These recommendations are given based on the findings of this current study.

This study found that internal factors impact AML compliance more than external factors. The internal factors identified include complex nature of fraud and cybercrimes, lack of support from the board of directors and lack of trained and skilled personnel. Based on this finding, the researcher recommends that, the various commercial banks through the Bank of Ghana must organize periodic trainings for bank personnel with regards to internal issues concerning AML. BOG should also task external auditors to conduct periodic auditing of the budgetary allocations of all commercial banks operating in Ghana. This is to ensure that banks make adequate budgetary allocations to the AML cause.

Secondly, the study revealed that most commercial banks did not have an AML function and an AML reporting officer. Therefore, the study recommends that, the BOG must ensure that the office of the AML reporting officer is a must for all banks to have. Also, the AML reporting officer must report directly to the board. This is to enable them have the freedom to report issues pertaining to AML without fear of being victimized by middle or top level management.

Lastly, the study found that compliance with AML policies and regulations significantly impact on bank profitability and sustainability. This reveals how pertinent it is for commercial banks to help fight against AML activities in the industry, since it has a long-term effect on their survival and growth. Hence, this study recommends that, the various financial institutions should deploy all the necessary resources they have to fight against AML activities. For instance, the commercial banks through the BOG can lobby the Government to acquire standardized AML software and make them available to financial institutions at subsidized prices. This will equip most of these financial institutions to join the fight against Money Laundering and Terrorism Financing since high cost of AML software is one major factor that accounts for non-compliance.

5.5 Suggestions for further studies

From the research, some respondents did not answer some of the questions which are very relevant to AML/CFT programs. This could be due to the fact that they were not well informed on certain issues or the AML/CFT programme has not been properly developed. Further research on this topic can be done in the future when AML/CFT programmes have evolved more and made more practical in Ghana.

The research addressed the cost implications of anti-money laundering and combating the financing of terrorism to financial institutions in Ghana. However, it will be interesting to find out if a relationship exists between amount of money spent on Anti-money laundering activities and the effectiveness of the AML policy framework of banks. This leaves a research gap which needs to be addressed in future literature.

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QUESTIONNAIRE

UNIVERSITY OF GHANA BUSINESS SCHOOL (UGBS) Department of Finance



ANTI-MONEY LAUNDERING COMPLIANCE AND PERFORMANCE OF COMMERCIAL BANKS IN GHANA

Important Instructions:

- a. **Objective:** This study is an academic exercise to find out The Challenges and Prospects confronting commercial banks in Ghana in a bid to combat the activities of money launderers.
- b. **Confidentiality:** Please answer all questions freely and objectively, information provided will be treated with the strictest confidentiality. Also, your name will not be used in order to ensure that no one identifies you with any answer.
- c. Please answer the questions by ticking {such as “✓”} or checking {such as “☒”}.

SECTION A: Profile of respondent

1. Have you ever held a position that is directly or indirectly linked to the compliance function of AML/CFT in your institution?
 - a. YES ;
 - b. NO .
2. If your answer to Question 1 is ‘Yes’, for how long?years
3. Job Title.....
4. Gender
 - a. Male .
 - b. Female .

SECTION B: Please evaluate the following statements and tick the single most appropriate response that is applicable to your situation.

5. My institution complies fully with the FATF recommendations.
 - a. YES .
 - b. NO .
6. My institution complies fully with the Anti-Money Laundering Act 2008 (Act 749)
 - a. YES .
 - b. NO .
7. My institution complies fully with the FIC/BoG guidelines.
 - a. YES .
 - b. NO .
8. My institution has an AML Reporting Officer who has been appointed by the Board of Directors.
 - a. YES .
 - b. NO .
9. My institution has implemented Anti-money laundering policies, programs, procedures and software.
 - a. YES .

b. NO ;

10. The AML framework provides for training of staff at all levels

a. YES ;

b. NO ;

11. The AML framework provides for a review of the respective policies, programs, procedures and software

a. YES ;

b. NO ;

SECTION C: Challenges of Implementing AML Policy

12. This section consists of challenges of AML compliance policy. Kindly, mark the choice to indicate your agreement with the following internal and external factors/challenges

Where: **1 = Strongly Disagree; 2 = Disagree; 3 = Not Sure; 4 = Agree; 5 = Strongly Agree.**

<i>Challenges of AML Policy in Ghanaian Banks</i>		Level of Ratings Low <<<----->>> High
	EXTERNAL FACTORS	
1	Rigidity of AML laws.	<input type="checkbox"/> 1; <input type="checkbox"/> 2; <input type="checkbox"/> 3; <input type="checkbox"/> 4; <input type="checkbox"/> 5
2	Fines or penalties by regulator (BoG).	<input type="checkbox"/> 1; <input type="checkbox"/> 2; <input type="checkbox"/> 3; <input type="checkbox"/> 4; <input type="checkbox"/> 5
	INTERNAL FACTORS	
3	Complex nature of fraud and cybercrimes	<input type="checkbox"/> 1; <input type="checkbox"/> 2; <input type="checkbox"/> 3; <input type="checkbox"/> 4; <input type="checkbox"/> 5
4	Difficulty in finding a good balance between preventive measures and customer satisfaction.	<input type="checkbox"/> 1; <input type="checkbox"/> 2; <input type="checkbox"/> 3; <input type="checkbox"/> 4; <input type="checkbox"/> 5
5	Lack of support from the Board	<input type="checkbox"/> 1; <input type="checkbox"/> 2; <input type="checkbox"/> 3; <input type="checkbox"/> 4; <input type="checkbox"/> 5
6	Lack of trained and skilled personnel	<input type="checkbox"/> 1; <input type="checkbox"/> 2; <input type="checkbox"/> 3; <input type="checkbox"/> 4; <input type="checkbox"/> 5
7	Salary loans	<input type="checkbox"/> 1; <input type="checkbox"/> 2; <input type="checkbox"/> 3; <input type="checkbox"/> 4; <input type="checkbox"/> 5

SECTION D: Anti-Money Laundering Compliance Policies

13. Please, mark the choice to indicate anti-money laundering compliance policy of your bank. Kindly, mark the choice to indicate your agreement with the following with the compliance Where: **1 = Strongly Disagree; 2 = Disagree; 3 = Not Sure; 4 = Agree; 5 = Strongly Agree.**

Anti-Money Laundering Policies		Level of Importance Ratings Low <<<----->>> High
1	My institution complies fully with the FATF recommendations	<input type="checkbox"/> 1; <input type="checkbox"/> 2; <input type="checkbox"/> 3; <input type="checkbox"/> 4; <input type="checkbox"/> 5
2	My institution complies fully with the Anti-Money Laundering Act 2008 (Act 749)	<input type="checkbox"/> 1; <input type="checkbox"/> 2; <input type="checkbox"/> 3; <input type="checkbox"/> 4; <input type="checkbox"/> 5
3	My institution complies fully with the FIC/BoG guidelines.	<input type="checkbox"/> 1; <input type="checkbox"/> 2; <input type="checkbox"/> 3; <input type="checkbox"/> 4; <input type="checkbox"/> 5
4	My institution has an AML Reporting Officer who has been appointed by the Board of Directors	<input type="checkbox"/> 1; <input type="checkbox"/> 2; <input type="checkbox"/> 3; <input type="checkbox"/> 4; <input type="checkbox"/> 5
5	My institution has implemented Anti-money laundering policies, programs, procedures and software	<input type="checkbox"/> 1; <input type="checkbox"/> 2; <input type="checkbox"/> 3; <input type="checkbox"/> 4; <input type="checkbox"/> 5
6	The AML framework provides for training of staff at	<input type="checkbox"/> 1; <input type="checkbox"/> 2; <input type="checkbox"/> 3; <input type="checkbox"/> 4; <input type="checkbox"/> 5

	all levels	
7	The AML framework provides for a review of the respective policies, programs, procedures and software	<input type="checkbox"/> 1; <input type="checkbox"/> 2; <input type="checkbox"/> 3; <input type="checkbox"/> 4; <input type="checkbox"/> 5

14. Please, mark the choice to indicate how AML compliance policies affect performance of your bank: where **1 = least important; 2 = fairly important; 3 = important; 4 = very important; 5 = extremely important**

	Effect of AMLP and Performance	Level of Importance Ratings Low <<<----->>> High
1	AML policy implementation has a negative effect on bank profitability	<input type="checkbox"/> 1; <input type="checkbox"/> 2; <input type="checkbox"/> 3; <input type="checkbox"/> 4; <input type="checkbox"/> 5
2	AML policy implementation has a negative effect on bank sustainability.	<input type="checkbox"/> 1; <input type="checkbox"/> 2; <input type="checkbox"/> 3; <input type="checkbox"/> 4; <input type="checkbox"/> 5
3	AML policy implementation has a negative effect on customer satisfaction	<input type="checkbox"/> 1; <input type="checkbox"/> 2; <input type="checkbox"/> 3; <input type="checkbox"/> 4; <input type="checkbox"/> 5
4	AML policy could lead to loss of customers	<input type="checkbox"/> 1; <input type="checkbox"/> 2; <input type="checkbox"/> 3; <input type="checkbox"/> 4; <input type="checkbox"/> 5

SECTION E: Costs in Implementing Anti-Money Laundering Regulations

16: cost implication in Implementation AMLP

1. Does your institution have a budget for AML/CFT functions?
 - a. YES ;
 - b. NO .
2. How much budget is assigned for AML/CFT activities (*approximately in GHS*)
 - a. Training:

Below GHS100,000 <input type="checkbox"/>	GHS100,000-GHS300,000 <input type="checkbox"/>
GHS300,000-500,000 <input type="checkbox"/>	above GHS500,000 <input type="checkbox"/>
 - b. Software (Acquisition, maintenance):

Below GHS100,000 <input type="checkbox"/>	GHS100,000-GHS300,000 <input type="checkbox"/>
GHS300,000-GHS500,000 <input type="checkbox"/>	Above GHS500,000 <input type="checkbox"/>
 - c. On-going monitoring:

Below GHS100,000 <input type="checkbox"/>	GHS100,000-GHS300,000 <input type="checkbox"/>
GHS300,000-GHS500,000 <input type="checkbox"/>	Above GHS500,000 <input type="checkbox"/>
 - d. STR Reporting:

Below GHS100,000 <input type="checkbox"/>	GHS100,000-GHS300,000 <input type="checkbox"/>
GHS300,000-GHS500,000 <input type="checkbox"/>	Above GHS500,000 <input type="checkbox"/>
 - e. AML/CFT Function:

Below GHS100,000 <input type="checkbox"/>	GHS100,000-GHS300,000 <input type="checkbox"/>
GHS300,000-GHS500,000 <input type="checkbox"/>	Above GHS500,000 <input type="checkbox"/>
3. What are the expected implications for non-compliance (you can tick more than one)

Domestic Regulatory Fines <input type="checkbox"/>	Reputation Damage <input type="checkbox"/>
Business downturn <input type="checkbox"/>	Global Sanctions <input type="checkbox"/>
Blacklisting by corresponding institution <input type="checkbox"/>	Prosecution of the institution <input type="checkbox"/>

---This is the end of the questions---Thank you for your time and patience