



**IMPLEMENTATION OF ANTI-MONEY LAUNDERING REGULATIONS  
IN NEPALESE BANKING SECTOR IN NEPAL: AN EMPLOYEE  
PERSPECTIVE**

**Dr Gangaram Biswakarma\*; Mr. Mahesh Koirala\*\***

\*Assistant Professor,  
Faculty of Management Tribhuvan University,  
Email id: drgrbiswa@gmail.com

\*\*Chief Issue Management,  
Department of RBB Merchant Banking Ltd,  
Email id: mkoirala16@gmail.com

---

**ABSTRACT**

*AML financial regulation addresses the money laundering and terrorism finance phenomena relevant internationally. This paper was aimed at the anti-money laundering awareness level of bank employees in Nepalese Banking Sector and at the influencing factor that affects the level of effectiveness in AML practices in Nepalese Banking Sector. The tests are based on the dimension of AML practices-the training & development of employees regarding AML, ethical behavior of banks, technology, and control over business sophistication and auditing & reporting standards of the banks that effects the effective implementation of AML practices in banks. The study was based on 136 banking employees' responses on the practices of AML in their respective banks. The findings indicate that the employees are aware of the AML dimensions and AML implementation practices in Nepal from the perspective of the employees of the banks is effective, and going well and more control mechanism is required for business sophistication. The study concludes that the training and development of employees regarding AML, ethical behavior of banks, change in technology, control over business sophistication, and auditing and reporting standard are equally beneficial for the effective implementation of AML practices in baking sector of Nepal, of which the control over business sophistication is most important component, that's need to emphasize more.*

**KEYWORDS:** Money laundering, anti-money laundering, AML, banks, Nepal.

---

**INTRODUCTION**

The banking and financial industry is essential for the development of crime and corruption, since it is a primary vehicle for money laundering activity (Masciandaro, 2001). Money laundering is the activity of financial transactions to hide the identity, source and intent. It requires a complex number of transactions in order to either cover up or disconnect or deviate from the source of revenue and destination of illegal money. Generally, the sources of money

laundering are acquired from drug trafficking, narcotic trafficking, terrorism, trafficking in small arms, bribery and corruption, smuggling of gold/diamonds, economic scams, organized crimes, tax evasion, women and children trafficking, credit- card frauds, counterfeiting of goods, currency and so on (FATF, 2019).

This act of money laundering needs to counter with anti-money laundering (AML) complex activities. According to Verhage (2011), AML complex consists of private and public actors conducting regulatory, surveillance, reporting, investigative and judicial roles. The AML complex is focused on government regulation and its goals are prevention, crime reduction and compliance. Sarigul (2013) stated that the financial system has remained as the most preferred channel for launderers in the laundering of illicit money. The goal of the money laundering process is to make funds derived from, or associated with illicit activity appear legitimate (Thapa, 2015).

Money laundering has emerged as a burning global issue. The globalization of national economics widened the scope for money laundering and terrorism financing. The removal of financial barriers to international capital flows and globalization of financial services has facilitated free flow of funds from one country to another country (Popa, 2014). According to International Monetary Fund (2018), money laundering is financial crime, in order to legalize illicit money. It includes a process of shielding money from illegal activity and transforming it. It is an act that follows the execution of a predicate crime to use illegal proceeds as if from a legitimate source. The economic structure of the nation and stable financial institutions and structures are challenged by money laundering.

Banks play a vital role in the supervision of public finances. Banks are facing various kinds of financial and non-financial risks during the financial intermediation process. While many AML solutions have been in place for some time within the banks, they are faced with the challenge of adapting to the ever-changing risks and methods related to money laundering (Gao and Xu, 2009). The financial services industry has the greatest responsibilities of compliance the effective anti-money-laundering (AML) framework in the nation. The financial services industry struggling with meeting regulators' expectations for effective anti-money-laundering (AML) compliance programs (Beaumier, 2008). Nonetheless, AML enforcement systems are considered acceptable by the vast majority of financial institutions, which raises a question as to whether the compliant institutions have known or failed by some of their rivals. Therefore, it is vital for financial institutions to be extra vigilant while performing financial transactions. In addition, employees of banks must be aware of money laundering issues, rules and regulations. Managers and employees must continuously observe transaction of account-holders and report if any unusual activities are seen.

Nepal was regarded as an easy place for money laundered because of absence of the economic stability, lack of comprehensive and long run vision and guidelines, weak interrogative system, lack of well-trained bureaucracy and open boarder and huge informal transaction with India (Asia Pacific Group, 2011). Nepal is developing economy and is adversely affected by corruption, tax evasion, and other economic crimes. High level of corruption, tax evasion, human trafficking, and economic crimes such as cheating, forgery of valuable security, criminal conspiracy and criminal breach of trust are the major sources of black money in Nepal (Asia Pacific Group, 2011). In this concern, to control money laundering and terrorism financing activities Nepal was associated with anti-money laundering and combating financial terrorism and financial action task force in 2002 by becoming a member of the Asia/Pacific Group on Money Laundering (FIU-Nepal, 2018). According to the FIU report of 2075/76, the reporting of threshold transaction received from bank and financial institution is around 97%

and remaining 3% is reporting from government agencies, insurance companies, securities companies and others (FIU-Nepal, 2019).

In view of this, the objective of the study is to understand the implementation of anti-money laundering practices in Nepalese banks. This study aims at examining the influencing internal and external factors on effectiveness of AML practices in banks of Nepal. Specifically aimed at the anti-money laundering awareness level of bank employees in Nepalese Banking Sector and examine the highly influencing factor that affects the level of effectiveness in AML practices in Nepalese Banking Sector.

## **MONEY LAUNDERING AND ITS MECHANISMS**

The International Monetary Fund (IMF) describes money laundering as, “A process by which the illicit source of assets obtained or generated by criminal activity is concealed to obscure the link between the funds and the original criminal activity” (International Monetary Fund, 2015). Money laundering is frequently termed as “Turning of dirty money into clean money”. Laundering allows criminals to transform illegally obtained gain into seemingly legitimate funds (Mainali, 2004). The process of money laundering leads to the transformation, conversion and change of proceed from one to the other (Araujo, 2008). Generally, the sources of money laundered are believed to be trafficking, drugs dealing, bribery and corruption, smuggling of gold, economic scam, organized crime, tax evasion, trafficking of women and children, credit card frauds, counterfeiting of goods and currencies and so on (International Monetary Fund, 2015).

Money laundering is concealing or disguising the identity of illegally obtained proceeds so that they appear to have originated from legitimate sources. It is frequently a component of other, much more serious, crimes such as drug trafficking, robbery and extortion (INTERPOL, 2019). The anti-money laundering actions came into being in 1980 when the Council of Europe's Committee of Ministers recommended to the governments of its Member States that they adopt measures to prevent transfer and safekeeping by banks of criminal funds. The most effective way to stop cash flows then came to light was to make laundering a criminal offense itself (BCBS, 1998). In 1988, money laundering was first recognized as a criminal offence by the United Nations (UN) through its Vienna Convention and initiated major paradigm shift in which the major industrialized economics viewed in money laundering. In 1989, the G7 countries decreed that money-laundering posed a major threat to the global financial markets and systems. By 1996, most member countries had enacted legislation to reflect the FATF's 1990 recommendations. In 2003, there was a further paradigm shift when, in that year, the FATF reviewed both its original recommendations and its First Revision. These provisions cover (FATF, 2012): “Know Your Customer” (KYC); The reporting of suspicious transactions; The verification of identities; The avoidance of shell banks; The avoidance of anonymous accounts; The institutionalization of AML policies; The scrutiny of high-risk customer activity; The expert training of staff.

Money laundering takes place in several different forms. It is a way for criminal to hide the cash proceeds of their illegal activities. Criminals use different techniques to launder their money and make it from legitimate source. Some of the techniques are (Ping, 2010): structuring, bulk cash smuggling, cash-intensive businesses, shell companies, casinos, real estate, and currency exchange bureau. however, money laundering methods in banking system (Ping, 2010): bank accounts, bank owning, loan back, banking wire transfer, correspondent banking, and offshore banking.

## **International Cooperation of Nepal For Anti-Money Laundering/Combating The Financing Of Terrorism (AML/CFT)**

Nepal is well ahead, and self-confident about the AML/CFT system, according to the Financial Information Unit (FIU-Nepal, 2018). Nepal is linked to many major international anti-money laundering and terrorist funding organizations. Implementing resolutions, ratifying and acceding to the prime AML/CFT Conventions, engaging with APG and FATF in consultation on the implementation of AML/CFT global policies shows Nepal's sensitivity and forward-looking towards its AML/CFT regime. Asia Pacific Group (APG) (FIU-Nepal, 2018): APG is an associate member of the Financial Action Task Force (FATF) with a jurisdiction in Asia and the Pacific with the view that the economic and social impacts of extreme crime will be minimized proactively, and that money laundering and terrorist funding will be combated by effectively engaging and applying the FATF criteria in APG's memorandum. Nepal obtained membership of APG in 2002 and has expressed its commitment to fully comply with international AML/CFT standards. Nepal is quite active in APG and its forum and has continued to participate in all kinds of training and meetings by APG. Nepal has served as a member of APG steering committee representing south Asian countries for the year 2012/2013 and hosted 21<sup>st</sup> annual meeting at Kathmandu in July 2018. Financial Action Task Force (FATF)(FIU-Nepal, 2018): The FATF is an intergovernmental body founded by its member ministers in 1989. It is a political enforcement agency that aims at developing the requisite national legislative and regulatory reforms with the goal of setting standards, and facilitating the effective implementation of legal, regulatory, and operational measures against the integrity of an international financial system, money laundering, terrorism funding, and other related risks. Nepal is not a direct member of FATF, but is connected to FATF through APG. Nepal has been working with FATF through the ICRG proceedings since 2009 and has proved their commitment by respecting international standards through enactment and amendment of applicable legislation; the creation and designation of institutions such as the Financial Information Unit (FIU). The FATF's forty recommendations are considered as the global standards for countering money laundering, financing of terrorism, and financing of proliferation of weapons of mass destruction.

International Monetary Fund and World Bank (FIU-Nepal, 2018): Nepal is World Bank member and International Monetary Fund Member State. In line with Article IV of the International Monetary Fund Agreement, both institutions have a mandate for certain AML/CFT affairs. These global organizations provided capacity-building training and technical support for Member States. Both agencies have supported Nepal with providing the tools for transparency and preparing on how to going after dirty money. IMF has substantially supported Nepal in developing national AML/CFT strategy, legal supervisory and FIU capacity building frameworks which was continued till April, 2006.

Basel Committee on Banking Supervision (FIU-Nepal, 2018): Nepal has strong collaboration with the Basel committee on banking supervision, which was formed in 1974 by the central bank governors of the group of ten countries. The Basel committee strongly supports the adoption of FATF recommendations (BCBS, 2001). The implementation of KYC procedures facilitates protection of bank's reputation and integrity by reducing the probability of banks becoming a victim of the financial fraud are implemented in Nepal in aligned with the committee guidelines.

Egmont Group of FIUs(FIU-Nepal, 2018): The Egmont group is a united body of 159 financial intelligence units. It provides a platform for the secure exchange of expertise and financial intelligence to combat money laundering and terrorist financing. FIU-Nepal became a member of Egmont group on June 10, 2015 and is able to send requests for information to

other member jurisdictions by the Egmont Secure Web secure email network and also receive requests from other Egmont Group members. FIU-Nepal provides full cooperation with the group (FIU-Nepal, 2018).

### **Domestic Legislations for Combating Money Laundering**

**Policy Measures:** According to the report of Financial Information Unit of Nepal (FIU-Nepal) Annual Report 2019/2020, AML/CFT policy framework of Nepal begins with the AML/CFT national strategy to the numbers of statutes and regulatory/supervisory guidelines and conducting of the National Risk Assessment. The Government of Nepal (GON) had implemented a comprehensive National Strategy and Action Plan for Combating Money Laundering and Financing of Terrorism 2011–2016 and 2019-2024. The strategy incorporated the integrated criteria for the prevention of money laundering and terrorism financing issued by FATF in 2012.

**Legal Measures Nepalese:** According to the report of Financial Information Unit of Nepal (FIU-Nepal) Annual Report 2019/2020, Nepalese AML/CFT legal regime has been framed by the parliamentary enactments particularly in Money (Asset) Laundering Prevention Act, 2008; Second Amendment - Asset (Money) Laundering Prevention (Second Amendment) Act, 2014. Other laws relating to criminalization of predicate offences, regulation/supervision, MLA, extradition and confiscation (seizing and freezing) of criminal proceeds among others are integral to this system. Along with these legal instruments, NRB and other regulators have formulated and implemented offsite and on-site supervisory manuals so as to ensure the compliance of AML/CFT laws.

**Financial Information Unit (NRB, 2019):** Financial information unit (FIU) is Nepal's financial intelligence unit, established on 21<sup>st</sup> April, 2008, as an administrative FIU as a central, national agency responsible for receiving, processing, analyzing and disseminating financial information and intelligence on suspected money laundering and terrorism financing activities to the money laundering investigation department, other relevant law enforcement agencies and foreign FIUs. It is concentrated on converting financial information into intelligence by adding value in financial information (NRB, 2019).

### **Previous studies on AML-Global Perspective**

Parashar (2012) found, in their analysis, money is at the root of many evils including corruption, black marketing, trafficking in drugs, tax evasion and much more. The illicit movement of money between nations depends on qualities such as creativity, technology, the complexity of the business and the financial markets, the ethical conduct of businesses, education and national reporting requirements. In their study it was found that the change in technology will bring down the amount of money transferred via illegal channels such as the hawala system, thus bringing down the amount of money laundered. Ping (2005) has traced the past of the financial markets and other organizations' suspicious transaction reporting system. The author presented a summary of the production of data, i.e. from unreported, voluntary reporting to reporting criteria. The study further cited the extension of the reach of institutions under reporting obligations. Webb (2004) concluded that banks take their anti-money laundering responsibilities very seriously since the financial service authority has new powers to prosecute non-compliance. Likewise, Bekhouche (2018) attempted to find out the regulations and policies relating to money laundering in Malaysia. Author found that Malaysian governments have made huge efforts to regulate money laundering. Malaysia continues to make a broad and sustained effort to combat money laundering and terrorist financing flows within its borders. Raweh et al. (2018) studied banks in Yemen and shows that the majority of Yemeni banks comply with foreign anti-money laundering rules and

regulations. Researchers have noticed that most formal institutions like central banks and finance ministries and other government agencies are not able to work in a volatile political environment. Individual companies use the banking system in limited level for transactions so the government cannot follow the money sources and will increase the money laundering in Yemen economy. Parashar (2012) in their study identified that with increase in business sophistication the opportunity for money laundering is expected to increase as the increased complexity in business operations will lead to greater problems in tracking of funds. Maguchu (2017) analyzed the effects of the presidential powers, amendment to the money laundering and proceeds of crime act to include legal practitioners under the list of designated non-financial business and professions. It was found that anecdotal evidence that the AML legislation turns lawyers into watchdogs or law enforcement agents and lack of empirical research can make difficult to understand the impact of the provisions of the law on contested issues.

Similarly, Kemal (2014) explored the effectiveness of AML regulations in Pakistan and found that there is a moderate impact of employee training on money laundering in banking system. A moderate inverse relationship between employee training and money laundering and anti-money laundering regulation of customer record keeping has weak impact on money laundering in developing countries. Parashar (2012) in their study identified that ethical behavior has a positive effect on the degree of money laundered, i.e. as the ethical behavior of banks increases the amount of money laundered decreases. In the study of Viritha & Mariappan (2016) studied about the level of awareness and acceptance of bank customer regarding anti-money laundering practices of banks and stated that consumers have low level of awareness. The awareness on ML/TF risk and AML/CFT laws is significantly higher in bank employees when compared to bank customers. Viritha and Mariappan (2016) in their study identified that increment in trainings and development of employees regarding AML helps to prevent money laundering activities. Viritha (2015) conducted study to assess the level of compliance with regulatory guidelines on anti-money laundering in the scheduled commercial banks in India, and to understand the bottlenecks in AML implementation. It was found that the bottlenecks in AML implementation were deficit of resources, lack of customer support, training, feedback, and information exchange.

Arasa and Ottichilo (2015) studied the effect of customer characteristics, staff competency, information communications technology infrastructure, and bank size on the level of KYC requirements. In similar manner, the effect of AML Policy on bank performance was assessed by Idowu and Obasan (2012). The analysis showed that the performance of the banks was having stronger positive relationship with AML policy as implemented. The study also showed that most bank workers knew about and understood the AML policy. Parashar (2012) in their study identified that money laundering is expected to decrease with greater macroeconomic stability and stronger auditing and reporting standards in the country. Shahin (2013) presented a case study how Lebanon being a small open economy with a free market oriented banking sector complied with international rules and personal initiatives in the global fight for AML/CFT and shed light on the cooperative role played by banks in the AML/CFT arena. It was found that the Lebanon banking sector was abiding by international sanctions taken to deter any infiltration; and Lebanese banks, whether in Lebanon or abroad, were maintaining good and clear relations with correspondent banks. Likewise, Subbotina (2009) assessed the Russian bank's compliance with the regulatory norms on AML and found that the banks failed to comply with the AML regulation. The reasons attributed for the failure were: AML laws were too flexible which can be interpreted in different ways, lack of understanding of the international AML norms and standards by the participants, lack of feedback on the effectiveness of the measures taken by the banks, AML compliance activities were driven by

fear rather than a desire to contribute to the fight against money laundering. Wit (2007) presented the importance of the risk-based approach in implementation of anti-money laundering (AML) system and expressed that there is risk of a non-monitored low-risk customer turning out to be a money launderer or that a non-monitored transaction turning out to be suspicious. Vaithilingam and Nair (2007) study indicated that effective legal framework and ethical behavior of the firms were most important in reducing the extent of money laundering globally and impact of these five factors on spread of money laundering in developing countries was significantly lower than in developed countries.

With this background the study considered the effectiveness of AML practices in banking sector of Nepal to be measured using variables training & development of employees regarding AML, ethical behavior of banks, technology, control over business sophistication and auditing & reporting standards of the banks.

### **Hypothesis**

Based on the above discussions the following hypotheses have been developed for the study.

H<sub>1</sub>: Trainings and development of employees regarding AML effects AML practice effectiveness in banking sector.

H<sub>2</sub>: Ethical behavior of banks effects AML practice effectiveness in banking sector.

H<sub>3</sub>: Change in technology effects AML practice effectiveness in banking sector.

H<sub>4</sub>: Control over business sophistication effects AML practice effectiveness in banking sector.

H<sub>5</sub>: Auditing and reporting standard effects AML practice effectiveness in banking sector.

### **RESEARCH DESIGN**

The research is descriptive in nature and adopted quantitative approach. Data has been collected by formulating the set of questionnaires which was distributed to the employees of banks. The population for this study was comprised of employees working in commercial banks of Nepal. There are 19,581 employees in 27 commercial banks. The respondents were selected on the convenience. The questionnaire was distributed to 200 employees of Nepalese commercial banks and 136 responses were collected. A structured questionnaire was developed referring to the study of Parashar (2012) and Viritha and Mariappan (2016) in five-point rating scale (1=Strongly Disagree; 2=Disagree; 3=Neutral; 4=Agree; 5=Strongly Agree) to meet the objectives of the study.

### **RESPONDENTS PROFILE**

Out of total respondents of 136, there were 83 males and 53 females comprising the percentage of 61% and 39% respectively which shows that the participation of male respondents was more than that of female respondents. There were 86 respondents of Masters Level and 50 of Bachelors level which shows 63.2% of respondents of Master's level and 36.8% respondents of Bachelor level. The respondents from public and private banks are 62 and 74 respectively. It comprises 45.6% respondents from public banks and 54.4% respondents from private bank. Likewise, the respondents holding the position of assistant level, officer level and manager level are 89, 45 and 2 respectively. It comprises 65.4% respondents from assistant level, 33.1% respondents from officer level and 1.5% from manager level. The dominant position holding is assistant representing 65.4% and the least respondents belong to manager level representing 1.5% only. The respondents with work experience up to 2 years, 3 to 5 years and more than 5 years are 69, 49 and 18 respectively. It comprises 50.7% respondents having experience up to 2 years, 36% respondents having experience of 3 to 5 years and 13.2% respondents from experience more than 5 years. The

dominant group of work experience belongs to up to 2 years representing 50.7%.

### **AML AWARENESS AMONG BANKING EMPLOYEES**

Five questions were asked regarding the anti-money laundering awareness focusing to origins of illicit money, increases crime and lead to terrorism, promotes bribery and corruption, affects our national economy, working mechanism of Financial Intelligence Unit (FIU). The employees are aware of the AML dimensions ( $M=4.40$ ,  $SD=0.791$ ), highest  $M=4.50$  relates to 'Money laundering affects our national economy' and the lowest  $M=4.32$  relates to 'I am aware that Financial Intelligence Unit (FIU) is a department working under Nepal Rastra Bank (NRB)'. The result shows that respondents are aware that money laundering activities affects our economy and nation. They agree that they are aware of what the money laundering is and money laundering increases crimes, bribery and corruption. The respondents are also aware of Asset Laundering Prevention Act. However, respondents are comparatively less aware about FIU working department under NRB than other statements.

Status of internal and external factors on effectiveness of AML practices in banks of Nepal.

The internal and external factor were measured in training and development, ethical behavior of bank, change in technology, control over business sophistication and auditing and reporting standard. The result shows that 'ethical behavior of bank' having the highest agreement of the employees, that can be interpreted that ethical behaviour of bank is implicating in AML practices of the bank. It has the mean value of 4.37 with  $SD = 0.579$ . Likewise, the lowest mean value of 3.94 ( $SD = 0.707$ ) relates to 'training and development of employees regarding AML', shows the agreement on ethical behavior of bank on AML practices helps more to track money laundering activities as compared to training and development of employees regarding AML that helps to track money laundering activities. Similarly, 'auditing and reporting standard' has mean value of 4.30 ( $SD=0.574$ ), shows agreement on the auditing and reporting standard in banks helps employees in compliance of AML practice in the banks. Change in technology ( $M=3.98$ ,  $SD=0.664$ ), control over business sophistication ( $M=3.99$ ,  $SD=0.686$ ) shows that the agreement are moderate shows that these factors are also important for the effectiveness of the AML practices in their respective banks. The respondents perceived that the effectiveness of AML practices in the banks are moderate with mean of 3.87 ( $SD=0.687$ ).

The results indicate that the bank provides periodical trainings to their employees but effectiveness of AML training are evaluated comparatively less than training itself. It shows that the employees get periodical trainings on AML measures and subject matters are sufficient and relevant. Likewise, banks fill Know Your Customer (KYC) as directed by regulatory bodies but prospective and existing customers are reviewed if they are banned or blacklisted comparatively less than filling KYC. It is evident that the bank's ethical behaviors are good. In the context of the change in technology in bank, the result shows that bank does proper research of customers before giving ATM cards and online facilities but due to development of electronic transfer system by my bank prevents money laundering less as compare to research on ATM card distributions. The change in technology helps in effectiveness of AML practices in the banks. The bank verifies the Article of Association and Memorandum of Association of companies during account opening process but fund mobilization by our bank's customers within family business houses creates money laundering. It shows that bank control over business sophistication, subsequently helps in effectiveness of AML practices.

Further, the findings show that the bank keeps record of Suspicious Transaction Report after reporting it but bank uses an internal system comparatively less for detecting and reporting unusual and suspicious activities. The auditing and reporting standard are given concern by



the bank and supports in effectiveness of AML practices. In the similar manner, the effectiveness of AML practices was prioritized through training and development by the bank on AML practices, that helps to track money laundering activities, however, the challenges as raised was the difficulty to protect prospective customers because of KYC requirements in my bank. Overall, the result indicates that there are effective AML practices in banking sector of Nepal.

**TABLE 1 DESCRIPTIVE STATISTICS OF THE STUDY VARIABLES**

| Variables  | N   | Mean | SD   |
|--|-----|------|------|
| <i>Training and development</i>                                  | 136 | 3.94 | .707 |
| <i>Ethical behavior of bank</i>                                  | 136 | 4.37 | .579 |
| <i>Change in Technology</i>                                      | 136 | 3.98 | .664 |
| <i>Control over business sophistication</i>                      | 136 | 3.99 | .686 |
| <i>Auditing and reporting standard</i>                           | 136 | 4.30 | .574 |
| <i>Effectiveness of AML practices in banking sector of Nepal</i> | 136 | 3.87 | .687 |

**Relationship of internal and external factors on Effectiveness of AML practices in banking sector of Nepal**

Pearson’s Correlation analysis was used to analyze the relationship between the independent and dependent variables associated with this study. The results show that the training & development and effectiveness of AML practices in banking sector of Nepal is moderately correlated ( $r = 0.411$ ,  $p < 0.01$ ), which implies that the two variables are positively correlated. Similarly, ethical behavior of bank and effectiveness of AML practices in banking sector of Nepal is moderately correlated ( $r = 0.390$ ,  $p < 0.01$ ) which implies that the two variables are positively correlated. Likewise, change in technology and effectiveness of AML practices in banking sector of Nepal is also correlated ( $r = 0.446$ ,  $p < 0.01$ ) which implies that the two variables are positively correlated. Further, this value indicates that there is moderate correlation between change in technology and effectiveness of AML practices in banking sector of Nepal. The control over business sophistication is moderately correlated with the effectiveness of AML practices in banking sector of Nepal ( $r = 0.556$ ,  $p < 0.01$ ). Last but not the least, the correlation coefficient between auditing and reporting standard and effectiveness of AML practices in banking sector of Nepal is  $r = 0.486$ ,  $p < 0.01$ , which implies that the two variables are moderate positively correlated.

**TABLE 2 CORRELATION ANALYSIS**

| Variables                                   | <i>Effectiveness of AML practices in banking sector of Nepal</i> |
|---|--|
| <i>Training and development</i>             | .411 <sup>**</sup>   |
| <i>Ethical behavior of bank</i>             | .390 <sup>**</sup>   |
| <i>Change in Technology</i>                 | .446 <sup>**</sup>   |
| <i>Control over business sophistication</i> | .556 <sup>**</sup>   |
| <i>Auditing and reporting standard</i>      | .486 <sup>**</sup>   |

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

**Impact of internal and external factor on Effectiveness of AML practices in banking sector of Nepal**

The regression analysis indicates the R-square value as 0.356,  $F = 14.347$ ,  $p < 0.01$ , which means 35.6% variation in effectiveness of AML practices in banking sector of Nepal is explained by training and development, ethical behavior of bank, change in technology, control over business sophistication, auditing and reporting standard. The five dimensions of effectiveness of AML practices in banking sector of Nepal i.e. training and development, ethical behavior of

bank, change in technology, control over business sophistication, auditing and reporting standard has regression coefficient of 0.076, 0.072, 0.123, 0.359 & 0.202 respectively. Based on the coefficients, the regression equation for the effectiveness of AML practices in banking sector of Nepal can be written as:  $\hat{Y} = 0.969 + 0.076X_1 + 0.072X_2 + 0.123X_3 + 0.359X_4 + 0.202X_5$ . However, the result shows that the factor ‘control over business sophistication’ dimension is only significant that impact on effectiveness of AML practices in banking sector of Nepal.

**TABLE 3 REGRESSION ANALYSIS ESTIMATES**

| R   | R Square                    | Adjusted R Square | Std. Error of the Estimate | F      | Sig. |
|---|-----------------------------|-------------------|----------------------------|--------|------|
| 0.596                                     | .356                        | .331              | .562                       | 14.347 | .000 |
| Variables                                 | Unstandardized Coefficients |                   | Standardized Coefficients  | T      | Sig. |
|   | B                           | Std. Error        | Beta                       |        |      |
| (Constant)                                | .969                        | .401              |                            | 2.417  | .017 |
| Training and development                  | .074                        | .095              | .076                       | .781   | .436 |
| Ethical behavior of bank                  | -.086                       | .131              | -.072                      | -.654  | .514 |
| Change in Technology (X3)                 | .127                        | .106              | .123                       | 1.202  | .232 |
| Control over business sophistication (X4) | .360                        | .098              | .359                       | 3.657  | .000 |
| Auditing and reporting standard (X5)      | .242                        | .137              | .202                       | 1.767  | .080 |

## HYPOTHESIS TESTING RESULTS

Based on the regression analysis the hypotheses were tested. The regression analysis evidently implicates that the ‘Control over business sophistication’ dimension only significantly effects AML practice effectiveness in banking sector. This result implicates that H<sub>1</sub>, H<sub>2</sub>, H<sub>3</sub>, and H<sub>5</sub> is rejected and H<sub>4</sub> is accepted.

## DISCUSSION

The main purpose of this study was to assess the anti-money laundering awareness level of bank employees and to examine the highly influencing factor that affects the level of effectiveness in AML practices in Nepalese Banking Sector. The study helps to examine the anti-money laundering awareness level of bank employees, and to find the effect of training and development of employees regarding AML, ethical behavior of banks, change in technology, control over business sophistication, and auditing and reporting standard on effectiveness of AML practices in baking sector of Nepal. The finding of the study indicates that the employees are aware of the AML dimensions and banks in Nepal are nicely implementing AML practices. Similarly, like other countries Nepal is prompt in the AML initiatives and banks are following and implementing the same. The findings are aligned with Shahin (2013), Bekhouche (2018), Raweh et al. (2018), where they mentioned Shahin (2013), found that the Lebanon banking sector was abiding by international sanctions taken to deter any infiltration; and Lebanese banks, whether in Lebanon or abroad, were maintaining good and clear relations with correspondent banks. Raweh et al. (2018) found majority of Yemeni banks comply with foreign anti-money laundering rules and regulations. Bekhouche (2018) attempted to find out the regulations and policies relating to money laundering in Malaysia. However, in comparision to the study of Subbotina (2009), where it was found that the Russian bank’s failed to comply with the AML regulation.

Similarly, Viritha and Mariappan (2016) studied about the level of awareness and acceptance of bank customer regarding anti-money laundering practices of banks. Researchers found that the awareness on ML/TF risk and AML/CFT laws is significantly higher in bank employees when compared to bank customers. The respondents perceived that the effectiveness of AML practices in the banks is moderate. The finding of this result indicates that training and development of employees regarding AML, ethical behavior of banks, change in technology, control over business sophistication and auditing and reporting standard are major attributes in Nepal for AML practices. It is aligned with the previous studies of Parashar (2012), in which it was identified that the illegal flow of money between the nations depends on the attributes like innovation, technology, business and financial market sophistication, ethical behavior of firms, education and reporting standards in the country.

The current situation in Nepal regarding AML implementation, the bank employee is getting trainings periodically; shows that there are sufficient training frequencies and the subjects matter are sufficient and relevant in day to day operation for tracking money laundering activities. It is aligned with the research of Kemal (2014), in which it was explored the effectiveness of AML regulations in Pakistan. The study found that there is a moderate impact of employee training on money laundering in banking system. Likewise, in this research it was found that the banks follow the directives of regulatory body which shows the sound ethical behavior of banks. Due to implication of GoAML by Nepal Rastra Bank the level of technology is at peak level to control money laundering and removing Hundi and Dhukiti systems. Parashar (2012) concluded that there is a strong and positive influence of Ethical Behavior of firms on the amount of illicit money flows. Technology seems to have a positive influence in the reduction of illicit money flows indicating that it could be due to increased and easier access to financial systems for money transfer. This bypasses the need to route money through illegal money laundering channels such as the hawala and hundi systems. With regard to the customer identification, verifying the authenticity of the identity documents was a serious challenge because of the ease with which they can be forged. In Nepal, due to implication of Suspicious Transaction Report (STR) and Threshold Transactions Report (TTR) by Nepal Rastra Bank the level of auditing and reporting is at peak level to control money laundering. As such, Simwayi & Wang (2011) studied the role of commercial banks in combating money laundering. They identify the difficulties faced by the compliance officers who ranged from customer identification to identifying and reporting suspicious transactions.

Likewise, in this study, it was found that here is a significant effect of control over business sophistication on effectiveness of AML practices in banking sector of Nepal. The results show that if the banks do not verify the Article of Association and Memorandum of Association of companies during account opening process, then the money laundering activities will increase. Also, if the banks do not verify the sender of international fund transfer with respect to their nature of business, then the money laundering activities will increase. It shows that the additional change in control over business sophistication helps to implement the AML practices in banks effectively. It is similar to the study results of Parashar (2010) concluded that business sophistication has an inverse impact on money flows as well. This is in line with our hypothesis that as the business complexity increases money laundering becomes easier.

## **CONCLUSION**

This paper explores the awareness of employees on AML and anti-money laundering (AML) practices in banking sector in Nepal. The countries are becoming increasingly active in national policymaking worldwide in accordance with international standards for the Anti-Money Laundering and Terrorism Financing — subsequently the CFT / AML — policy. Increases in national policy making around the world are playing the role of country-

conformity with international standards for counter-money laundering and counter-terrorism finance – AML/CFT afterwards. Financial institutions are vital in the context of the AML/CFT in Nepal. In response, international anti-money laundering (AML), policy, legal, collaboration and implementation efforts are being made. Increasingly, anti-money laundering (AML) systems are being implemented to combat ML. At the implementation level of the banks, the foremost area is the employees need to be well trained on anti-money laundering practices and its consequences. Anti-money laundering practices in Nepal from the perspective of the employees of the banks is effective and going well and more control mechanism is required for business sophistication. The study concludes that the training and development of employees regarding AML, ethical behavior of banks, change in technology, control over business sophistication, and auditing and reporting standard are equally beneficial for the effective implementation of AML practices in banking sector of Nepal, of which the control over business sophistication is most important component, that's need to emphasize more.

## **IMPLICATIONS**

The financial institution along with the banks in the country should provide continuous training and development to employees regarding AML, particularly for those employees working in the front office and the back office involved in AML operations. Alongside, the institutions need to build compliance culture and motivate employees by providing various rewards to increase compliance with AML. It is also evident that the banks should encourage their employees to actively adopt the change in technology and auditing and reporting standard from regulatory bodies to avoid such activities in future. Banks will have to employ or enhance AML tools and technology to satisfy rising regulatory expectations (Gao and Xu, 2009). The AML practice to control over business sophistication should be constantly and strictly monitored and guided by bank management. As research implications, future research should be conducted to identify impact of training and gap between money laundering effort and its implementation and be relating to AML policies, and by comparing them with international policies, it seems necessary to identify the gap in implementation.

## **REFERENCES:**

1. Arasa, R., & Ottichilo, L. (2015). Determinants of know your customer (KYC) compliance among commercial banks in Kenya. *Journal of Economics and Behavioral Studies*, 7(2), 62-175.
2. Araujo, R. A. (2008). Assessing the efficiency of the anti-money laundering regulation: an incentive-based approach. *Journal of Money Laundering Control*, 11(1), 67-75.
3. Asia Pacific Group. (2011). *Anti-Money Laundering and Combating the Financing of Terrorism*. Asia Pacific Group on Money Laundering.
4. BCBS. (2001). *Customer Due Diligence for Bank*. Bank for International Settlements, Basel.
5. BCBS. (1998). *Prevention of Criminal use of the Banking System for the Purpose of Money Laundering*. Retrieved from Bank for International Settlement: <http://www.bis.org/publ/bcbssc137.htm>
6. Beaumier, C. M. (2008). Anti-money-laundering compliance: Elements of a successful program. *Bank Accounting & Finance*, 21(2), 39-43.
7. Bekhouche, I. E. (2018). Money laundering in Malaysia, regulations and policies. *International Journal of Law*, 4(2), 22-26.
8. FATF. (2019). *Methodology for Assessing Technical Compliance with the FATF*

*Recommendations and the Effectiveness of AML/CFT Systems*. FATF France.

9. FATF. (2012). *International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation*. Paris: The FATF Recommendations.
10. FIU-Nepal. (2018). Annual Report. Nepal Rastra Bank 2018/19, Financial Information Unit.
11. FIU-Nepal. (2019). Annual Report 2019/20. Nepal Rastra Bank, Financial Information Unit.
12. Gao, S., & Xu, D. (2009). Conceptual modeling and development of an intelligent agent-assisted decision support system for anti-money laundering. *Expert Systems with Applications*, 36(2), 1493-1504.
13. Idowu, A., & Obasan, K. A. (2012). Anti-money laundering policy and its effects on bank performance in Nigeria. *Business Intelligence Journal*, 6(3), 367-373.
14. International Monetary Fund. (2018). *Internal Monetary Fund*. Retrieved from [www.imf.org](https://www.imf.org): <https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/16/31/Fight-Against-Money-Laundering-the-Financing-of-Terrorism>
15. International Monetary Fund. (2015, March). *International Monetary Fund*. Retrieved from The IMF and Fight Against Money Laundering and the Financing of Terrorism: <http://www.imf.org/external/np/exr/facts/aml.htm>
16. INTERPOL. (2019). *INTERPOL*. Retrieved from Fighting Money Laundering goes hand in hand with investigating the crimes it is linked to: <https://www.interpol.int/en/Crimes/Financial-crime/Money-laundering>
17. Kemal, M. U. (2014). Anti-money laundering regulations and its effectiveness. *Journal of Money Laundering Control*, 17(4), 416-427.
18. Maguchu, P. S. (2017). Money laundering, lawyers and President's intervention in Zimbabwe. *Journal of Money Laundering Control*, 20(2), 138-149.
19. Mainali, S. P. (2004). *Money Laundering Problems, Their implications and Government Efforts in the Nepalese Context*. Ministry of Public Administration. Prasaran.
20. NRB. (2019). *Asset (Money) Laundering Prevention Act*. Retrieved from [www.nrb.org.np](http://www.nrb.org.np): [https://www.nrb.org.np/lgd/acts\\_ordinances/Asset%20\\_Money\\_%20Laundering%20Act,%202008%20\\_Eng%5B1%5D.\\_.pdf](https://www.nrb.org.np/lgd/acts_ordinances/Asset%20_Money_%20Laundering%20Act,%202008%20_Eng%5B1%5D._.pdf)
21. Maguchu, P. S. (2017). Money laundering, lawyers and President's intervention in Zimbabwe. *Journal of Money Laundering Control*, 20(2), 138-149.
22. Masciandaro, D., & Filotto, U. (2001). Money laundering regulation and bank compliance costs: What do your customers know? Economics and the Italian experience. *Journal of Money Laundering Control*, 5(2), 133-145.
23. NRB. (2019). *Nepal Rastra Bank*. Retrieved from [www.nrb.org.np](http://www.nrb.org.np): [https://www.nrb.org.np/fiu/pdf/files/AML-CFT\\_Act\\_2008\\_\(English\)\\_20690118.pdf](https://www.nrb.org.np/fiu/pdf/files/AML-CFT_Act_2008_(English)_20690118.pdf)
24. Parashar, N. (2012). Factors Affecting Money Laundering: A Lesson for Developing Countries. *Drishtikon: A Management Journal*, 3(2), 108-139.
25. Ping, H. (2010). A typological study on money laundering. *Journal of Money Laundering Control*, 13(1), 15-32.
26. Ping, H. (2005). The suspicious transactions reporting system. *Journal of Money*

*Laundering Control*, 8(1),48-55.

27. Popa, G. D. (2014). Globalization Today and Money Laundering. *The Proceedings of the International Conference.1*, pp. 77-80. Globalization, Intercultural Dialouge and National Identity.
28. Raweh, B., Shihadeh, F., Alobaidi, F., & Aloqab, A. (2018). Do Yemeni Banks Adhere to Best Practices of Anti Money Laundering?. *Business and economic research*, 8(1), 164-177.
29. Sarigul, H. (2013). Money laundering and abuse of the financial system. *International Journal of Business and Management Studies*, 2(1), 287-301.
30. Shahin, W. (2013). Compliance with international regulation on AML/CFT: the case of banks in Lebanon. *Journal of Money Laundering Control*, 16(2), 109-118.
31. Subbotina, N. (2009). Challenges that Russian banks face implementing the AML regulations. *Journal of money laundering control*, 12(1), 19-32.
32. Thapa, R. (2015). Evolution of Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Compliance Culture in Nepal. *IPBA (Inter-Pacific Bar Association) Journal*, 11-14.
33. Simwayi, M., & Wang, G. (2011). The role of money laundering reporting officers in combating money laundering in Zambia. *Journal of Investment Compliance*, 12(3), 49-55.
34. Verhage, A. (2011). *The anti-money laundering complex and the compliance industry* (Vol. 3). Taylor & Francis.
35. Vaithilingam, S., & Nair, M. (2007). Factors affecting money laundering: lesson for developing countries. *Journal of Money Laundering Control*, 10(3), 352-366.
36. Viritha, B., & Mariappan, V. (2016). Anti-money laundering practices in banks: customer's awareness and acceptance in India. *Journal of Money Laundering Control*, 19(3), 278-290.
37. Webb, L. (2004). A survey of money laundering reporting officers and their attitudes towards money laundering regulations. *Journal of Money Laundering Control*, 7(4), 367-375.
38. de Wit, J. (2007). A risk-based approach to AML: A controversy between financial institutions and regulators. *Journal of Financial Regulation and Compliance*, 15(2), 156-165.
39. Viritha, B., Mariappan, V., & Haq, I. U. (2015). Suspicious transaction reporting: an Indian experience. *Journal of Money Laundering Control*, 18(1), 2-16.

