"Analysis on the significance and effectiveness of anti-money laundering policies and regulations of Financial Institutions (Investment Banks) in India"

Shwetha Vasudeva Murthy

Master of Science in Finance

National College of Ireland

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Name: Shwetha Vasudeva Murthy

Student Number: 20229976

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Abstract

The main purpose of Anti-money laundering policies in the financial institutions are to identify the different means by which money can be laundered and prevent it. In order to prevent money laundering activities, it is very important for the investment banks to follow the policies and procedures that are in line with the regulators and to complete the know your customer (KYC) of the clients on timely basis. By performing KYC on the clients, one can identify if the client is having any suspicious activities and to access the level of risk the Investment Bank must undergo. Reserve Bank of India (RBI) has taken many measures to ensure that all the financial institutions adhere to regulatory requirements. Though RBI has taken massive measures the financial institutions are not taking the money laundering activity seriously. Hence the below study has been taken to find out the gaps and areas for improvements.

This research mainly focusses on the Anti-money laundering policies implementation in the investment banks in India. For which we first start by analyzing and assess the bank employee's knowledge regarding the level of understanding about Money laundering, Anti-money laundering and KYC procedures of the clients. The research also aims in identifying the challenges faced by the bank employees while following the Anti-money laundering policies and procedures.

The main basis of this study is made by collecting the primary data from the bank employees who are working in Bangalore, Karnataka, India. These employees are working in the private and international banks such as Kotak Bank, HSBC, Societe Generale, Commonwealth Bank and Deutsche Bank. The information is collected in the form of questionnaire which is intended for bank employees wherein the data is collected by at least 100 employees.

The results demonstrate that Bangalore bank employees only have a limited grasp of money laundering threats and preventative actions. The inadequate AML training provided has emerged as a major impediment to AML implementation in banks. Additionally, bank employees are not completely aware of the significance of following AML requirements. Employees' confidence in the AML statute as a tool to stop money laundering is low, as indicated by the survey. It inevitably causes resistance to strictly adhere to AML procedures, even though it is mandated by law. The financial institutions were found to be only sporadically in compliance with anti-money laundering laws. Numerous disagreed with the statement with how AML protocols are actually implemented, indicating that institutions might not be rigidly implementing AML compliance at every one of their locations. Clients are willing to identify their identity and place of residence, but they are reluctant to divulge details about their yearly income, asset value, other banking details, or their sources of income. Customers are also reluctant to follow the banks' requirements for updating their KYC information and reporting transactions.

Bank officials are far more knowledgeable about money laundering threat and AML requirements. Since employees have access to training, circulars, and other information, it is expected that they are more informed. Additionally, there is also a significant difference in how employees and consumers view "customer service for bank KYC data transparency laws. Additionally, the most of bank employees think that financial institutions' compliance with reporting requirements does not result in the loss of customers, while a sizeable portion of customers say they want their accounts closed with the bank that notified their activity. As a consequence, when it comes to the topic of account closure owing to monitoring duties, there is a significant difference in viewpoint among both bank personnel and account holders.

The researcher is of the opinion that putting into practice the suggestions presented in this dissertation based on the report's findings will assist the Indian banking sector in creating a system to combat money laundering that is more successful.

Contents

1. <u>Introduction</u>

1.1   Background:

Money Laundering is one of the major threats in the economy. Most of the countries around the world are seeing this as a major issue and has been trying to implement few policies and procedure to overcome the issue, as most of the money laundering happens thorough Financial Institutions by transferring illegal or black money to other accounts and to convert dirty money or black money into legal or clean money. Black money not only causes economic imbalance, it may also be used for terrorist financing, drug trafficking, human trafficking etc. The coming sections covers the in-depth analysis regarding Anti-money laundering, Money laundering, terrorist financing etc.

1.2   Overview:

This research mainly focuses on the dissertation topic "Analysis on the significance and effectiveness of anti-money laundering policies and regulations of Financial Institutions (Investment Banks) in India". According to Dilip M Shah, Money laundering began in the form of "hawala" and "hundi system" in Southern Asia which was a non-formal financial system that allowed people to carry out financial transactions in secrecy (Dilip, 2014). In India Hawala transactions increased when most of the politicians, government officials, and investors were caught in money laundering scams. Though the hawala system was introduced to transfer the money from one person to another via third party, for an example if a person had to make any transaction to the person in foreign country, then the money was transmitted by middlemen – it is one of the forms of underground banking and was frequently used by the money launderers and terrorists to transfer the funds across the globe. Also, since the transactions are anonymous it is very difficult to trace the origin of the money. As the criminals obtain large number of black moneys in the form of corruption, bribery etc. Hence this money cannot be used directly in the financial markets (IBEF, 2022).

HAWALA TRANSACTION
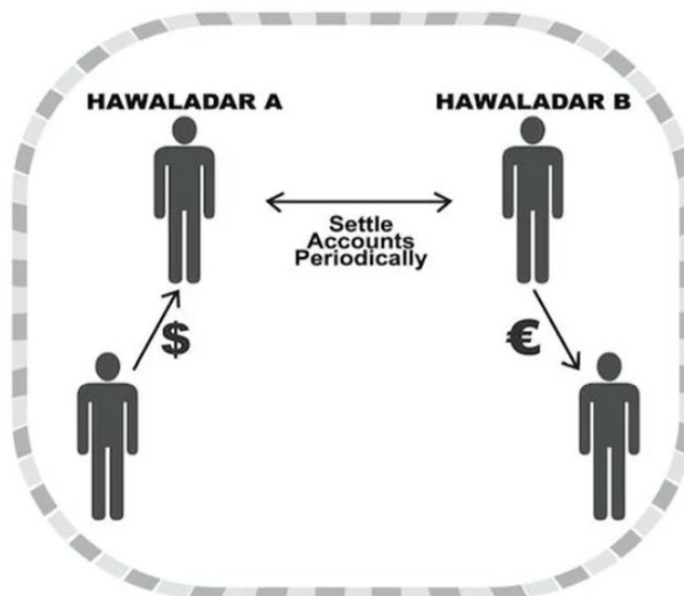
According to Financial Action Task Force (FATF), money laundering is the process of criminal proceedings in order to hide their illegal origin.

According to Praveen Kumar (Kumar, 2015) money laundering has three phases which is Placement, Layering and Integration. In the first stage Placement there is disposal of cash. Here the launderer introduces the illegally obtained money into the financial market. Here the launderer deposits the cash in small amounts in several bank accounts (domestic and foreign) or in any other financial institutions. This is an attempt to cover the illegal tracks of the black money. Here the criminals would attempt to convert the illegally obtained money into legal form. Here they would find different means and invest in multiple business or accounts with small amounts. For an example, criminals would open multiple bank accounts with different banks and make small deposits into it where in the money would never cross the threshold to show the proof of evidence. Hence these amounts can further be used to convert it into legal form or to purchase any assets in future.

In the second stage "Layering", the launderer tries to cover the origin of the main transactions by creating a complicated structure by making multiple transactions. Here criminals would execute the plans made in the first stage i.e., they make small investments in the financial markets and sell the monetary and investment instruments such as bonds, stocks, investment in gold etc across the world. However, mainly in the region where there is less scope for Anti money laundering policies and its governance.

At the "Integration" (AMLCU) This being the last stage of money laundering, they would achieve their goal by converting the money into legal form i.e., the illegally obtained black money re-enters the financial market in the form of white or clean money. Here the investment can be in the form of real estate, luxury assets, investment in companies, etc. Thus, the amount can now further be used to make legal investments in the government and financial markets. Though the money would be converted into legal form, it is always associated with dirty money

and will have origin crime records. Although tracing the origin is very difficult to identify, there is always risk associated with it.

As the money laundering activity is against the law and is done beyond the legal scope it is very difficult to calculate the exact figure of the money which is being laundered. However as per United Nations Office on Drugs and Crime (UNODC, 2021) the estimated amount of money laundered globally is equal to 2-5% of global GDP in a year which is worth up to $800 billion to $2 trillion US dollars. Since it is illegal in nature, it is very difficult to estimate the exact amount of money that is being laundered every year (Group, 2022).

PHASES OF MONEY LAUNDERING

1.3   Purpose of the research:

Banks usually face lots of financial and non-financial risks in the sector. Both risks affect the mechanism of the financial market. Money laundering is one such risk that puts bank's operations and its credibility at stake. As a result, there are more stringent regulatory policies introduced by the RBI (Indian Regulator) (Team, 2021). These are to be followed by all the banks and any violations of these policies and procedures will be faced with huge financial fines and have regulatory impacts. Hence it is essential to understand the level anti-money laundering administrations and the challenges faced by the financial institutions to follow the provided rules and regulations. Therefore, the following research occurs in Bangalore, Karnataka, India by taking the sample survey of at least 100 bank employees.

This research includes the detailed information pertaining to the below details:

- What is the level of understanding of the employees with regards to Anti-money laundering awareness in India?
- What roles are played by investment banks to eradicate money laundering?
- How frequently are the employees trained by the investment banks in India to understand the level of understanding?
- What are the measures taken by investment banks to find out money laundering activities? (This will include training, KYC monitoring activities, screening of the clients and reporting of suspicious activities to the risk teams)
- What are the challenges faced by investment banks while monitoring Anti-money laundering activities of the clients?

- On what level the investment banks monitories the cash inflows and outflows of the clients which flows in the financial institution?
- What is the difference between know your customer and AML?

As per SAS (SAS) there is 2 percent of money laundered globally every year to 5% GDP which would sum up to US$800 billion to US$2 trillion. Most of the laundered money is associated with bribery, terrorism financing, human trafficking, drug trafficking and many other criminal activities. Hence it is very important to implement anti-money laundering policies in all the financial institutions.

As per United Nations Office on Drugs and Crime (UNODC) the transfer of property or money obtained illegally to eradicate the illegitimate origin of the property into legal form is known as money laundering (UNODC).

From this we can understand that money laundering is a process of converting illegal money into legal form. For an example, conversion of money obtained from corruption or human-drug trafficking into various means such as investment in real estate properties with cash, charity works, playing in casinos etc.

1.4 Importance of the research:

Having previously worked for investment banks such as Deutsche Bank, Hong Kong Shanghai Banking Corporation (HSBC), Société Générale, investment bankers take multiple precautions to eliminate money laundering i.e., calculating the frequency of "know your customer" (KYC), performing screening, identifying PEP (politically exposed persons) etc of the clients. The proposed research seeks to provide in depth analysis of the chosen topic "Analysis on the significance and effectiveness of anti-money laundering policies and regulations of Financial Institutions (Investment Banks) in India" and the role played by customer due diligence, know your customer (KYC) team while accessing their client's profile.

"KYC" refers to the initial identification and verification steps taken by an organisation or investment bank while onboarding new clients. Also, the process of KYC is further performed on the clients based on the level of risk involved by the investment bank for carrying out business with the client. The client's risks are usually categorised as low risk, medium risk and high risk and the KYC is performed in 5 years, 3 years, and year respectively on the clients depending on the risk involved. The main motto for performing KYC on the clients is to identify money laundering activities, terrorist financing and overall financial crime and perform screening, identifying PEP (politically exposed persons) and report any suspicious activities immediately to the higher level i.e., Financial Crime Risk Officers, who access the level of risk involved with the client and change the level of risk (high, medium, or low) or close the business transactions completely (Group).

The purpose and focus of this study are to explore the rules and regulations implemented by regulatory bodies such as central banks, the world bank and FATF on the financial institutions. This will involve a complete analysis and discussion pertaining to the various tools used to identify and record suspicious activities. Since many investment banks are making the KYC process in automation more, the proposed study will also involve an examination of the automation process introduced by the investment banks for conducting periodic KYC review of the clients.

Since the crime rates were in increasing trend such as corruption, bribery, human trafficking, drug trafficking, donations to charity, raising funds for charity etc. Many financial institutions which were indirectly associated with the laundered amount (acting as custodians or opens bank accounts) faced heavy fines and reputational losses for not monitoring money laundering activities (Financial Action Task Force).

Hence to control money laundering problems Financial Action Task Force (FATF) (Financial Action Task Force) has implemented many policies rules and regulations which is mandatory for all financial institutions to follow. The recommendations implemented by FATF also includes measures which needs to be taken on real estate dealers, casino proprietors, lawyers etc. Financial Institutions should compulsorily follow client due diligence (CDD), ensure timely KYC review is done which includes performing sanction check, politically exposed person (PEP) check, finding and reporting suspicious activities etc. To meet the policies implemented by FATF, the financial institutions (mainly investment banks) will take up various steps to analyze each of their clients. Though the step is very risky it is very important that non are skipped because the companies would face huge fines, loss and will have regulatory impacts(Anon, n.d.).

Thus, the quantitative approach is used to understand the information provided in this research. By assessing the anti-money laundering activities of the banks, it helps us in having better insight about the concepts of the compliance and anti-money laundering guidelines. This study also provides further understanding on the anti-money laundering concept in the customer or client perspective as well. Also, this finding may benefit the policy makers in the financial institutions and the regulatory bodies.

1.5 Objective of the research:

Below are the objectives that are considered while conducting the research and drafting the paper.

- To understand and identify the challenges faced by the financial institutions to follow the anti-money laundering policies and procedures.
- Testing the level of understanding about the concept anti-money laundering from bank employee's and customer or client's perspective.
- To analyze the level of anti-money laundering policies and procedures implemented by financial institutions or banks.

1.6 Structure of the below thesis:

This paper is divided into 5 subjects. Chapter one covers brief discussion background, overview of money laundering, aim of the current paper, measures taken by investment banks to fight money laundering, importance, purpose, and objective of the research.

The second chapter discusses the literature review and conceptual framework used to perform this research thesis. A succinct description of the various aspects of the many participant research articles may be found in this section.

The third chapter discusses the scientific procedures and methods employed to carry out this review of the literature. An extensive description of the many aspects of the research design is provided in the context of experiments, specifically the worker perspective research.

Based on the study's findings and the discussion in fourth chapter, the deployment of AML is seen from the perspective of the employees. The results are divided into five categories: knowledge of anti-money laundering laws and policies, attitudes toward anti-money laundering legislation, AML activity in banks, challenges with AML enforcement, and personnel readiness.

The fifth chapter makes recommendations for strengthening AML implementation in Indian Financial Institutions while summarizing the findings. It also discusses the limitations of the study and the possibility for additional research in the area.

2 <u>Literature Review:</u>

The study under this section involves analysis of Financial Action Task Force (FATF), RBI, the Basel Committee on Banking Supervision, Anti money laundering activities in India and across the globe.

2.2 Background of Anti money laundering policies:

The major goal of the anti-money laundering policies is to protect the integrity and stability of the International financial system by cutting the resources available to fund terrorism, human trafficking, and to make it more complicated to engage and invest in criminal activities (International Monetary Fund).

2.1a Effect of Globalization on Money Laundering:

Globalization is one of the contemporary developments of financial markets. The globalization process has made the crime to be an international scope, making the financial aspects of crime more complicated due to the advanced technologies.

Below are some of the effective results that have global impact on money laundering:

- Fake inflation in prices: In this scenario, money launderers try to purchase fake share in the share market which automatically turns into increase in the share price value of shares. This would create inflation in the share prices with face purchases.
- Amendments in Freight (Trade Based Money Laundering): Trade based money laundering and tax evasions which are linked to that is one of the major crimes and has been the reason for financial losses in the developing countries. There was up to $9 trillion losses between 2017 and 2018 due to money laundering in exports and imports (World Economic Forum, 2021.) Most of the Trade Based Money Laundering (TBML) occurs by creating unreal shipments. Here the fake invoices are created to show that the goods were imported or exported, and the foreign remittance are received by the exporters as a part of trades. Though the entire process looks genuine and the money is exchanged but there would not be any actual export or import of goods.
- Lesser revenues from public sector: Most of the developing countries have the increase in demand for money laundering, which will have negative impacts on the countries economic growth. Money launderers invest in the projects which are not economically

beneficial to the country with an objective to protect their illicit income. Due to which the countries will not have sound economic status (Javaid and Arshed, 2021). Most of the money that is being laundered are not accountable for taxation. Which results in negative impacts on economic growth of the country.

- Risk of privatization: Corruption risks raises when the government is selling or transferring state owned companies to the private sectors. Usually, privatization is linked to corruption. Since money launderers outbid the honest buyers, there would be presence of criminal activity in the country. Though the methods may vary, the ultimate result would lead to privatization (FATF Report, 2012).
- Influences on Foreign Direct Investment: Foreign Direct Investment (FDI) is one of the most important capital inflows for the developing countries. FDI stimulates the growth and non-transparency in the activity will lead to corruption and money laundering which creates unstable economic policies and poor governance (Wayan Yasa Nugraha).

2.1b Initiatives taken globally to prevent money laundering:

Money is the most essential part of country's economic growth and money laundering happens in most of the countries across the world. Money laundering is mostly used by corrupt politicians and criminals who would like to hide the money obtained by bribery, terrorism, drug trafficking, human trafficking.

Money Laundering activity is not just occurring in the current days. As per the AML compliance guidelines (AML compliance guidelines). Money Laundering began in early years around 13th century BC while ocean was used for transportation purposes. Usually, the commodities would be confiscated by the pirates and hence the laundering practice started. However, in early 20th century during US prohibition era the famous money laundering case of Al Capone was highlight due to the tax evasion which is also a mode of money laundering. Al Capone's case eventually made authorities to implement certain policies and to organize the law enforcement to control the crime rates globally. Although there are many stringent rules in place, many countries with lower standards and lax legislations are providing flexibility to execute crime rates to obtain profits. As we can see money laundering is finding out different techniques to launder the money in the financial market and converting the same to make it appear as clean money.

Below are some of the global initiatives taken globally to prevent money laundering (Rai, 2021) (Akansha Gupta, 2021):

- **The Vienna convention:** This was one of the first initiative taken in 1988 to prevent money laundering. The main goal of this convention was to criminalize the laundered money obtained by drug trafficking and to promote international co-operation for further investigations, prosecutions and rules between the states. In addition to this, there was a new rule introduced local bank secrecy rule to not to interfere in the international criminal investigations. Since this was an initial effort and the governments were very different from one another, each country had different approach to criminal activities and money laundering concerning punishments, enforcements. Even with all this possible efforts were taken out of the Vienna convention and the approach was used wherever possible (Zagaris, 2015).

- **Council of Europe convention**: It was founded in the year 1949 to create great opportunity and unity among the European countries via governments and policies. In

1990 the Council implemented convention on laundering, search, and confiscation of the earnings of the crime (which provides steps taken to battle money laundering). The council has created a common policy of money laundering, by describing the meaning and providing different measures to overcome it. The council also laid few international cooperation from other countries (not part of council of Europe) with an objective to improvise the international cooperation in the activities such as investigation, assistance, search, and confiscation of revenue from all the criminal activities which is inclusive of terrorist financing, drug trafficking etc.

The Council of Europe's approach against corruption, terrorist financing and money laundering are as below (Council of Europe):

- Standard setting in the form of treaty law and through other "soft law" instruments.
- Monitoring of all the jurisdiction who have subscribed to Council of Europe particularly the Group of States against Corruption (GRECO) and the Committee of Experts to evaluate the Anti Money Laundering Measures and the Financing of Terrorism (MONEYVAL) and
- Technical operation is where the Council of Europe provides support to the member and non-member states to bridge the gap in legislative and institutional frameworks.

The Council of Europe has also set up a selection committee of experts to evaluate the anti-money laundering measures. The committee experts available to evaluate Anti-Money Laundering Measures and the Financing of Terrorism – MONEYVAL are permanent monitoring body of the committee with tasks to access compliance with international standards to manage money laundering and terrorist financing and implementing the policies accordingly. Along with this the committee should also provide necessary recommendations to the national authorities pertaining to the improvements in the system (Council of Europe).

- **BASEL committee on banking supervision**: Basel committee on banking supervision (BCBS) was initially established in 1974. In December 1988, BASEL committee stated its intention to encourage banking sector to not to hide or launder money which is obtained through illicit activities. However, it is not only limited to the drug trafficking, but it also includes laundering of money via transfers, deposits and the other type of money, which is obtained in the form of corruption, terrorism, fraudulent activities etc. Its main aim is to have the banking operations without any involvement of money laundering activities. Basel's documents are the base for supervision and best regulation practice.

  BASEL recommended that all banks across the globe should follow KYC requirements (Main Bank and its branches across the globe should adhere to the KYC requirements of both the jurisdiction). Below are some of the main elements of KYC structured by BASEL (Basel Committee on Banking Supervision, 2021):
  - Customer acceptancy Policy: Banks should create a clear customer acceptancy policy which provides a clear detail of the type of customer that are not accepted to the bank management. While creating these policies, banks should consider the factors such as Customer's background, country of origin, position of the customer (politically involved), type business activities they are engaged in and such other risk indicators. Banks should develop certain policies to onboard high-profile

customers with high net worth by conducting extra due diligence than that of working individuals with small balances.

- Customer identification: Customer identification is one of the basic component of KYC (know your customer). A customer is a person who opens his account with maintains an account with the bank (it can be entity, firm, or an individual). Banks should always verify the identity of a customer and without verifying they are not allowed to carry out business relationship. Banks that usually provide private banking services are exposed to reputational risk. Since these accounts can be opened in the name of a trust, individual, commercial business, intermediaries, or any personalized investment company there is a lot of reputational risk that is involved. Hence it is highly recommended that no banks should operate anonymously and needs to obtain all necessary documents and proceed with the relationship with the client post receiving relationship manager's approval.

- Monitorization of on-going high-risk accounts: Timely monitor of high-risk accounts are very essential and an effective part of KYC procedure. Banks can have effective control only when they an understanding of their client's business activity. It is also mandatory for all Banks to have special system which allows them to detect any suspicious activities or transactions in the client's activity. If so, these activities must be reported immediately to the higher level and action to be taken accordingly.

- Risk management: All banks should conduct ongoing employee training with a main motto to ensure that all employees are in line with the KYC procedures. Trained personnel should use the different approaches to train different employees (new staff, front end staff, middle office, compliance team etc.) wherein the employees are trained with the AML regulatory policies and other related tools with regards to investment banks and financial institutions. It is also very important for the financial institutions to regulate the money laundering activities in effective way to avoid regulatory fines.

- **Financial action task force (FATF):** FATF is an intergovernmental organization which was founded in 1989 G7 summit which was held in France. The main goal or motto of this is to implement legal, regulatory, and operational measures to prevent money laundering and terrorist financing. FATF has also accepted many suggestions which was raised to improvise the standards of money laundering. FATF has also led the world in implementation and development of anti-money laundering policies across the globe (FATF, 2022). FATF was established by G7 based on the response received from UN convention to convey the financial institutions to follow the money laundering policies effectively. FATF currently has 26 jurisdiction (with membership of major financial center countries across the globe) and two international organizations.
The principles of FATF to eradicate money laundering is only effective which finance ministries, regulators, financial institutions, and central banks work together and closely monitor that all the financial institutions adhere to the provided policies. Accordingly in 1990, FATF provided 40 recommendations which was further revised in 1996 by recommending the best practices every institution should follow to overcome money laundering.

Even though all the recommendations provided by FATF are very important, the below are some of the core FATF recommendations:

- Every country should criminalize money laundering as a dangerous crime which includes all the activities such human trafficking, drug trafficking, terrorist financing, corruption, bribery etc.
- To ensure the law enforcement to are followed effectively, the financial institutions should (a) Identify true customers and keep the records of all the customers up to date (b) To record all the large and suspicious transactions and report accordingly (c) Establishments of rules and regulations by government to freeze, forfeit and seize the accounts or assets and conduct necessary investigations to trace the origin of the transactions (d) Since the countries are now following stringent rules to eradicate money laundering, the criminals may use different industries (which are less regulated) to launder the money. Hence it is very much essential for the governments to implement strict rules on all the non-financial sectors as well (Joseph M. Myers, 1998).

- **UN global program against money laundering:** This program was founded in the year 1997 to increase the efficiency of all the international measures that has been taken to prevent money laundering through technical operational services to the governments. The main objective of this program is to carry out the technical operations such as creating awareness, providing trainings, and developing institutions and to strengthen the ability of UN member states to implement anti-money laundering measures and assist in detection, and seizing of illegitimate assets. Also, one of the main intentions of this program is to provide financial investigations to ensure that the law is correctly practiced.

  Global program against money laundering's (GPML) main strategy is to provide technical cooperation and to focus on assisting on the legal and financial authorities to fight money laundering. It also includes provision of training and tools to legal, institutional, and operational assistance.

  Interpol: The International Criminal Police Organization was founded in the year 1923 and has 194 members in the organization. This organization plays a vital role in tracing the criminals, carrying out investigations, conducting trainings, developments and to provide data accessibility to the government officials when required. Interpol created the Interpol Money Laundering Automated Search Service (IMLASS) to facilitate anti money laundering by creating database, identifying, and tracing suspects and illicit money flow across the globe. INTERPOL which is a part of global task force to fight financial crime activity by checking data against INTERPOL database and serve member countries and private sectors (Financial Crime Initiatives). INTERPOL publishes reports in addition to the global and regional conferences which helps in alerting its members about the latest crime trends and best investigation practice that can be followed currently.

2.1c Legal framework practices in India to prevent money laundering (where do we stand now?):

India is among the high-risk countries in the world. Hence India's Anti-money laundering standards has increased post implementing anti-money laundering policies and regulations. The Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974, The

Income Tax Act, 1961, The Benami Transactions (Prohibition) Act, 1988 were few on the acts that had initially addressed money laundering issues in the beginning (Legal, 2021).

However, Prevention of Money Laundering Act (PMLA) was founded in 2002 and was further amended in 2005 which criminalized money laundering activities. This act enforces requirement on banks, financial institutions, custodians, and intermediaries to maintain all the records of the client by verifying their identity and to review the clients on timely basis. The main objectives of PMLA act are (a) preventing and controlling money laundering activities (b) confiscate and seize the property or money obtained through illegal sources (c) to deal with the related issues.

PMLA Act has the following mandatory anti-money laundering measures which needs to be followed:

- Every client's identity needs to be verified which the account is opened with the financial institutions.
- All the transactions of the clients should be maintained by the financial institutions and should also conduct timely review of the clients i.e., 1 year, 3 years or 5 years of review of the clients based high risk, medium risk, and low risk respectively.
- Maintaining confidentiality is very important and should ensure that no data is leaked.

However, in 2010 India was the 34th country to join The Financial Action Task Force on Money Laundering (FATF). India has also signed petition with the United Nations Conventions to deal with the anti-money laundering and terrorism financing. This shows India's willingness to follow the FATF recommendations.

In 2011 India further amended the PMLA act and passed a bill to introduce ministry of finance in Lok Sabha (Indian constitution). As per this bill "corresponding law" was introduced to stipulate Indian law with that of foreign country's law (Vijay Pal Dalmia, 2021).

Below are some of the key recommendations provided by FATF to India in 2004 (Mutual Evaluation Report, 2010):

- Any technical drawbacks faced while criminalising money laundering and terrorism should be escalated and addressed to FATF.
- CDD process should be broadened, and clear measures needs to be taken enhance the current requirements related to beneficiary owner's details, politically exposed person (PEP).

2.1d Money laundering threats faced in India:

Though India is taking proactive approach to deal with money laundering, it is becoming very difficult to determine money trial in these cases. More than 4,700 cases are being investigated by Directorate of Enforcement. Though the number of money laundering cases were approximately 111 cases every year, in 2020-2021 there were around 981 cases which were taken up for investigation. However, it is said that only 313 arrests have been made till date since 2002 which is one of the biggest concerns. There is difficulty in sentencing criminals in the money laundering case as the criminals often create complex structure and

transactions, which makes it very complex to trace (Vasanth Rajasekaran and Harshvardhan Korada, 2022).

Even though the Supreme Court has ordered to carry out investigations faster, due to the complexity in nature, it is taking at least 23 months in 2020-21 and is taking more than 57 months for large frauds around 100 crores (in Indian Rupees). Until year 2019, it is known that criminals such as Nirav Modi, Vijay Mallya, and Mehul Choksi have absconded to different countries to avoid punishment. Even though many measures are being taken to identify the fraudulent activities, it becomes pointless when the punishing the criminals is impossible. However, in recent times India has implemented Fugitive Economic Offenders Act, 2018 to take necessary measures to ensure to avoid businessmen to fraudulently take the loan and flew to different county. Additionally in 2018 giving or taking bribery is considered as criminal offence under Prevention of Corruption Act, 1988 (PCA).

Main reasons for the problems faced in India to prevent money laundering are as follows (Assocham India, 2013):

- Lack of enforcements: Even though India started exercising Anti-Money Laundering in 1988 it was not handled properly. When PMLA act 2002 was enforced, it was identified that there were many loopholes in the system and most of them were amended in 2011.
- Lack of Technology: Growth of technology has been a boon to many criminals as it provides different means to launder money. Cybercrime in India is still in a progressive stage which needs upgrade to fight money laundering.
- Lack of awareness: Most of the common man and employees were not educated with the effects of money laundering. Also, as the banks follow lengthy procedure, common man (mostly illiterate) deal their transactions with hawalas' and could be a victim of money laundering.
- Weak KYC norms: Though there are stringent KYC actions are followed in money market and capital market, it does not apply with reference to hawala system. It is very difficult for RBI to regulate these activities as there is no physical proof to prove the transactions.

2.1e Initiatives taken in India to prevent money laundering:

Money laundering is one of the complex incidents which needs high level focus. By joining Asia Pacific Group in 1998 India has been fighting money laundering internationally. Below are some of the initiatives taken by Indian government to fight money laundering rapidly (Drishtiias):

- Criminal Law amendment Ordinance: This law was passed in the year 1994 and it only acted on few crimes such as corruption, cheating and betrayal of trust. It does not deal with all types of criminal laws.
- The Smugglers and Foreign Exchange Manipulators (Forfeiture of Property) Act: This act was passed in the year 1976 with an intention to forfeit illegally obtained properties by smugglers and foreign exchange manipulators.
- Narcotic Drugs and Psychotropic Substances Act: It was formed in the year 1985 which is also called as NDPS Act. This act imposes penalty on any individuals sell, posses, consume, manufacture, export and import of narcotic drug substances.

- Prevention of Money-Laundering Act, 2002 (PMLA): Money laundering has been stated as a criminal offence when the Prevention of Money Laundering Act (PMLA) was founded in 2002. It is applicable to all financial institutions, banks, and other financial intermediaries.
- Financial Intelligence Unit-India: This was founded in 2004 by Government of India. FIU-IND is a central agency which is responsible for receiving, analyzing, and processing of suspicious financial transactions. Figure 1 shown in the below projects anti-money laundering system in India with FIU-IND which acts as nodal entity which serves between monitoring body and law enforcements.
- Enforcement Directorate (ED): It is a law enforcement agency and economic agency which is responsible in implementing economic laws to fight crime in India. The focus of ED is to investigate the money laundering offences under PMLA Act 2002.
- Reserve Bank of India: Reserve Bank of India (RBI) is the central bank of India which is responsible for the economic growth and stability of India. RBI has mandated all financial institutions including Investment Banks, Commercial banks, rural banks etc to comply with the AML standards as per the Reserve Bank of India Act (1935), Prevention of Money Laundering Act (PMLA) and Banking Regulation Act (1949) (Corner, 2020).
- Security and Exchange Board of India: Security and Exchange Board of India (SEBI) is the regulatory body for the securities and commodities market in India, which is under the ownership of ministry of finance, government of India. It was formed as an executive body in 1988. However, through SEBI Act it was provided with statutory powers in the year 1992. As per the obligations provided by PMLA Act, intermediaries such as Asset manager, broker, portfolio manager, investment advisor and other intermediaries associated with SEBI Act, 1992 should follow the account opening procedure, maintain records of account opening and follow all the rules given by PMLA.

Figure 1:

Economic Intelligence Council (EIC) -

Headed by Finance Minister

Reports to

Disseminates Financial Intelligence

FIU – India

(Administrative model)

Requests Financial Information

- Law Enforcement / Investigation Agencies
- Intelligence Agencies
- Regulatory Authorities
- Foreign FIUs

Receives Financial Information

Requests for Financial Information

Banking Institutions

- Public Sector Banks
- Private Indian Banks
- Private Foreign Banks
- Co-Operative Banks
- Regional Rural Banks

Financial Institutions

- Insurance Companies
- Hire Purchase Companies
- Chit Fund Companies
- Housing Finance Institutions
- Non-Banking Financial Companies
- Payment System Operators
- Authorized Money Changers
- India Post

Intermediaries

- Stock Brokers; and Sub-Brokers
- Share Transfer Agents
- Bankers to an Issue
- Trustees to Trust Deed
- Registrars to Issue
- Merchant Bankers
- Underwriters
- Portfolio Managers
- Investment Advisers
- Intermediary Registered Under Pension Fund Regulatory Development Authority

- Depositories and Depository Participants
- Custodian of Securities
- Foreign Institutional Investors
- Credit Rating Agencies
- Venture Capital Funds
- Collective Investment Schemes Including Mutual Funds
- Associations Regulated by Forward Markets Commission
- Recognized Stock Exchange

Designated Business or Profession

- Casino
- Registrar/ Sub Registrar
- Real Estate Agent
- Dealers in Precious Metals/ Stones/ High Value Goods
- Private Locker Operators

2.1f Anti-money laundering administrations by banks:

There are various studies that are undertaken to examine money laundering, identify, understand, and act on employee's knowledge and act on the implementation of anti-money laundering policies and assessing the risk accordingly (Reserve Bank of India, 2008).

Banks were advised by RBI to follow few customers identification procedure for account opening and to monitor suspicious transactions to report it to suitable authority. These monitoring are also known as know your customer (KYC) guidelines which is recommended by FATF to combat money laundering and terrorist financing. Banks should always follow proper policy framework on KYC and AML policy measures approved by the boards.
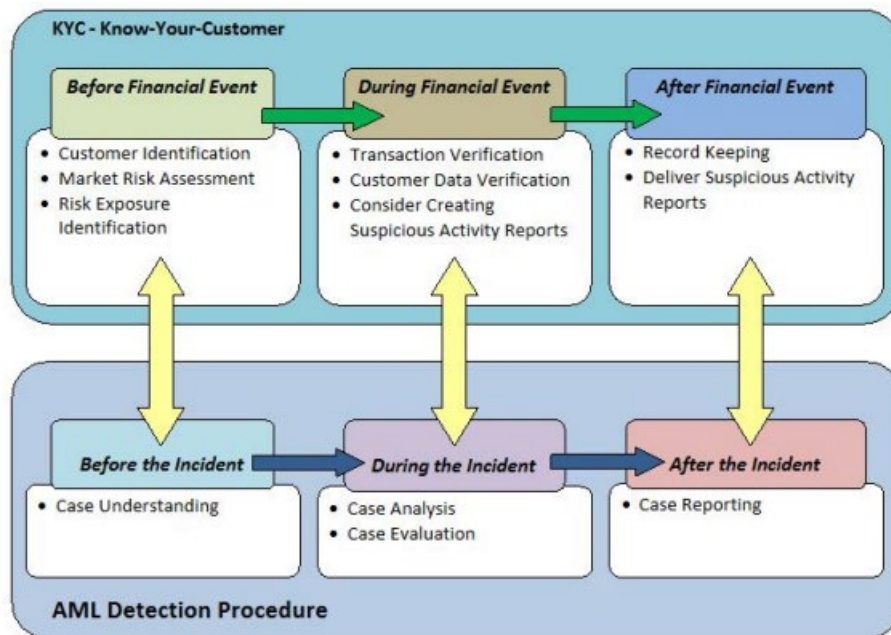
General guidelines that banks should follow are as follows:

- All the documents collected by banks during account opening are to be maintained with confidentiality. Banks should also ensure that all the documents obtained from the customer is related to risk and is within the guidelines. If there are any other information sought from customer, then it is required to obtain customer's consent. Also, any amendment on Foreign Contribution (Regulation) Act, 1976 are to be amended by bank whenever necessary.
- Banks should always form KYC policies by considering the below four components:
    (a) **Customer Acceptance Policy (CAP):** Every bank should build clear customer acceptance policy. This policy provides in depth details of all the attributes for having customer relationship with the bank. As per the CAP, none of the anonymous accounts are to be opened. The risk perception of the client (low, medium, or high) will be categorized based on where the client is located, nature of business activity, turnover, mode of payments and their financial status and the required documents needs to be obtained and periodic review of the client needs to be done accordingly.
    (b) **Customer Identification Procedure (CIP):** Banks should always identify if the client is acting on behalf of the other person in the form of trustee, nominee, or an intermediary. If that is true, then necessary document needs to be submitted to the bank from the client. Banks should be aware of the ownership structure of the client and should perform necessary KYC analysis of the clients or individuals involved with the risk perspective.
    (c) **Monitoring of Transactions:** By Constantly monitoring the clients (which is an essential part of KYC procedure) the banks can reduce the risk of uncertainty. However, the monitoring of clients depends on the type of risk it is classified under by the bank (low, medium, or high risk). Nonetheless banks should always monitor the large, suspicious, or complex transactions by setting up key indicators and should investigate the core source of these funds and monitor the clients for atleast once a year.

If the bank is unable to implement the KYC norms to perform further due diligence of the client, the bank should report the client to the respective regulators, FATF and close the client's account permanently.

(d) **Risk Management:** Board of directors should ensure that the banks are effectively following all the procedures and norms that are implemented. Proper management teams must be set up with corresponding roles and responsibilities for each team to carry out and report any issues to the higher authorities in the bank. Every bank should have an internal audit committee and compliance team who plays a vital role in evaluating and ensures that the KYC norms and procedures are adhered. It is also the responsibility of audit committee and compliance team to evaluate and generate reports quarterly.

- Screening needs to be performed on every client in the global checklist like lexis-nexus, OFAC-SDN, U.K. Treasury. Screening helps in detecting any negative news, politically exposed person (PEP) identification of the client. If there are any negative hits which are identified, then these details need to be further reported to risk management team who will further assist on dealing with the client (either raise the level of risk involved with the client or close the client's account permanently).

2.3 Theoretical Framework:

The conceptual framework shows how the author views the area of the research that has to be looked at. The graphic that follows provides an illustration of an efficient anti-money laundering strategy, which serves as the study's central concept.
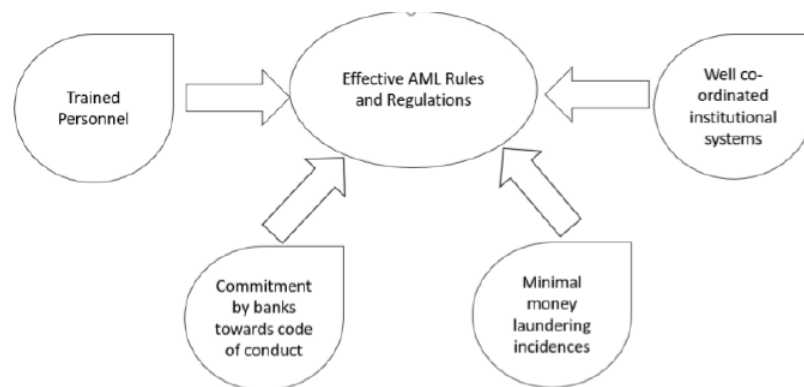
The above-mentioned components play a vital role in the effectiveness of AML regulations. The most important component in having effective anti-money laundering rules and regulation is to follow all the policies and procedures provided by the financial regulators. As there are several acts implemented by the government on the financial institutions (banks) to monitor and regulate the AML activities such as prevention of money laundering Act, 2002, Money Laundering Control Act of 1986 (MLCA), USA PATRIOT Act (USA PATRIOT, 2020), The Narcotic drugs and psychotropic substance act, 1985. It is mandatory for all the banks and financial institutions to adhere to these policies. Below picture shows the international initiatives taken to fight money laundering (Box and Arbor):

Year	Name of Initiative	Major contribution[24]
1988	United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (the Vienna Convention)	Required that all States recognize money-laundering as a criminal offence, which also becomes extraditable. It is however, drug offence oriented.
1990	*Council of Europe on:* 'Laundering, search, seizure and confiscation of the proceeds of Crime'.	Extended ML to other predicate offences. A state could prosecute even if the offence took place elsewhere and there was a careful consideration of third party involvement. Thus, the convention tried to strike a balance between criminal law and human rights.

Year	Name of Initiative	Major contribution
1990	*Financial Action Task Force* The Forty Recommendations	FATF became the first group to focus solely on ML, and even though lacking in legal power, it set the 40 recommendations as a standard
1991	European Economic Commission *- Directive 91/308/EEC*	Not only credit and financial institutions, but also other professions and categories of undertakings that may engage in activities likely to be used for ML, are taken into consideration. Thus, the scope broadens even more.
2000	United Nations Convention Against Transnational Organized Crime	ML is expanded to include all serious crimes besides drug-offences. The convention also expands the supervision to non-bank financial institutions
2001	European Community *- Directive 2001/97/EC*	EU legislation embraces all organised crime under ML and not just drug-trafficking. Professional secrecy is also a focus and legal advice is left intact (unless the lawyer knows that ML takes place, or takes part).
2001	Financial Action Task Force *- Special Recommendations on Terrorist Financing*	Trying to frame terrorist financing as money laundering. Many however have objected to these recommendations as they argue that it is not ML but something that should be treated separately.
2003	Financial Action Task Force *- Revised Forty Recommendations*	Various updates on recommendations and particularly a more abstract handling of typologies-based handling of AML
2005	European Commission *- Proposed Directive COM(2004)448*	Considerable shift of emphasis affecting all stakeholders involved in AML by the introduction of a risk-based approach in treating the problem domain and mostly in prioritising over the submission of filing STRs to FIUs by considering the risk-based approach (e.g. as in the case of high-risk customers)

To comply with the policies, it is very essential for the banks to ensure that all their employees are aware of the consequences for not following the procedures. Hence, banks and financial institutions should ensure that adequate training facilities on a recurring basis is provided to the employees. As it is one of the crucial components to manage financial crime risk.

In the initial stage of KYC procedure, the banks should analyze the money laundering risks. To achieve this, it is very important for the financial institutions to gather all the data which are suspicious and take assistance of financial risk officer to either mitigate the risk, monitor the client with intense due diligence. The term "skilled professionals" refers to those who have received training on anti-money laundering procedures, such as providing instruction on the instruments employees use to prevent money laundering or regularly conducting such training. The regulations posted by the banking firms, the extent to which they implement their policies, and regular updates on the new regulations imposed by the regulatory agencies are also followed by each of them. Additionally, personnel will receive training on the little cases of money laundering that previously went undiscovered.

The potential danger of money laundering will be examined throughout the planning stage. To achieve this, it's critical to first analyze the evidence recorded and requirements set during the learning stage. It is crucial at this point to gather the information and identify any suspicious instances of operations that have long-term cover behind large volumes of transfer of information and consumer accounts. Additionally, it's crucial to understand and adapt to new sophisticated money laundering schemes as they emerge.

It is necessary to review the policies to assess the situation after making all of the decisions. It is necessary to have adequate training in anti-money laundering procedures in order to perform out the decision-making prospectus outlined above. The bank's commitment to upholding the code of conduct must be strictly adhered to. What steps can financial institutions take to resolve money laundering issues after identifying occurrences of money laundering will be covered in this study.

3   Methodology

The research methodology plays an important role while investigating a circumstance and it shows the systematic study of a research. Research is defined as a study of a particular issue. According to the American sociologist Earl Robert Babbie (More, 2019; Tiwari) Research is a systematic analysis to predict, explain, describe the observed circumstances.

3.1 Research Methodology Overview:

As the dissertation topic mainly focus on "Analysis on the significance and effectiveness of anti-money laundering policies and regulations of Financial Institutions (Investment Banks) in India", qualitative approach has been used as an applicable research method. Qualitative research provides framework and helps in developing an understanding the complexity of human behaviors pertaining to organization and its policies or procedure.

The technique used to execute current research is explained in the below sections. Also, the main motto of this research is to analyze and document supportive evidence on the understanding and implementation of AML policies and procedures in the financial institutions from the employees' point of view. As a result, the goal of this study includes determining the employee's attitude towards AML policies and procedure by understanding their level of understanding on the said topic and how banks and financial institutions enforce anti-money laundering process to avoid regulatory and reputational loss.

As a part of this research, it is very crucial to understand the employee's perspective in understanding anti-money laundering regulations, policies, and procedures. Hence the study has made by addressing financial institution's employees (including analysts, Managers, Team

Leads, and Head of the Department) to understand employee's level of understanding about AML compliance. Also, questionnaire has been created to depict employee's viewpoint.

As employees are the one who administer and monitor the AML activities of the clients on daily basis, the dissertation was executed to understand the knowledge, bank, and employee point of view to go through study's purpose.

3.2 Research Idea and Approach:

This dissertation is illustrative and unofficial in nature. Which means it requires to be investigated and response is required from the employees. The survey mostly concentrates on examining the present situation in the Indian banking and financial institutions pertaining to the AML policy adoption from the employee's point of view i.e., if the employees have better understanding about the process, what are the policies and procedures which are to be followed, knowledge about the regulatory bodies etc.

As it involves assembling the information pertaining to the rules, regulations and procedures introduced by investment banks to identify or eradicate money laundering activities, author feels it is very important to conduct analytical review. Hence quantitative approach is used, and questionnaires are sent the investment banker's (head of the department, manager, team lead and analyst level's) to understand their point of view on the importance of anti-money laundering policy implementation. Hence as a part of research the interview in the form of questionnaire has been obtained from 100 employees through data collection tool. This helps in looking at different perception and to speculate various anti-money laundering financial culture and its insider point.

Here the information is assembled from professionals from the higher management levels and AML compliance teams in financial institutions or banks to achieve a broad perception on the process and try to reduce favourism by higher management based on different experience, and positions. This procedure for collecting data is a dependable on the methodology with informative moral concept.

Also, one of the main focuses of this study will be to analyze the challenges faced by financial institutions while monitoring anti money laundering activities along with the providing the importance of anti-money laundering policies and the research design is mostly a combination of descriptive and exploratory.

Examining financial institutions' compliance with anti-money laundering laws and regulations in order to identify obstacles and possibilities is one of the major goals of this research. Opportunities and challenges are arbitrary in nature. As a result, opinions may vary from person to person and depend on the author's subjective perception. This investigation relies on phenomenological theory due to the free structure and the subjectivity idea of the point. The choice of phenomenological theory was made with this research worldview's core standards in mind. It views reality as a subjective and complicated social environment that cannot be understood by applying criteria from quantitative methodologies. It embraces unbiased research and conceptual knowledge throughout the exploration cycle using a free system. These characteristics typically balance the research subject's emotional complexity and multidimensionality.

The research is exploratory and descriptive in nature. Due to the generation of hypotheses and the lack of previous comprehensive study in the topic, it is exploratory. Since one of the main goals of the study is to describe the current situation of financial institutions in India with a focus on anti-money laundering laws and regulations, it is obvious.

3.3 Strategy:

The structure or blueprint for organizing the survey in the research is identified as the research design. It facilitates getting the necessary information from the report. This is a crucial stage because it determines how the data will be collected and analyzed. As the author noted, this research is exploratory, which enables the researcher to use secondary data in addition to primary data to help compile the data being surveyed (Boru, 2018).

The focus of this dissertation is the implementation of anti-money laundering laws and policies in Indian financial institutions. As a result, the investigator will use a qualitative approach to gather the key information that will ultimately address the study questions. Furthermore, some interviews with senior banking institutions will be conducted to obtain information for the qualitative research design. It is appropriate that the interview questions will be (relatively) open-ended in character and focused on the topics of discussion in the literature study. As the interview goes on, the questions might be changed and improved. These questions can be used to create the basis of a survey that can be forwarded to the potential respondent if a meeting with the bank managers is not feasible in the future. In a semi-structured interview, open-ended questions are utilized to encourage discussion of themes that will later be reviewed and organized by the researcher.

3.4 Techniques of collecting research data

This study focuses on primary data obtained from employees of Banking Institutions, including public, private, and multinational companies from Bangalore's different locations. The target audience consists of employees who operate in the front office of banks and regularly perform tasks like account opening, customer contact, and customer support. Additionally, employees who work in the various departments such as KYC team, AML compliance team.

The researcher will be sending out a questionnaire and has a network of senior management members to reach out to because of the prior experience working in the multi-national companies. Senior management from the banks (JP Morgan, HCBC, Societe Generale and Deutsche Bank) and senior management from some of India's centralized banks (State Bank of India, Central Bank) will be taking part in the questionnaire (survey) conducted by the researcher. This will have the added benefit of allowing the researcher to collect information on how different regions perceive how India's financial institutions are adhering to anti-money laundering policies to address the problem of money laundering.

An identical questionnaire was used to acquire the data. When the sample size is big, the questionnaire approach is utilized because it enables respondents to refer to the questions or comments whenever they choose. The survey respondents received the questionnaires in person, by mail, and electronically.

Teams responsible for performing KYC and AML check will be given set of questionnaires to fill in and obtain information (employees from JP Morgan, Societe Generale, HSBC, Commonwealth Bank of Australia, and Deutsche Bank). The questionnaires were developed based on the information required on AML policies and procedures and e-mail, google forms were used as the preferred channel of communication for the survey. As a part of questionnaire employees were to answer logical questions, questions linked to AML policies, and questions

relating AML training, starting with easier questions, and progressing to more challenging ones at the end.

While carrying out this research, a combination of primary and secondary data has been utilized. The theoretical framework, findings from prior studies, and the RBI's AML guidelines were all used in the development of the questionnaire and is structured as follows:

- The employee's job role, work description, branch location, and type of bank details (Privatized, nationalized or Multinational Bank) are briefly described.
- AML programs and awareness of money laundering - The employees' awareness of money laundering and terrorist funding, their preventative efforts in following policies, laws, regulation, approach to perform KYC and screening is allegedly revealed via a total of twenty questions. The claims revolve on the theoretical underpinnings of worries about money laundering and terrorism funding, as well as the RBI's AML/CFT regulatory advice.
- Under the following headings, twenty observations were submitted to learn more about the financial institution's use of specific anti-money laundering initiatives. Regulations against money laundering, procedures for identifying and evaluating risks, monitoring of transactions, reporting, reviews of know-your-customer policies, and record-keeping requirements All other claims were established based on the benchmark practices described in the AML literature, with the exception of the assertions regarding AML regulation, which were based on the RBI's regulatory guidelines on AML. Following then, circulars that include any modifications or amendments will be released through June 2021.
- A total of twenty comments were written to address a variety of problems, including a lack of resources, poor customer service, and other implementation issues, in an effort to better understand the challenges facing staff members in the implementation of AML. The conclusions from earlier studies, which are examined in this thesis' part on the literature survey, serve as the foundation for the claims.

Secondary research data will be gathered from publicly available industry-related and academic writing. This will enable the qualitative approach to handle my research paper in the future and enable me to develop a hypothesis based on the facts analyzed.

4 <u>Presentation and Evaluation of the results:</u>

4.1 Introduction:

According to literature reviews, the bank staff's knowledge of AML standards and attitudes toward the AML legislation play a role in how effectively AML rules are implemented. Regulatory restrictions, a lack of resources, a lack of feedback, a lack of customer support, and a lack of resources are some additional challenges to the adoption of AML. Financial manager, regulators, and policymakers may be able to improve AML compliance by redefining strategies for avoiding AML infractions with the help of understanding the level of staff awareness, attitude, behaviors, and restrictions. In order to address the goals one through six of the first chapter of this dissertation, research was done, and the results are discussed in this chapter.

4.2 Analysis on Employee's knowledge on anti-money laundering policies and procedure:

Respondents must address issues such as money laundering and its effects, financing for terrorist activity, AML and CFT law, the setup of FIU India (FIU-IND), and AML practices in financial institutions. The qualitative statistics of the responders' comments to the variable "employee understanding," on the topic and the same is shown in Table 4.1.1. Respondents demonstrated moderate understanding of ML dangers as well as AML legislation with a mean score of 3.04.

Questions	N	Mean	Standard Deviation
How frequently is the AML risk assessment conducted in companies?	100	1.91	0.964993327
There is a loss of prospective customers because of KYC requirements?	100	3.26	0.970473174
Which of the below statements is true with respect to AML compliance, once India became the member of FATF?	100	2.45	0.625630995
Regulatory inspection is mostly conducted on which area?	100	3.57	0.95616025
How are AML policy set up in Financial Institutions?	100	3.54	0.925726578
How often is AML policies and procedures check made in Financial Institutions/Banks?	100	3.89	0.314466038
With regards to account opening, which of the below factors are considered as risk-based approach?	100	2.22	1.33014771
Every account is opened post identifying and verifying the client?	100	1.9	1.193416283
Which of the below procedures are implemented in Financial Institutions/Banks with regards to ownership drill down?	100	3.33	0.779212241
Which of the below approach is followed during client onboarding?	100	3.66	0.476095229
How are Politically Exposed Person (PEP) identified?	100	3.61	0.73711148
Which of the following list is used for client screening?	100	3.58	0.496044964
How frequently are the Sanction and PEP check is monitored and updated in Financial Institutions/Banks?	100	2.44	1.037868834
Is sanctioned country screening and PEP screening automated in Financial Institutions/Banks?	100	1.78	0.970056751

The level of individual's intervention is required in large scale due to:	100	3.77	0.422952585
How is the AML training conducted? Is it common approach or role-based approach?	100	3.46	0.500908266
How are employees trained in organisations?	100	3.23	0.694203999
Scope of respondent organization's operations	100	3.4	0.828775414
Designation of respondents	100	2.71	0.890976085
Type of organization that respondents represent	100	3.09	1.264072303

4.3 Testing the factors of reliability using Cronbach's alpha approach:

In Table 4.1.2, the reliability test is demonstrated using Cronbach's alpha. The interview questions grouped under the categories "Awareness on Money Laundering and Terrorist Financing Risk" and "Awareness about AML" had a sufficient level of internal consistency (lesser than 60%) according to the Cronbach's alpha score. The notion "Employee's mindset towards Anti money laundering regulation" produced an outcome that suggests significant logical reliability. But each of its sub-constructs, including the approval of AML processes, the necessity for AML, the impact of AML on money laundering, the impact of AML on the bank, and the requirement for AML, all individually shown a good value of 0.743098.

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Rows	246.9363	99	2.494306	3.892528	4.9725E-31	1.253787
Columns	757.3695	18	42.07608	65.66249	8.867E-182	1.609644
Error	1141.894	1782	0.640793			
Total	2146.199	1899				

Cronbach's Alpha	0.743098

The report's findings indicate that the questionnaire has a high level of internal uniformity along with convergent and discriminatory reliability.

4.4 Findings overview:

Important rules and laws that must be followed in order to avoid criminal activity toward unauthorized money to allow them to be converted to legal funds are the foundation of anti-money laundering. Placement, layering, and integration are the phases of anti-money laundering. To prevent and regulate money laundering and to manage all desirable aspects in accordance with the best possible use of controls and measures, we must have all required controls and measures in place. Money laundering essentially serves to fund terrorism in order to commit financial crimes, so it is crucial to monitor and handle any specific concerns in order

to put an end to criminal activity and prevent the flow of cash into prohibited areas. It will be required to concentrate on the financial sector so that external stability towards the economic concern may be maintained because there are many issues and resource diversions focused on economic or societal useful purposes. In order to achieve the intended outcome in accordance with improved management of controls towards money laundering, it will be necessary to adapt various rules or policies, and it will be necessary to maintain monitoring of the relevant policies and guidelines.

4.5 Use of AML software and application of AML policy in Financial Institutions:

The participants were then asked to provide their opinions on the need for anti-money laundering regulations in India and for financial institutions, the importance of AML in regulating both money laundering and terrorist financing, and the acceptance of AML regulations in banking institutions. The employees' degree of awareness is classified as Poor, Average, or Excellent on the basis of mean score of the participant's responses. The results indicated that the participants seemed to have a medium to high knowledge of money laundering, anti-money laundering laws, rules, and regulations to handle money laundering problems.
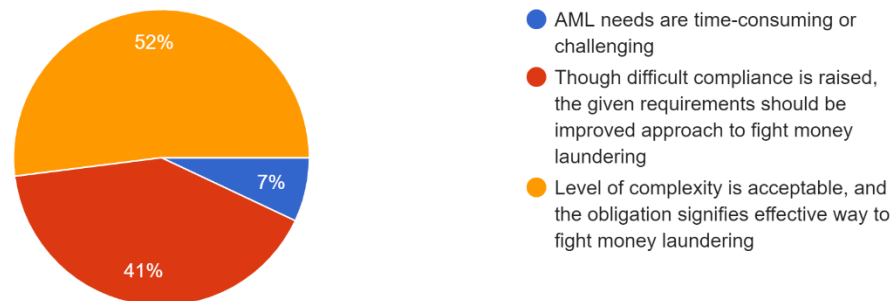
Most participants (52 percent) believed that the institution's anti-money laundering practice is extremely efficient and will help reduce money laundering operations. Approximately 41 percent of the workforce agrees that the approach to AML policies and regulations needs to be modified and updated appropriately, increasing the regulatory expectations. Approximately 7% percent of employees think the anti-money laundering procedure is difficult and takes a lot of time. Overall, respondents' awareness of AML regulations was only moderate, as seen by their mean score of 2.45.

The majority of employees, approximately 59 percent of the workers, believe that banking institutions presently have automated AML software that aids in identifying suspicious transactions. According to the second-largest group of respondents (23 percent), there is no automation of the institution's AML software. Despite the fact that 18 percent acknowledged the financial institution used automated software. The only options are PEP screening or sanction screening, though.

These results are similar with that of a previous survey, when respondents stated that AML compliance was crucial for their businesses since it enhanced their status. Compared to previous research, which showed that just 52% of respondents were enthusiastic about including money laundering, the recent number is much higher.

Which of the below statements is true with respect to AML compliance, once India became the member of FATF?

100 responses

- AML needs are time-consuming or challenging
- Though difficult compliance is raised, the given requirements should be improved approach to fight money laundering
- Level of complexity is acceptable, and the obligation signifies effective way to fight money laundering

52%

7%

41%

Is sanctioned country screening and PEP screening automated in Financial Institutions/Banks?

100 responses

Yes	59 (59%)
No	23 (23%)
Only sanction screening is automated	20 (20%)
Only PEP screening is automated	15 (15%)
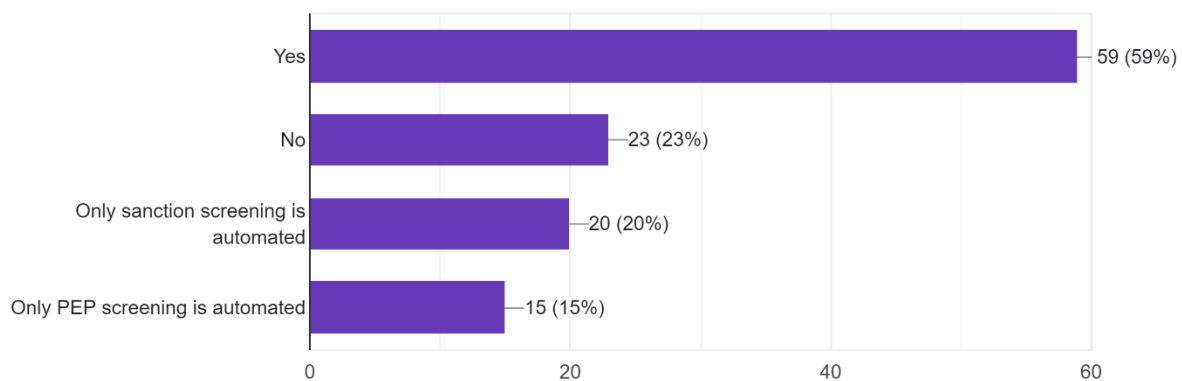
4.6 Impact of money laundering on criminal activity:

The relevance of money laundering for turning illegally obtained money into legal form is asked of the participants. The effects of rising crime rates brought on by the usage of money laundering, as well as the consequence of a rise in corruption. The studies have found that people were using a variety of methods to monitor money laundering risks related to rising levels of crime and corruption. They also showed a good understanding of how rising crime and corruption rates are damaging the nation's GDP. Most of the staff at the primary responder thought that money laundering was an attempt to turn black money into white money and that it would lead to an increase in corruption.

The amount of attention paid to, and importance placed on AML problems has significantly increased. From the below figure, while 46% of those surveyed said that whenever a policy is changed and yearly, an AML risk assessment is required. AML-related issues and conversations were also of great interest to their senior management, including their board of directors. Most of them confronted that AML risk assessment needs to be done half early (28 percent), and once in three years (18%). Presently, management is demonstrating leadership by incorporating AML compliance into the corporate plan. It is crucial to remember that

companies have started disciplining staff members who violate policies. Despite the tiny amount, it demonstrates the senior management increased commitment to Managing and monitoring. There are several explanations for why this change defies the general trend. In addition to the nation's participation in the FATF, the Indian finance sector has been struck by numerous high-profile incidents of corporate crime, fraud, and black money prosecutions. This has caused severe doubt about corporate governance principles and raised demand by police authorities on firms to concentrate on regulations.

Additionally, the study found that while 37% of the employees believed that banks would lose customers, 23% disagreed and 40% were unsure. Customers must submit numerous documents since banks do thorough checks to make sure that there are no fraudulent activities, and because the process takes a long time, customers may decide not to open the account.

Law enforcers have recently taken measures over banking firms in a few different situations. In 6 months before to June 2011, the RBI penalized 48 Indian banks for breaking the KYC and AML rules1. The participants' perception that regulating examination has tightened could be sparked by these moves taken by the central bank. Regulatory authorities across the world have issued monetary fines and started to see investigations for shortcomings in the fields of transaction screening and sanctioned screening. Although the poll respondents do not currently view certain categories as being particularly important for legislative inspection, we believe that this perception will change in the future based on worldwide trends.

Banking institutions are expanding into new geographies and adopting a more comprehensive strategy by offering flexibility, branches, or establishing organizations. Managing the regulatory needs of several authorities becomes a special difficulty as a result. As a result, an increasing number of institutions are comparing their internal rules and processes to excellent practices around the world. This was made clear in our poll, when 89 percent of participants said they compare their strategies and procedures to international best practices that are applied uniformly as practicable everywhere. Meanwhile, about 11% of participants answered as much. This might be the result of the instability in the world's financial markets, which would have caused several financial firms to hold off on their ambitions for international operations. As FATF rules are implemented gradually, Indian policymakers are also advancing towards international norms by adopting such recommendations into national laws.
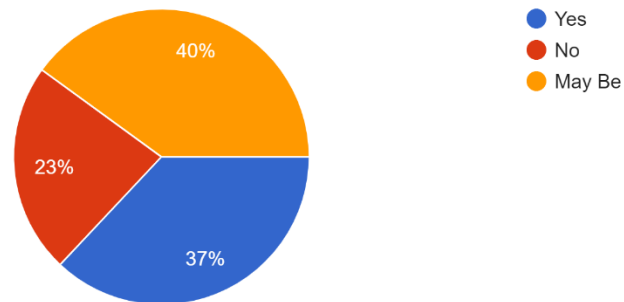
How frequently is the AML risk assessment conducted in companies?
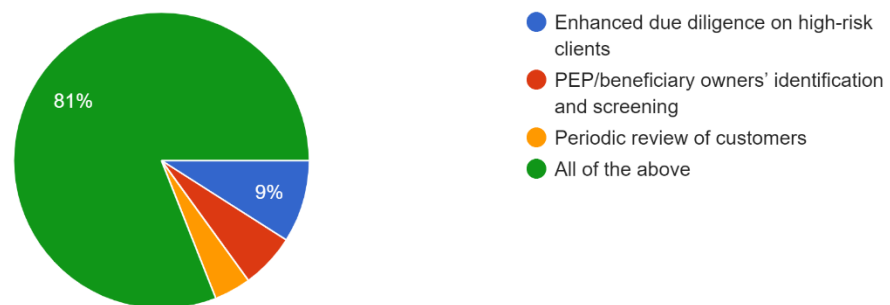100 responses
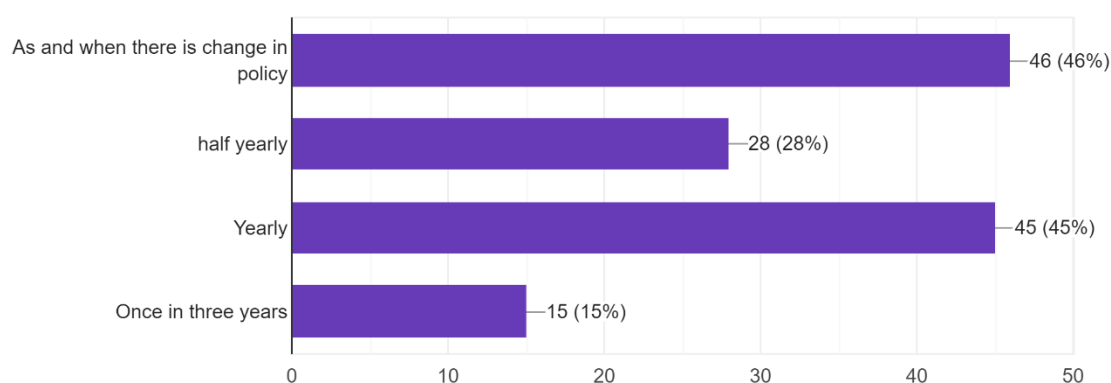
There is a loss of prospective customers because of KYC requirements?
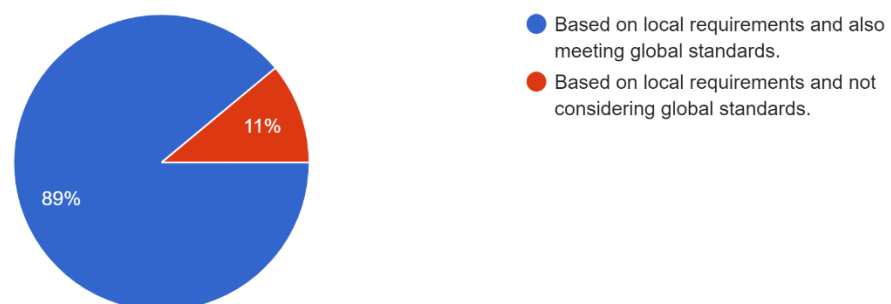
100 responses

- ● Yes
- ● No
- ● May Be

40%

23%

37%

Regulatory inspection is mostly conducted on which area?

100 responses

- ● Enhanced due diligence on high-risk clients
- ● PEP/beneficiary owners' identification and screening
- ● Periodic review of customers
- ● All of the above

81%

9%

How often is AML policies and procedures check made in Financial Institutions/Banks?

100 responses

- ● Based on local requirements and also meeting global standards.
- ● Based on local requirements and not considering global standards.

11%

89%

4.7 Performing KYC while opening account to prevent money laundering:

Money laundering is becoming more prevalent with each day as a result of numerous problems pertaining to the unauthorized use of finances, which is facilitated by banking institutions. As a result, banks or other financial institutions must monitor various aspects of account managers to stop the flow of illegal funds and implement the preferred restrictions to stop financial fraud.

It is advised to do KYC every five years for a better study of consumer behavior and financial transactions. The products or services a client uses are one of several variables that should be considered when determining their risk. The RBI advises banking firms to assess the risk posed by their various products and client services, especially the ones that are vulnerable to money laundering.

Most of the respondents (74 percent) accepted that a customer account can only be opened after verification the identity of the individual has been confirmed. However cumulatively 26 percent of interviewees stated that KYC information was not received and confidentially checked was not performed before opening the account, which resulted in the conclusion that it was not. They are confused because although they are working on the back end, they are oblivious to what is going on in the front office.

Client screenings against a prohibited list of people or organizations is regarded by FATF and regulators as an essential safety measure. Financial institutions which are involved in this must perform the necessary checks to ensure that the information provided by both new and current clients does not match the list of individuals and organizations that are forbidden from doing business with them (popularly known as Sanctions lists). While most of the employees were having greater knowledge about the screening it was identified that screening on the ownership was performed differently in all the financial institutions. While few banks did the ownership drill down up to individuals, some banks did it till drill down to find regulated client or to find final share holder.

Banking firms have a crucial role to play in the fight against money laundering by providing verification of the Genuine Owner. Banks need to know who the real owner is in order to make informed decisions about the level of money laundering and terrorism financing risk associated with a client. The RBI mandates that the person acting as a nominee on behalf of the customer be recognized by using a sign and seal on any minor changes in order to onboard the client.

The RBI required that banks gather sufficient data about the subject and cross-reference it with information that was readily accessible to the public. It is indeed vital to enquire about the client's financial situation before registering them as a client. The results of the current study show that while analysts or relationship manager reach out to the client to obtain customer data prior to account opening, it is also noted that in recent years customers are pro-actively providing all the documents to ease the process.

Since money laundering can be easily committed if account opening procedures are not controlled, there are certain recognition and authentication controls which must be adhered to by all account opening employees.

For the bank to treat the money as having come from the proper sources, the customer must provide the bank with proof of the money's origin and any pertinent documents. If not, adding illegal funds in accounts could result in a host of problems that would disrupt the country 's economic growth. Hence precautions to prevent money laundering must be taken. To ensure that the funds obtained from various sources are secure and that they may be utilized

as needed, the bank must obtain all possible sources for the funds and take the necessary steps. When assessing how black money affects the economy, it is crucial to maintain track of a few key issues and factors in a more effective manner.
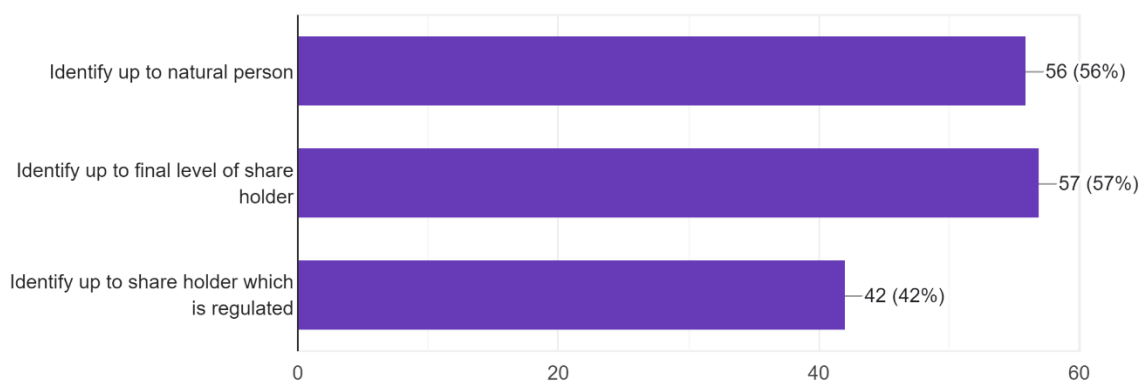
Every account is opened post identifying and verifying the client?
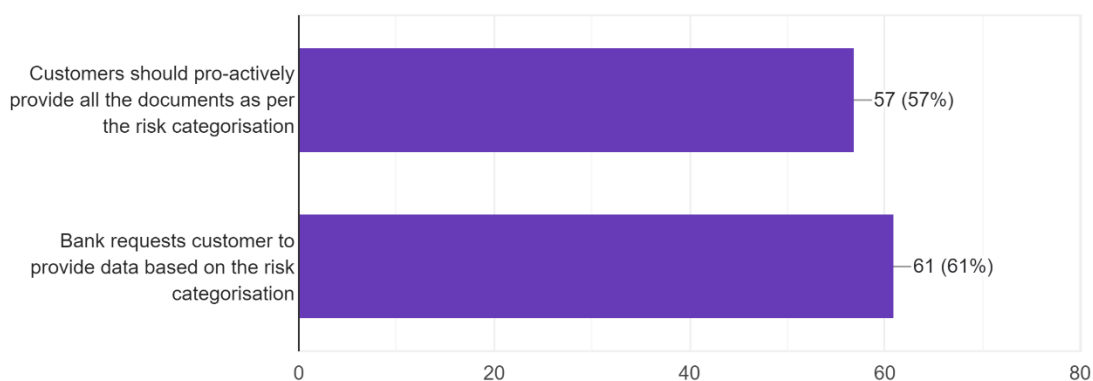100 responses
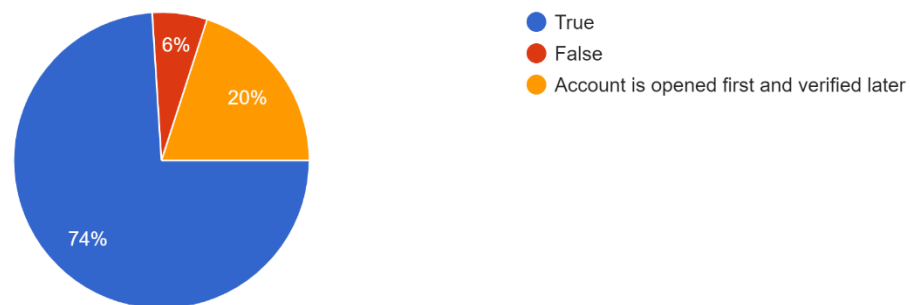
Which of the below procedures are implemented in Financial Institutions/Banks with regards to ownership drill down?
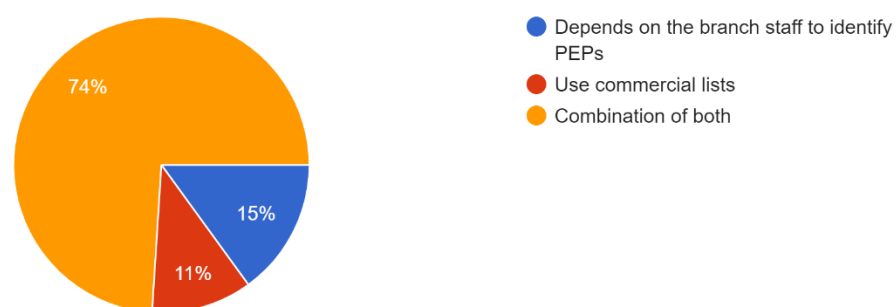100 responses

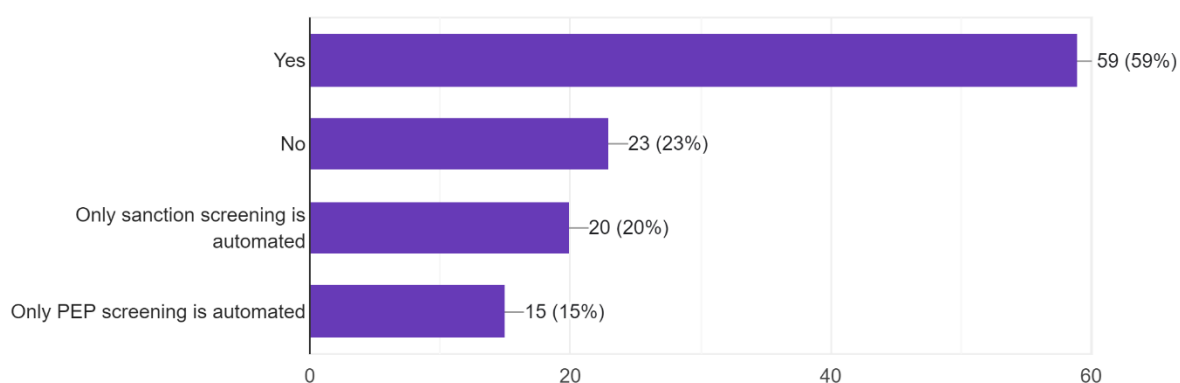## Which of the below approach is followed during client onboarding?
100 responses

Customers should pro-actively provide all the documents as per the risk categorisation	57 (57%)
Bank requests customer to provide data based on the risk categorisation	61 (61%)

How are Politically Exposed Person (PEP) identified?
100 responses

- Depends on the branch staff to identify PEPs
- Use commercial lists
- Combination of both

74%
15%
11%

Is sanctioned country screening and PEP screening automated in Financial Institutions/Banks?
100 responses

Yes	59 (59%)
No	23 (23%)
Only sanction screening is automated	20 (20%)
Only PEP screening is automated	15 (15%)

Which of the following list is used for client screening?
100 responses

List	Value
UN sanctioned list	35 (35%)
UN and OFAC list	28 (28%)
UN, OFAC and other lists	68 (68%)
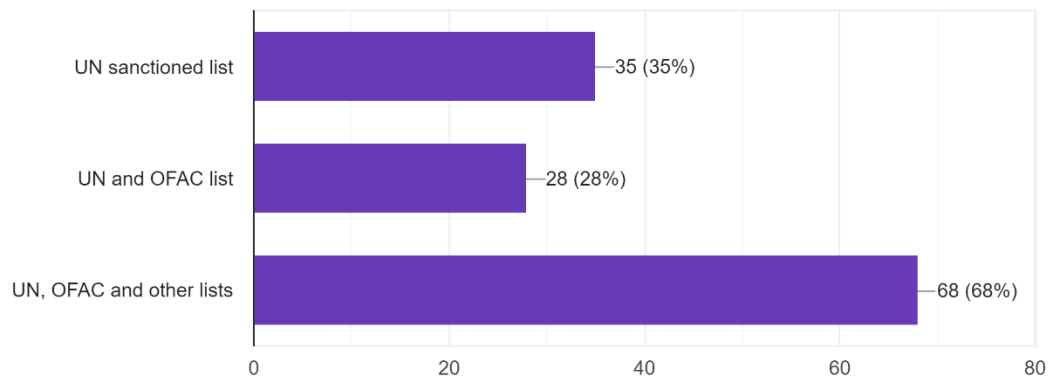
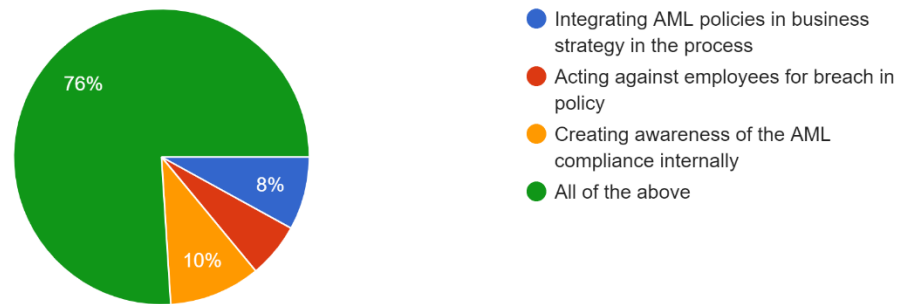## 4.8 Regulation and verification of suspicious activities:

There are various suspicious operations, and the institution's supervisor should be informed of these operations. As a result, particular controls and procedures related to this fraudulent activity should be handled well to achieve the intended objectives. Issues with the restrictions for such operations can be simply resolved, and outcomes may be attained. Institutions generally follow the reporting function. The numerous reports submitted to the Financial Intelligent Unit-India show that reporting requirements are mostly being complied with. The FIU-IND reported roughly a 200 percent growth rate in suspicious transaction reports (STRs) from financial institutions in the 2019–2020. where a significant number of suspicious transaction notifications have been filed by the 44 nationalized banks in India.

Also, it is also very important for all the financial institutions to know how frequently the Sanction and PEP check are monitored. Although it is reassuring to realize that international standards are upheld, 80 percent of participants said they check beneficial shareholders against sanctions lists. Given the current situation it is considered given that, where 20 percent of respondents do not screen the beneficial owners regularly. This calls into doubt the efficacy of the screening process for identifying beneficial owners.

As part of the fight against the financing of terrorism, customers are checked against a list of prohibited people and businesses. Regarding this, banks are expected to carry out the necessary checks to ensure that the data provided by new and current clients does not match the list of individuals and organizations that are forbidden from doing business with them (which is also known as Sanctions lists). Only 23 percent of respondents concurred that client screening is conducted using sanctions lists and weekly, and the rest of the people thought this standard was not applied. This poses a serious threat to both the security of the country and the safety of the institutions. Due to the fact that there are numerous potential causes for these transactions, it is crucial to double-check suspicious transactions. Since the bank must be aware of all potential causes for suspicious transactions, it is required to handle all suspicious transactions and to consider their potential effects as well as any other issues that may arise. By taking the proper care of the controls or measures, it will be required to manage suspicious transactions in a better, more effective method.
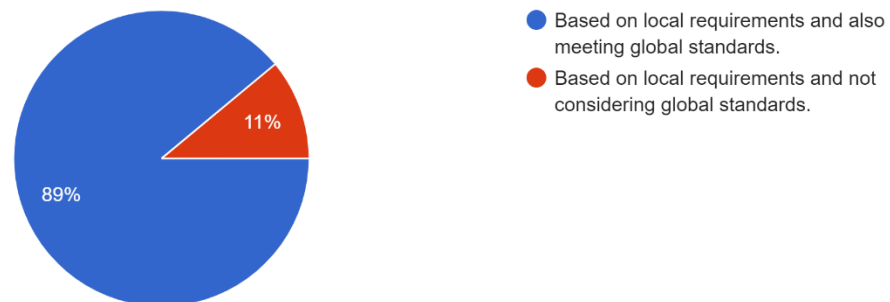
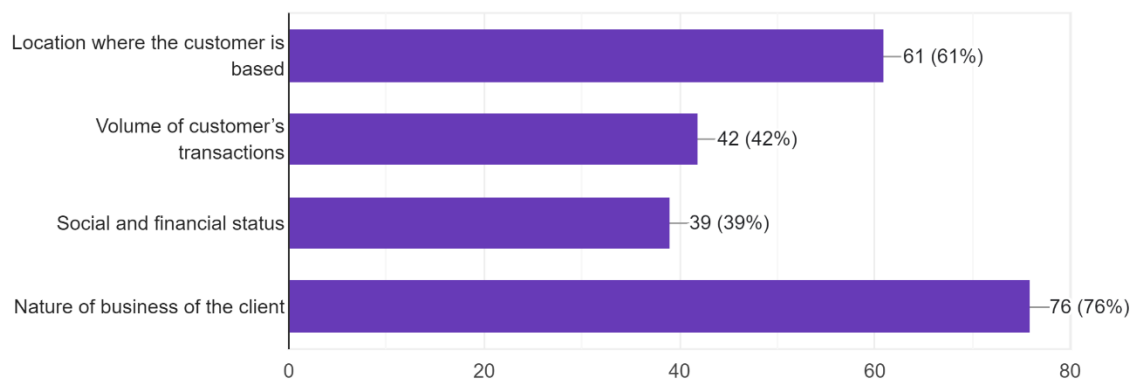## How are AML policy set up in Financial Institutions?

100 responses

- ● Integrating AML policies in business strategy in the process
- ● Acting against employees for breach in policy
- ● Creating awareness of the AML compliance internally
- ● All of the above

76%
8%
10%

How often is AML policies and procedures check made in Financial Institutions/Banks?

100 responses

- ● Based on local requirements and also meeting global standards.
- ● Based on local requirements and not considering global standards.

11%
89%

With regards to account opening, which of the below factors are considered as risk-based approach?

100 responses

Location where the customer is based	61 (61%)
Volume of customer's transactions	42 (42%)
Social and financial status	39 (39%)
Nature of business of the client	76 (76%)

How frequently are the Sanction and PEP check is monitored and updated in Financial Institutions/Banks?
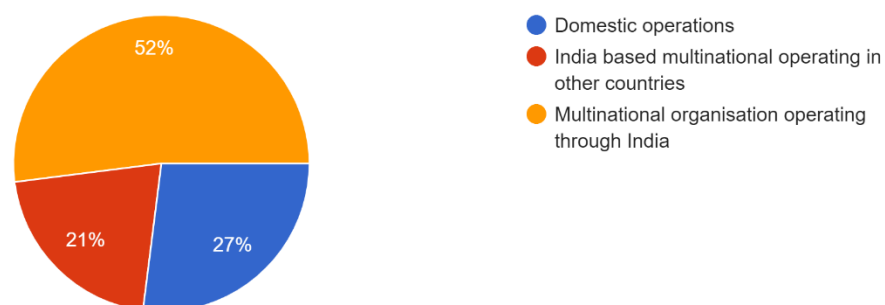
100 responses
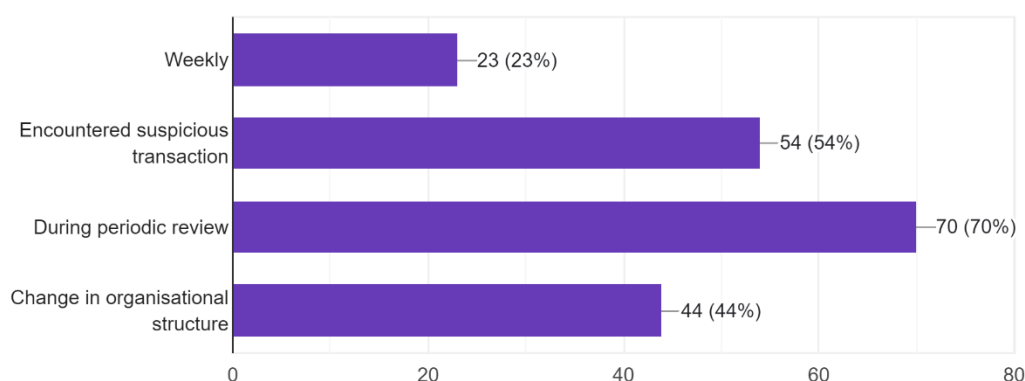
4.9 Maintaining confidentiality of customers:

Banks were obligated to maintain client identifying evidence for a minimum period of five years following the conclusion of a client relationship. In this regard, about 22% of employees claimed that the client's identifying records are not properly maintained after all of the client's profiles have been cancelled. The documentation of the suspected questionable transactions, however, is sufficient. The results lead to the conclusion that, despite the small number of respondents who reported non-compliance with the measures, the proportion is concerning enough to show that the protocols are not well implemented in Indian commercial banks. Despite making significant strides in AML/KYC implementation, organizations are no longer in compliance with the policies and are only partially following them.

In order to safeguard the financial system against money launderers, the issue must be fixed as soon as feasible. It is crucial to keep track of client information in a confidential manner so that the desired results can be achieved in accordance with the privacy and security of customers. Banks are required to treat user data privately and data cannot be publicly revealed as it can generate various issues based on the privacy and security of customers.

Scope of respondent organization's operations

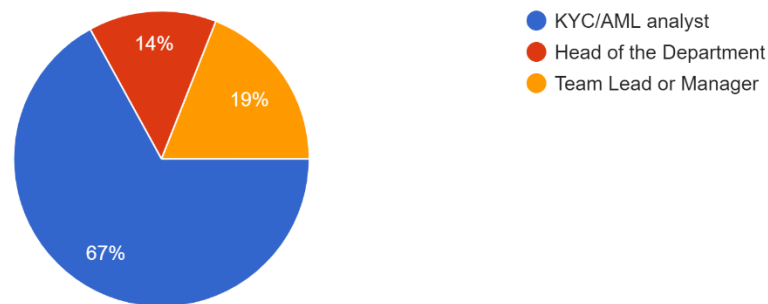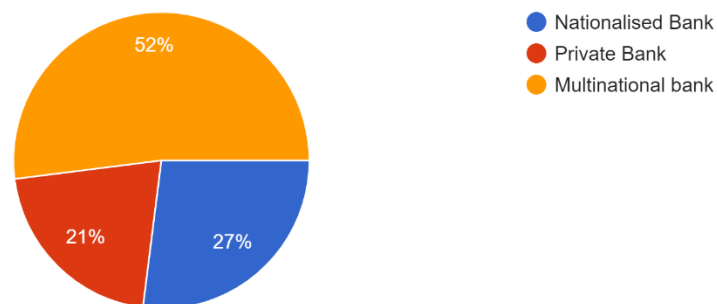100 responses

Designation of respondents

100 responses

- ● KYC/AML analyst
- ● Head of the Department
- ● Team Lead or Manager

14%

19%

67%

Type of organization that respondents represent

100 responses

- ● Nationalised Bank
- ● Private Bank
- ● Multinational bank

52%

21%

27%

4.10 Educating employees to minimize money laundering:

The challenges encountered in banks' AML implementation are broken down into five categories: a lack of resources, an inadequate customer support, a lack of adequate training, other complexities, and a lack of evaluation and information exchange. Most of the employees claimed that the lack of resources, including money, staff, and equipment to train employees about AML agreements. AML adoption is also thought to be significantly hampered by poor customer service, according to the majority of workers. According to the latest research, inadequate training in AML procedures further affects professionals. Because there isn't a mechanism in place to cross-check the client's identity information, most of the respondents are concerned about the accuracy of KYC information. Additionally, it has been observed that KYC procedures do not successfully identify the actual owner or make connections between the original buyer and their immediate relatives or friends. Additionally, around 50 percent amongst those who surveyed concurred that it is challenging for personnel to quickly determine whether a trade is fraudulent. The Anti money laundering process is made more difficult by the absence of a feedback signal on the actions taken. The possibility of a bank partnering with criminals increased due to the lack of systematic communication amongst institutions regarding them.
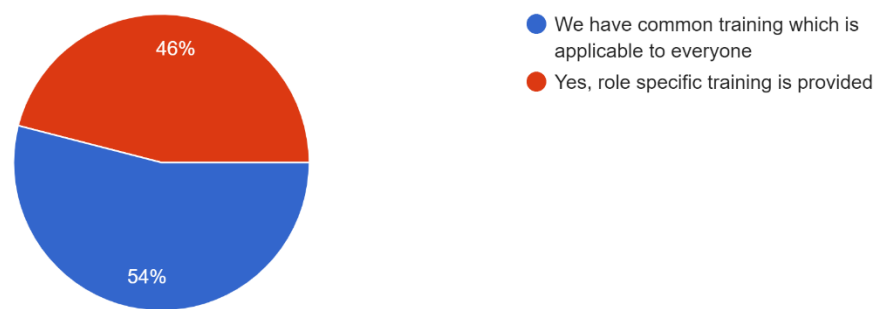
Anti-money laundering (AML) training and how frequently their banks held AML training were questions that were posed to the interviewees. The state of staff AML training in banks in the public, private, and international sectors is shown in below figure. The majority of

participants from every sector of the bank have undergone AML training. This finding is in line with earlier research, where the majority of participants had received specialized training in carrying out AML operations. Despite this, the current study asserts that AML training is insufficient, meaning that even when workers obtain AML training, it is inadequate to meet the requirements of workers to carry out AML operations. Consequently, banks must give their employees sufficient and excellent training.

Research from the past suggests that in order to comply with anti-money laundering regulations, bank employees should receive the proper AML training, and the training's quality should be greatly enhanced. Employees of public and private sector banks indicated that training occurs yearly one time, whereas participants from the financial markets were unaware of how often AML training was performed in respective institutions. This resulted from immediate process improvements and ongoing training. Since staff could regulate money laundering and quickly adopt some standards for managing the practices, banks should train their staff on this topic. If they are unaware, they will encounter other problems, and criminal activity will not be controlled.
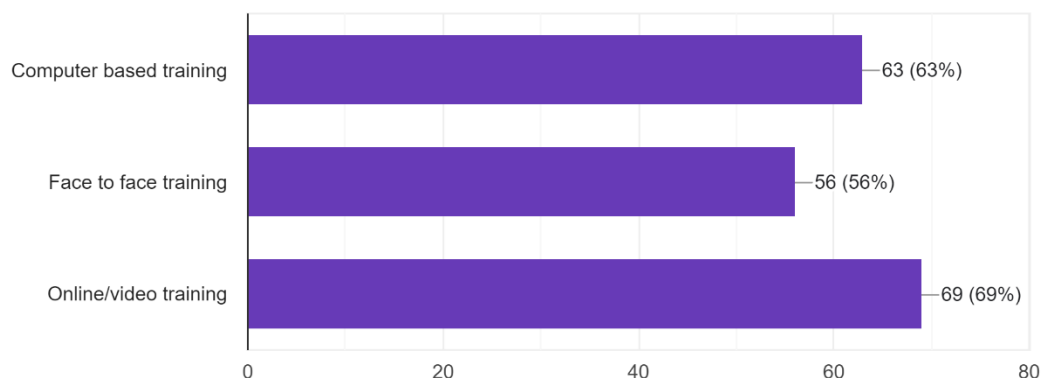
How is the AML training conducted? Is it common approach or role-based approach?
100 responses

- We have common training which is applicable to everyone
- Yes, role specific training is provided

How are employees trained in organisations?
100 responses

4.11 Budget insufficiency and impact on AML policy:

It is essential to keep track of operations and conduct the required analysis in order to monitor and monitor these illegal transactions as the desired aspects and concerns should be managed

in accordance with the concerns. AML systems must be user-friendly, and administrators must have specific rights to manage software applications in order to achieve positive virtues; or else, AML monitorization could not be handled. The financial allocation for the development of the AML software must give this top importance.

The present AML budget allotted by the heads of the organizations is suitable to find the suspicious transactions, according to the bank staff's access to the AML budget. It has been determined that the majority of employees are not happy with the budget they are now receiving because banks utilize a variety of software that requires banks to invest heavily in the AML budget that other banks can use.

4.12 Outcomes:

Below are some of the outcomes we could come across due to the conducted survey:

- The respondents' knowledge of risk evaluation, data upgrading, document management procedures, money laundering, AML rules, and regulatory compliance ranged from modest to high.
- Client's risk level is being monitored on regular basis.
- Employees expressed doubt about the effectiveness of the existing anti - money - laundering procedures in combating money laundering. Due to the low proportion of proceeds of crime prosecutions and the removal of illicit funds, they believe the current AML legislation have minimal impact on money laundering.
- AML doesn't seem to have any detrimental effects on how the financial institution operates, particularly in terms of client eroding. In fact, it helped financial institutions since it gave them a better insight of their customer base, which helped them open up new business opportunities.
- When banks must choose between compliance and fulfilling the company's goals, AML adherence remains in a tricky situation. Staff are less eager to always comply with AML rules completely as a result of the corporate interests that sometimes take precedence over compliance. There is a considerable chance that the rules could be violated for personal gain when AML compliance is compromised to achieve goals.
- The standards for risk assessment, KYC upgrades, fraud prevention, and record maintenance are all partially met by banks, whereas the criteria for transaction reporting are mostly met. The lack of complete compliance is concerning because money launderers are constantly searching for institutions or banking institutions that are negligent with anti-money laundering procedures, allowing them to conduct their illegal operations.
- Most of the employees in the banking sector throughout all areas have received AML training. However, it has been discovered that inadequate training in AML approaches presents a considerable obstacle to AML adoption.
- More than half of respondents claimed that they use the practice of placing all accounting statements to minimal risk, regardless of the risk level of the consumers, for practical ease. The aim of client identification procedures is impaired by this method, and the transaction monitoring function is undermined, resulting to the masking of dubious transactions.
- In addition, banks observe equally for all customers, regardless of danger category, and the amount of investigating in the medium and high-risk groups is insufficient. As a result, transaction monitoring lacks a risk-based strategy.

4.13 Conclusion:

The money laundering issue can arise if we have no precise measures in place and if we don't realize about the customers. As a result, we need to verify the customer profiles before taking any actions and able to manage customers effectively. Or else, the problem of money laundering won't be solved, and we won't get the best output. Money laundering needs to be handled effectively, and we must consistently attempt to consider some key factors and issues associated with monitoring fraudulent activities in accordance with the requirements. This issue of financial fraud is becoming more and more problematic for a variety of reasons, and it is negatively affecting the economy since proceeds from numerous offences are being spent without first getting permission from the individual person who is in possession of the illicit funds.

5 Concluding thoughts on contribution for this research, limitations, and recommendations for upcoming research:

The purpose of this research is to gain more knowledge about employee's perspective and knowledge regarding the application of AML in Indian financial institutions. This final chapter presents an overview of the entire proposed study, along with the poll's conclusions and recommendations, limitations, and potential directions for further research.

5.1 Consequences of the study:

Employees in the proposed investigation have a limited grasp of the risks and defenses associated with AML. Lack of sufficient knowledge of anti-money laundering processes would hinder their application, leading to numerous failures. Anti money laundering laws may also be broken, which could damage the organizations' reputation and credibility. Another major obstacle to adopting AML has been the inadequate training provided in AML procedures. Additionally, bank employees do not properly appreciate the need of following AML requirements. Moreover, the personnel have displayed a low level of confidence in the AML regulation as a mechanism for combatting money laundering. Even though it is mandated by law, it naturally results in an unwillingness to adhere to AML procedures to the letter. Furthermore, it was demonstrated that banks merely adhere to the anti-money laundering regulations. Anti-money laundering (AML) policies are opposed by a significant portion of respondents, indicating that not all the organizations' subsidiaries are subject to AML statutory obligations. Money launderers are constantly looking for businesses or financial institutions with inadequate anti-money laundering policies, which raises the danger.

Regardless of customer risk categorization, the practice of classifying all customers as reduced hinders customer identification and has a detrimental effect on the uncertainty management reporting event. Also, by applying the same degree of monitoring to all clients, regardless of risk evaluation, and by sparing the parties with medium and high risks from intensive monitoring, suspected activities that take place anywhere in the account are hidden. Therefore, there is a higher likelihood that fraudulent operations may go undetected. Significant obstacles to the development of appropriate attitudes and objectives for the AML regime are created by the RBI/FIU-lack India's of input on bank AML procedures. It makes it harder to fix any mistakes made when using AML procedures. Determining whether FIU-IND was successful in creating high-quality reports is further made far more challenging by the absence of criticism on the reports that were submitted. Fake accounts are generated using fake identification and address proofs because there is no system in place to verify the accuracy of KYC information

provided by customers. It provides a way for crooks to access banking systems. The execution of KYC and AML reporting responsibilities is impacted by the lack of customer service. It jeopardizes the customer-bank relationship.

5.2 Suggestion:

Based on the results, the report makes the following recommendations for improving the current anti-money laundering system:

- To make it easier for a significant number of clients to understand the information asked, the account opening application, KYC form, and other papers should be accessible in the local languages.
- Banks should put a strict "Know Your Employee" system in place to decrease the likelihood of fraud and intentional AML violations. The software should extract details regarding the individual's background and potential for money laundering.
- AML compliance guidelines recommend that employee morality needs to be consistently reinforced and that employees, especially those in the tier of management staff, be recognized for their good AML efforts at least once every two years. Employees should be made aware that AML violations could subject the bank to serious legal repercussions and that it is their responsibility to prevent such occurrences in order to safeguard the bank's reputation and ethics.
- Banks should motivate their employees to participate in AML certification programs by offering incentives or by reinforcing existing monetary incentives in order to increase the number of certified and qualified AML specialists working for banks.
- Offer more thorough, position-specific, and continuing AML training, especially for bank employees who work at the main office and even those functioning as the main office who are engaged in AML activities.
- Banks should enhance their customer due-diligence procedures using a risk-based strategy in order to increase the transaction monitoring function. Individuals who are identified as moderate or high risk should be kept in the same group until their risk is properly evaluated which is the regulatory team main task.

5.3 Constraints of the study:

The research does have some restrictions. Mainly, Bengaluru's bank branches (Nationalized, Private, International Banks operating from India) have been the primary focus of the research activity, together with the personnel who work there and the bank users that utilize them as the report's intended audience. Consequently, the conclusions cannot be extended to India as a whole.

Finally, there are extensive AML protocols. The study looked at banking strategies with the most of the essentialize, even if it was not able to concentrate on each of the indications.

Additionally, the number of bank employees in the foreign region sample is rather modest when it pertains to public and commercial sector banks. This is because most foreign banks flatly declined to take part in the study. Also, to this, only a small number of employees from Nationalized and Private banking sectors were taken into the client sample since the vast most of clients were not interested in providing answers.

5.4 Recommendation for upcoming research:

In order to examine staff and customer perspectives on anti-money laundering, additional researches should expand the sampling to include persons from different provinces in India's regions (North, South, East and West). The results of this study may be useful to other reporting organizations including insurance companies, brokerage firms, and other non-financial companies and specialties. Additionally, by contrasting Indian institutions' AML procedures with FATF criteria, AML experts can assess how well those institutions adhere to FATF recommendations.

5.5 Conclusion:

Since the PMLA Act was passed, India has made headway in putting AML legislation into effect, but the finished product still falls short of the desired outcome or impact. The AML regime's goals will be difficult to realize until the system's faults are remedied. To fully realize the positive consequences of the Application, the commitment of the federal govt, police agencies, FIU-IND, reporting entities, and consumer support is necessary. The general public should have confidence that these regulations won't disproportionately target regular people but instead will help reduce crime and help seize illegal funds from all criminals, regardless of their financial and criminal histories. The author believes that putting the suggestions in this dissertation into practice will help to promote the creation of a system in banking institutions.

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7 **Appendix**

Survey Questionnaire

"Analysis on the significance and effectiveness of anti-money laundering policies and regulations of Financial Institutions (Investment Banks) in India"

Hello, hope you are doing good!

I am currently working on the research for a dissertation as a part of my master's in finance. The below

This survey is part of the research for a dissertation carried out by a MSc student at the National College of Ireland. The objective of this research is to understand the AML policy implementation in financial institutions which are operated in India. This questionnaire will only take 10 minutes of your time and all responses are kept anonymous. Your participation in this survey plays a huge role for me to successfully complete the project. Thank you so much for your participation.

How frequently is the AML risk assessment conducted in companies?

1. As and when there is change in policy
2. half yearly
3. Yearly
4. Once in three years

There is a loss of prospective customers because of KYC requirements?

1. Yes
2. No
3. Maybe

Which of the below statements is true with respect to AML compliance, once India became the member of FATF?

1. AML needs are time-consuming or challenging
2. Though difficult compliance is raised, the given requirements should be improved approach to fight money laundering
3. Level of complexity is acceptable, and the obligation signifies effective way to fight money laundering

Regulatory inspection is mostly conducted on which area?

1. Enhanced due diligence on high-risk clients
2. PEP/beneficiary owners' identification and screening
3. Periodic review of customers
4. All of the above

How is AML policy set up in Financial Institutions?

1. Integrating AML policies in business strategy in the process

2. Acting against employees for breach in policy
3. Creating awareness of the AML compliance internally
4. All of the above

How is AML policies and procedures check made in Financial Institutions/Banks?

1. Based on local requirements and also meeting global standards.
2. Based on local requirements and not considering global standards.

With regards to account opening, which of the below factors are considered as risk-based approach?

1. Location where the customer is based
2. Volume of customer's transactions
3. Social and financial status
4. Nature of business of the client

Every account is opened post identifying and verifying the client?

1. True
2. False
3. Account is opened first and verified later

Which of the below procedures implemented in Financial Institutions/Banks with regards to ownership drill down?

1. Identify up to natural person
2. Identify up to final level of share holder
3. Identify up to share holder which is regulated

Which of the below approach is followed during client onboarding?

1. Customers should pro-actively provide all the documents as per the risk categorisation
2. Bank requests customer to provide data based on the risk categorisation

How are Politically Exposed Person (PEP) identified?

1. Depends on the branch staff to identify PEPs
2. Use commercial lists
3. Combination of both

Which of the following list is used for client screening?

1. UN sanctioned list
2. UN and OFAC list
3. UN, OFAC and other lists

How frequently are the Sanction and PEP check is monitored and updated in Financial Institutions?

1. Weekly
2. Encountered suspicious transaction
3. During periodic review

4. Change in organisational structure

Is sanctioned country screening and PEP screening automated in Financial Institutions?

1. Yes
2. No
3. Only sanction screening is automated
4. Only PEP screening is automated

The level of individual's intervention is required in large scale due to:

1. Complex client structure
2. Regular monitorisation of client
3. Necessity to examine false positive news

How is the AML training conducted in your organisation? Is it common approach or role-based approach?

1. We have common training which is applicable to everyone
2. Yes, role specific training is provided

How are employees trained in organisation?

1. Computer based training
2. Face to face training
3. Online/video training

Scope of respondent organization's operations

1. Domestic operations
2. India based multinational operating in other countries
3. Multinational organisation operating through India

Designation of respondents

1. KYC/AML analyst
2. Head of the Department
3. Team Lead or Manager

Type of organization that respondents represent

1. Nationalised Bank
2. Private Bank
3. Multinational bank