Regulatory compliance of Financial Action Task Force through Risk Assessment as Anti-Money Laundering measures: An evaluation of Banking Sector of Pakistan

Ali Ahmed*[1]

ABSTRACT

*Money Laundering is one of the worst crimes against humanity because it opens new pathways for more severe crimes. Unlike other crimes, it has multifaceted effects on society via genocide of innocent human beings through terror financing. The loss of one life not only affects a single person but the entire family faces the dire consequences or aftermaths especially if the victim is an 'only bread winner' of the family. Money laundering as a White-*Collar *crime has emerged with the passage of time and widely spread around the globe. Pakistan is one such country that is trying to comply the regulations and guidance provided by the Financial Action Task Force (FATF). In compliance of their recommendations, the Government of Pakistan, and the Central Bank of Pakistan (State Bank of Pakistan) have more focused on risk assessment of the banking sector in Pakistan. This timely study helps to identify the Regulatory Compliance and Risk Management as well as Commercial Banks Customer Due Diligence policies to combat Money Laundering in Pakistan. The study found that the commercial banks' practices of Regulatory Compliance and risk assessment are up to the mark as they have adopted the appropriate system for the reporting of suspicious/ financial transactions. They are also focusing on red flag indicators to overcome Trade based Money Laundering by following the Anti Money Laundering Guidelines provided by the State Bank of Pakistan to comply the recommendations of Financial Action Task Force.*

Keywords: Compliance, Money Laundering, Risk based approach, Financial Action Task Force, Commercial Banks, Regulations

JEL Classification: B27, F13, E58, G28

1. INTRODUCTION

Money laundering, a criminal act is used to legitimize ill-gotten gains. It is one of the main threats to the economy and social system at national or international level. The banking and financial

*[1]Corresponding Author: Ali Ahmed <alisamar07193@gmail.com> is an Assistant Manager for International Trade and Compliance at Bank AL Habib Limited, Karachi, Pakistan.

institutions are more concerned about how to deal with it, specifically, the monitoring mechanism of banking and financial sector keeps an eye on suspicious financial activities. To conceal ill-gotten finances, the criminal-minded people use financial sector as a platform for money laundering such as bank deposits, loans, investments, and foreign exchange. To properly assess money-laundering risk in the banking institutions, it is necessary to deal with risk assessment and regulatory compliance (Paul, 2015). Money launderers usually follow a traceable pattern and three distinct stages i.e. Placement Stage, Layering Stage, and Integration Stage (Simonova, 2011)**.** Trade Based Money Laundering (TBML) is also a concern for the financial institutions as their occurrences are increasing with every passing day. In TBML, trade is served as a medium to make the true origin of illegal funds, and a number of techniques are used like under-invoicing and over-invoicing etc. The Financial Action Task Force (FATF) and other international agencies who usually deal with money-laundering provided various recommendations to curb the trade based money laundering (Delver, 2018) . Adequate and sound Risk Management and Assessment Framework is essential for banking sector to overcome and combat Money-Laundering. The banks are more prone towards the risk of Money Laundering due to lack of Risk Management and Assessment Framework including lack of Customer Due Diligence (CDD) and Know Your Customer (KYC) policies, procedures, and controls which adversely affect the compliance of Commercial Banks (Raza, 2012). The banks must assess and understand the risk inherent before establishing a relationship with the customer of any nature whether transactional or business relationship, with an individual, a company or any other legal entity. Also, they must determine each and every customer at the time of establishing relationship and continue the process at various levels to mitigate the risk involved. The banks should have proper mechanism of documenting the customer risk-assessment details, in order to get a clear view of its customer base. Policies and procedures for customer acceptance, due diligence and ongoing monitoring should be designed and implemented to adequately control the identified inherent risks. They should understand the risk involved which will be beneficial for the money launderers if financial institutions overlooked all such risk and implement proper policies (Basel, 2014). It is also suggested that the banks must conduct critical Anti-Money Laundering (AML) / Combating the Financing for Terrorism (CFT) risk assessment, which is necessary to minimize the Money Laundering. The banks must identify the risk involved in Money Laundering and Financing of Terrorism, as it should identify its customer profile and analyze the risk involved in its product lines. They should check the internal controls and checks which are necessary to identify risk management and the effectiveness to implement proper Risk based approach. The Banks must design such controls in an effective manner in order to conduct proper and effective risk management and assessment of their customer base and the transactional activities (Sinan, 2005). The compliance of commercial banks mainly involve analyzing the risk areas to which banks are exposed to, and the compliance department of commercial banks must act as a watchdog for the bank. They should keep an eye on the operations of the bank as such they do not go beyond the laws and regulatory requirements as prescribed by the regulatory bodies and the State Bank of Pakistan. According to FATF and Basel Committee, banks must ensure strict compliance in their transactions in order to overcome Money Laundering and have a greater impact towards increased Risk Management and regulatory compliance. The role of compliance department is to ensure that bank's operations are safe from illegitimate acts such as tax evasion, money laundering and financing of terrorism (Viritha, 2016). Pakistan was put in the Grey-List by the Financial Action Task Force (FATF) in 2018 for not taking sufficient steps for curbing Money Laundering and Terror Financing. The financing has spoken to a vital test in handling the scourge of terrorism, as it is essential in coordinating all terrorism related activities. The Government of Pakistan has taken AML/ CFT seriously, as they have taken many actions for combating AML/ CFT, but still there are numerous gaps in its current AML/CFT system (Pavone, 2018).

Table 1. Timeline of compliance of Pakistan on FATF Action Plan

YEAR	NARRATIVE OF COMPLIANCE
June, 2018	Pakistan was marked on grey list by FATF on 28 June 2018. Pakistan was given duration of 15 months to work on the 27points action plan proposed by FATF in order to be safe from being entered into Black list.
August, 2018	Asia-Pacific Group team of FATF visited for review on working done by Pakistan on the 27 action items. The team watched and observed the working and pointed some discrepancies in the progress on Action Plan in its report on 26 August 2018.

October, 2018	FATF declared that Pakistan's progress on the FATF recommended action plan was unsatisfactory.
June, 2019	FATF appreciated Pakistan's progress and measures taken for curbing Money Laundering in the country.
October, 2019	FATF finally decided to put its judgment on Pakistan performance on the Action plan. FATF decided to give Pakistan extension until February 2020 to work on the Action plan, until February 2020, until then Pakistan will remain in the Grey list.
January, 2020	Pakistan's FATF case is heard at a semi-plenary meeting in Beijing, where its progress is reviewed on many points. It is anticipated that Pakistan will have made substantial progress on 10-15 points by the time that the Feb 16-21, 2020 plenary occurs.
February, 2020	Pakistan performance on 27 points action plan proposed by FATF was viewed in a plenary of the anti-money-laundering watchdog and FATF admired and praised the efforts of Pakistan on their progress on 27-point action plan. FATF decided to grant more time to Pakistan in order to comply on remaining 14 points until June 2020.
April, 2020	FATF has granted another extension to Pakistan for complying on action plan of 27 points, Pakistan has now given to achieve the target of fulfilling the compliance on FATF proposed plan until October 2020 due to the Corona virus outbreak (COVID-19) as

	ministries and other departments are inline through online channel due to lockdown around the globe.

Source: Author's own compilation

The economy of Pakistan may badly hurt if it is remained in the Grey List of FATF due to non-compliance of FATF Action Plan to eradicate money-laundering. Consequently, Pakistan will face many issues such as devaluing capital, lowering the growth rate, affecting interest rates, causing inflation, and defaming financial institutions and ultimately less domestic and foreign direct investment (Hossain, 2016). This study analyzes the impact of money laundering in the banking sector, and what steps and approaches should be taken for fulfillment of this offence and to study the gap between the practices adopted by commercial banks for combating money laundering. Anti Money laundering requires adequate risk assessment and identify the AML/CFT risk to which financial institutions are exposed and financial institutions in Pakistan are not effectively following such regulatory requirements. (Basel, 2014). The following are the main objectives of this research:

- To analyze the deficiencies in Regulatory Compliance and Risk Management practices of Commercial Banks in Pakistan for combating money laundering.
- To investigate estimate the banks' Regulatory Compliance in terms of KYC/ CDD polices of the State Bank of Pakistan to assess Customers Profile.

The following research questions will be analyzed in this study:

- What are the deficiencies in Regulatory Compliance and Risk Management practices of Commercial Banks in Pakistan for Combating Money Laundering?
- How Banks are complying with Know Your Customer/ Customer Due Diligence polices prescribed by the State Bank of Pakistan?
- Are Commercial Banks of Pakistan adopting a Risk Based Approach and Assessment for Combating money laundering as prescribed by FATF?

2. LITERATURE REVIEW

Money laundering has a global impact as it is affecting the financial sectors worldwide. It is one of the major threats to financial markets. Risk assessment for combating money laundering is conducted in the Europe as well as many other parts around the world to assess the capability of financial markets. Criminals can easily exploit the existing compliance mechanisms. For financial institutions, compliance officers should see the things from money launderers' perspective and thus anticipate their actions. The responsibility of compliance officers is to design the mechanism that is effective and relative to laws and regulations for combating money laundering (Prakash, 2018). Money laundering is the process of moving cash from one place to another through illegitimate ways for the purpose of evading taxes, disguising ill-gotten incomes, and converting black money into legal assets. The most important factor in laundering the money is the weak and inadequate financial systems. Certain mechanisms, laws, rules and policies have formulated by AML organizations to control Money Laundering but such policies are not strong enough to curb the billions of dollar crime around the globe. Due to money laundering countries suffering from devaluing of capital, lower growth rate, affecting of interest rates, causing inflation, and defaming of financial institutions, which becomes the barrier between opportunities for domestic and foreign direct investment (Bank, 2013). A continual and inflexible check on financial institutions can consequently report any doubtful activity to the security agencies which will help in curbing money laundering at a large level because financial institutions are the major source to launder money (Batten, 2010). TBML is the most important way to transfer money for criminal organizations and support of terrorism. Only banks cannot rely solely on compliance agents to identify TBML activities, but also focus on industry-specific training, data analysis, and communication with other entities engaged in the fight against this method of financial transfer (Delver, 2018). Banks should implement a comprehensive Risk based approach (RBA) for developing an effective AML mechanism and framework in the country, keeping in view the various risks involved which increases the Money Laundering. RBA refers that banks should identify the risk areas and understand the risk to which they are exposed (Simonova, 2011)**.** Risk Management practices involve different areas and factors which involves risk identification, risk monitoring, and the analysis of risk. In Pakistan, commercial banks are exposed to many risks like credit risk, liquidity risk, market risk and interest rate risk. If the risk management practices are not adopted properly, banks can badly be affected in terms of profitability. Banks are required to make a proper mechanism in this dynamic environment to overcome the risk issues to which they are exposed (Sinan, 2005). FATF observed that the laws of AML/ CFT in Pakistan do not meet the international standards and financial institutions does not comply with regulations and compliance (Hussain, 2019). Commercial banks' top management should enforce and develop proper Anti Money Laundering programs and develop well equipped policies and procedures for overcoming the increased level of money laundering (Raza, 2012). Most of the research conducted around the world have focused on the risk areas, and causes and effects of high risk involved in Money Laundering. The researchers have also conducted research in other countries to analyze the compliance and regulatory system deficiencies in the financial sector. This study analyzes that how regulatory compliance is conducted in Pakistan, which is required by world's major Anti Money Laundering bodies, and how commercial banks are complying with those regulations and risk assessment practices and policies.

2.1 Conceptual Framework

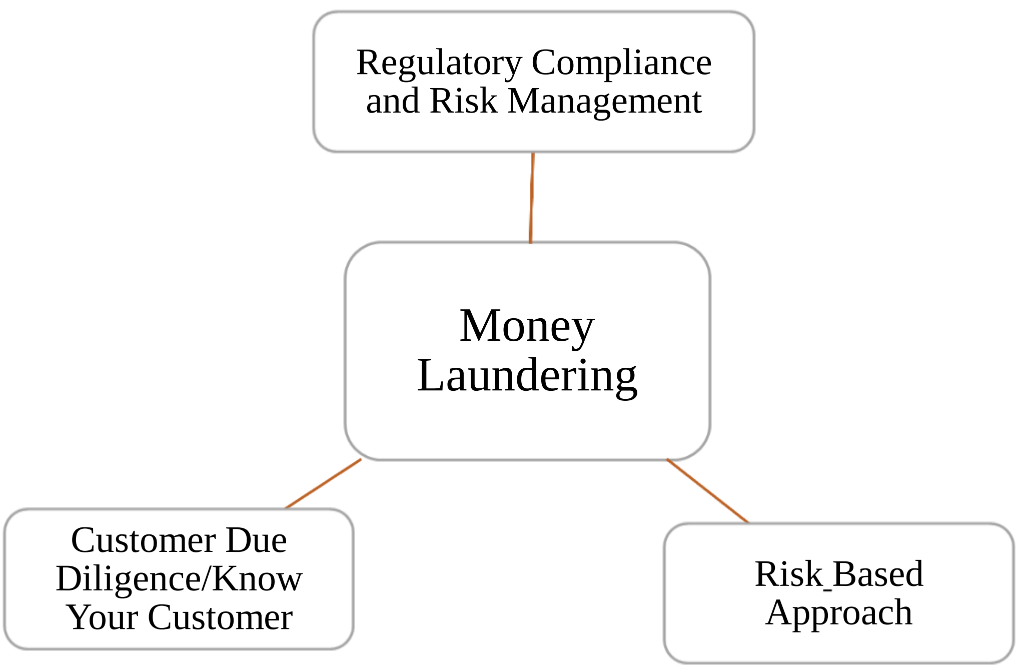


Figure: 2.1 Conceptual Framework

3. RESEARCH METHODOLOGY

3.1 Research Design

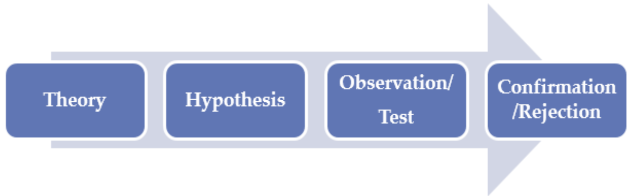
Research design is basically a framework of techniques decided by the researcher to mix a component of research in a logical method so that research problem can be easily handled. Research designs can be categorized into five types such as descriptive, correlational, experimental, diagnostic and exploratory, for this study, we have used a Descriptive Research Design. It is a flexible approach, therefore, when important new issues and questions arise through questionnaire during the study period, further investigation may be conducted.

3.2 Research Strategy

This study is based on Quantitative Research to quantify the issue by screening numerical data or transformed data through available statistics. It is used to quantify attitudes, opinions, behaviors, and other defined variables and to get the results from large sample population through questionnaire from SBP, Habib Metro Bank, Bank AL Habib, UBL and Meezan Bank's senior officials and specially employees of compliance department.

3.3 Research Approach

There are two components research approach. i.e Deductive approach and Inductive approach from which we have used Deductive Approach in this study. A set of hypotheses devised by a researcher in the beginning of this study. Then, relevant research methods are chosen and applied to test the hypotheses to prove them right or wrong. Deductive approaches track the following path.



3.4 Data Collection

This study is based on primary data collection. The data is collected through questionnaire. One hundred and fifty two was the sample size based on the calculation of the data which we have collected from several Head offices & Branches of different commercial banks.

3.5 Sampling

Sampling broadly classified into two ways i.e Probability Sampling and Non-Probability Sampling. These samplings have also sub-types from which we have selected a Non-Probability's Purposive or judgmental Sampling Technique as we have chosen the population from our own judgement. The reason for selecting this sampling technique because of the audience who should be capable enough to give the appropriate answers on money laundering.

3.6 Scaling Technique

The Likert Scale Technique is used to conduct this research as we will evaluate the responses of different bankers and regulatory bodies, and their opinions on semantic format that how the respondent rate or answer our questions and express their perspective, will lead us to reach the conclusion.

4. EMPIRICAL ANALYSIS

The data analysis portion is built on the sample taken from the commercial banks operating in Karachi, Pakistan. The respondents are from the top to lower management that have responded to the answers of the questionnaire. The software which has been used for the analysis of the data is "IBM SPSS Statistics 25".

4.1. Reliability Analysis

Many researchers have used Cronbach's alpha test in their researches to measure the reliability of a score to summarize the information of several items in questionnaires. This scale evaluates the internal consistency of the responses.

Table 2. Statistics Regarding Scale Alpha Value And its Qualitative Research

Cronbach's Alpha Value	Description
0.93-0.94	Excellent
0.91-0.93	Strong
0.84-0.90	Reliable
0.81	Robust
0.76-0.95	Fairly High
0.73-0.95	High
0.70-0.77	Relatively High
0.68	Slightly Low
0.67-0.87	Reasonable
0.64-0.85	Adequate
0.61-0.65	Moderate
0.58-0.97	Satisfactory
0.45-0.98	Acceptable
0.45-0.96	Sufficient
0.4-0.55	Not Satisfactory
0.11	Low

Source: (Suddairabbas,2010)

Table 3. Reliability Statistics

Cronbach's Alpha	N of Items
0.952	18

The range of reliability test lies between 0 to 1 and the perfect reliability is 1 which indicates “r”. The larger the reliability coefficient means the test scores are reliable. The interpretation of the reliability test is given in table 1, and table 2 shows that the test result is 0.95 which is fairly high. This donates that the research questionnaire and responses are reliable for the study.

Table 4. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Money Laundering	196	1	5	3.7985	0.73394
Regulatory Compliance and risk assessment and risk management	196	1	5	3.8937	0.57031
Risk Based Approach	196	1	5	3.7972	0.68125
Customer Due Diligence	196	1	5	3.7970	0.6142
Valid N (List wise)	196				

Source: Author’s own compilation

Standard deviation is a number used to tell how measurements for a group are spread out from the average (mean), or expected value. A low standard deviation means that most of the numbers are close to the average and vice-versa. As Standard deviation tells that how much values are deviating from its mean values, so this test is identifying that how much the responses are deviating. As these responses were filled by different bankers belonging to different number of experiences it can be seen that the values are deviating from its mean value which means there is a difference in the questions answered by respondents. There were 196 observations indicating different responses and analysis from each. As Mean value of money laundering is 3.7985 which shows that different bankers agree to some extent that banks provide training to their employees have proper mechanism for implementing the framework for Managing Risk of Money Laundering and Terrorism Financing. However, the Standard deviation is high having value 0.73394 which indicates that there is variation in responses of bankers and their opinions are different and varying.

With respect to Regulatory Compliance, Risk Assessment and Risk Management, mean value is 3.8937 which shows that bankers are agreeing to Regulatory Compliance and Risk Assessment practices by banks as standard deviation is not so high which shows that many bankers agreeing to this as responses are not much deviating from its mean value.

As referred to Risk Based Approach and Customer Due Diligence/KYC it can be seen as per analysis of Mean values which is 3.7972 shows that most of bankers agree that banks must follow Risk Based Approaches as prescribed by FATF for combating Money Laundering but these responses are deviating from its Standard Deviation which is relatively higher i.e. 0.68125 & 0.61420 which indicates that there is variation in the responses of bankers that Commercial Banks follow a Risk Based Approaches for combating Money Laundering.

4.5 Regression Analysis

The table 4 below shows the regression analysis, although, the validity of regression analysis on dummy variable data is low, we have presented the result for a ready reference:

Table 5. Regression					
Model	**R**	**R Square**	**Adjusted R. Square**	**Std. Error of the Estimates**	
1	0.698	0.487	0.479	0.52961	

Source: Author's own compilation

In the above Table the R value shows 0.698 which shows combined correlation effect among all dependent and independent variables and represents that all the variables are positively correlated with each other. R Square value defines how much variability the model predicts correctly. The table shows R square value is 0.487 or 48.7% which shows that the model can predict the variable about 48.7%.

4.5 Analysis of Variable (ANOVA) Test

ANOVA test is basically used to compare mean of a couple of groups. The below table shows the result of ANOVA Analysis which is denoted by "p". The results indicate value of $p < .001$ which mean the result can be considered at 1% level of significance.

Table 6. ANOVA					
Model	**Sum of Squares**	**DF**	**Mean Square**	**F**	**Sig.**
Regression	51.185	3	17.062	60.828	0
Residual	53.854	192	0.28		
Total	105.04	195			

4.6 Correlation

The above table denotes that the value of Regulatory Compliance and risk assessment is 0.652 which reveals that banks are exposed towards the risk of money laundering because of the lack of effective Regulatory Compliance and risk assessment. Secondly, Risk based approach is 0.639, which means if we implement efficient risk-based approach, we can curb money laundering to some extent. Lastly, the value of Customer due diligence is 0.540 which shows positive correlation with money laundering. It states that, appropriately and accurately identification of customer may control money laundering in the banking institutions.

Table 7. Correlations					
		Money Laundering	**Regulatory Compliance**	**Risk Based Approach**	**Customer Due Diligence**
Money Laundering	Pearson Correlation	1	.652**	.639**	.540**
	Sig. (2-tailed)		0	0	0
	N	196	196	196	196
Regulatory Compliance	Pearson Correlation	.652**	1	.758**	.649**
	Sig. (2-tailed)	0		0	0
	N	196	196	196	196

Risk Based Approach	Pearson Correlation	.639**	.758**	1	.583**
	Sig. (2-tailed)	0	0		0
	N	196	196	196	196
Customer Due Diligence	Pearson Correlation	.540**	.649**	.583**	1
	Sig. (2-tailed)	0	0	0	
	N	196	196	196	196

**Correlation is significant at the 0.01 level (2-tailed)

Table 8. Paired Samples Test

Paired Differences								
	Mean	**Std. Deviation**	**Std. Error Mean**	**95% Confidence Interval of the difference Lower**	**Upper**	**T**	**DF**	**Sig. (2-tailed)**
Pair 1 Money Laundering-Regulatory Compliance	-0.09	0.56	0.04	-0.17	-0.02	-2.36	195	0.02
Pair 2 Money Laundering-Risk Based Approach	0.001	0.60	0.04	-0.08	0.09	0.03	195	0.05
Pair 3 Money Laundering-CDD/KYC	-0.11	0.66	0.05	-0.20	-0.02	-2.39	195	0.02

Based on the results presented in the above table, the relationship between all the variables is positively correlated but not strongly correlated each other as the value is less than 0.8. The value of correlation is significant at 0.01 and in this study the correlation is < 0.001 which shows it is significant. Hence, the Null hypothesis is rejected. On the basis of t-test and the Level of Significance which is 0.05 we could conclude that in Pair 1 value is less than 0.05 it means that Null Hypothesis is Rejected which means that Effective Regulatory Compliance and risk assessment practices of Commercial banks does lead to significant decrease in Money Laundering in the financial Sector of Pakistan. Pair 2 indicates that as the Level of Significance is less than 0.05, the Null Hypothesis is rejected which means that Risk based approach helps Commercial banks in Reducing Money Laundering in the Country. Pair 3 indicates that as the Level of Significance is less than 0.05, Null Hypothesis is Rejected which means that CDD/ KYC policy Framework of Commercial banks does lead to minimizing the impact of Money Laundering in the financial sector of the economy.

5. DISCUSSION AND CONCLUSIONS

5.1 Discussion

As money laundering is exploiting the compliance mechanism of financial institutions and exposing the banks, it is considered as the safest and easiest route to legitimize illegal gains. The financial institutions are found to negligent in complying and fulfilling the regulatory requirements. Commercial Banks usually failed to adopt a comprehensive RBA for developing an effective AML mechanism. The financial institutions should identify the risk areas and understand the risk to which they are expose. It is found out that ML and its major controlling factors i.e., adopting a RBA, regulatory compliance and risk assessment with strong written polices of KYC/ CDD lead towards decline in money laundering. Most of the bankers opined that Regulatory Compliance, risk assessment and CDD/ KYC policies play an active part in controlling and reducing money laundering and they endorsed that Regulatory Compliance, risk assessment and CDD/KYC policies can be more beneficial in Commercial Banks of Pakistan for controlling money laundering in the sector.

5.2 Conclusions

Money laundering is destroying and acting as one of the most serious problems of our financial sector which must be addressed properly in compliance with the FATF recommendations. As FATF works like a global watchdog, Pakistan must ensure and fulfil their recommendations in order to write-off its name from the Grey List of FATF. As they have been watching Pakistan closely, the banking and financial sector must act upon their recommendations with the help of policies provided by the Government of Pakistan. Based on our results, it is concluded that effective regulatory compliance, risk assessment and management practices of commercial banks with strong CDD/KYC policy Framework can result in minimizing Money Laundering in the country to a greater extent if adopted by all banks of the Country with regular Compliance.

REFERENCES

A.Raza, M. M. (2011). A Comparison of Financial Performance in Investment Banking Sector. *International Journal of Business and Social Science*, 11.

Bank, D. (2013). The Role Investment Banking for Economy. 187.

Basel. (2014). *www.bis.org.* Retrieved from www.bis.org.

Batten, V. (2010). An analysis of the relationship between foreign direct investment and economic growth. *Applied Economics*, 22.

Delver. (2018). Trade-based money laundering and terrorist financing:combating tbml/ft in financial insitution. -, 77.

G.Mandelker, A. (2016). Investment Banking: An Economic Analysis of Underwriting Contracts. *JSTOR*, 15.

Hossain, S. (2016). Role of Investment Banking in the Economic Development of Bangladesh. 20.

Khan, Y. (2018). Understanding risk management practices in commercial banks. *School of economics, China*, 9.

L.Yusi, A. (2015). Financial Intermediation and Econmic Growth. 30.

M.Schroder, M. (2011). The role of investment banking for the german economy. *ZBW*, 187.

N.Radic, F. C. (2017). Efficiency and Risk Taking in Pre-Crisis Investment banks. 81.

Paul, M. H. (2015). Money laundering risk: from bankers and regulators prespective. *Science direct*, 10.

Pavone, P. (2018). Compliance & corporate anti money laundering regulation. *Faculty of economy ,italy*, 9.

Prakash. (2018). A study on the Role of Investment Banks in the Economic development of India. *International Journal Of Scientific Progress And Research*, 8.

Raza. (2018). Prevalance of money laundering in commercial bank of pakistan. -, 100.

Raza, F. (2012). A Comparision of Financial Performance in Investment Banking Sector. *International Journal of Business and social Science*, 10.

S.Jawad, A. (2018). Effects of Interest Rate, Exchange Rate and thier Volatilities on Stock Prices. *Theoritical and Applied Economics*, 15.

Simonova. (2011). The risk-based approach to anti-money laundering: problems and solutions. *Emerald Insight*, 15.

Sinan, S. (2005). Risk Management, Capital Structure and lending at Banks. *Jounral of Banking and Finance*, 25.

Viritha, M. (2016). Anti-money laundering regulation and practices in indian commercial banks: the banker and customer prepective.

W.Smith. (2000). Investment Banking and the Capital Acquisition Process. *Journal of Financial Economics*, 27.

APPENDIX

Research Questionnaire for Regulatory Compliance and Risk Assessment by Commercial Banks for Combating Money Laundering

(To be filled by employees working in Commercial Banks of Pakistan)

Respected respondents we are conducting the research on Regulatory Compliance and Risk Assessment by Commercial Banks for Combating Money Laundering in Pakistan. We are taking the opinions of different commercial Banks officials regarding the level of Regulatory Compliance and Risk Assessment Conducted by Banks in Pakistan. We assure you that information taken through this questionnaire will not be misused, and will only be used for improvement of banking sector in terms of Regulatory Compliance and Risk Management for Combating and controlling of Money Laundering in the Financial Sector. Your co-operation and assistance in this regard will be highly appreciated and valuable for us.

General Information:

Name of Respondent	
Name of Commercial Bank Currently Employed	
Name of other Commercial Banks worked with, if any	
Total Number of Banking Experience	
Name of Department Currently employed	
Name of other Departments Worked with , if any	

Satisfaction level

To what extend you agree with the statement written in following table, please select any one from the following Likert Scale

1. **Strongly disagreed**
2. **Disagreed**
3. **Neither agreed nor disagreed**
4. **agreed**
5. **strongly agreed**

QUESTIONS	**1**	**2**	**3**	**4**	**5**
Money Laundering • Commercial Bank provides AML/CFT training to relevant employees that include identification and reporting of suspicious transactions.					
• Commercial banks have proper mechanism for implementing the framework for Managing Risk of Money Laundering and Terrorism Financing.					
• Commercial banks have a system-based program to prevent transactions belong to account holders registered on OFAC list (Office of foreign Assets Control), FATF list, European Union and UN list to prevent Money Laundering					
• Commercial Banks play an active role and co-operate with national enforcement authorities as permitted by regulations regarding the confidentiality and information of its business and customers.					
Regulatory Compliance and Risk Management • Commercial Banks have a proper Compliance and Risk Management system that assess AML polices practices and procedures on regular basis to overcome financial frauds in banks.					
• Commercial Banks update their internal risk assessment and compliance policies and procedures periodically taking into consideration Money Laundering threats.					
• Commercial Banks adopt proper measures as per regulatory compliance when sending or receiving funds through wire transfer.					
• Commercial Banks follow Trade Based Money Laundering Red flag indicators as proposed in SBP Framework for Money Laundering.					
• Commercial Banks adopt appropriate system of reporting of suspicious/currency transactions in context of SBP regulations and AML Act.					
• Commercial Banks conducts Risk proliferation of new customers and existing as a regular practice in order to ensure strict compliance of regulations of AML act.					

Risk Based Approach • Commercial Banks implement appropriate internal policies, procedures and controls for meeting their obligation under AML act.					
• Commercial Banks conduct a National Risk Assessment (NRA) which helps in identifying and understanding the Money Laundering Risk.					
• Commercial Banks establish appropriate Risk Assessment measures when conducting Cross border transactions by assessing that the respondent bank AML/CFT mechanism.					
• Commercial Banks follow Risk Based Approach guidelines on AML/CFT by SBP as issued in context of the FATF action plan on which Pakistan committed to fulfill by Oct. 2020					
Customer Due Diligence/Know Your Customer • Commercial Banks develop Risk profile of every customer as per SBP AML/CFT prudential Regulations.					
• Commercial Banks apply effective Compliance towards customers with High Risk Jurisdiction identified by FATF.					
• Commercial banks have strong written policies and procedures regarding Know Your Customer (KYC) and AML/CFT. As per the requirements of FATF.					
• Commercial Banks have proper mechanism for record keeping including the records of identification data collected through KYC/CDD policies and procedures.					