Determinant of Compliance Perceptions among Bank Officers towards Anti-Money Laundering

Nor Balkish Zakaria*, Norazida Mohamed, Nuha Marzukai

Accounting Research Institute, Universiti Teknologi MARA, Shah Alam, Malaysia

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Abstract The purpose of this study is to investigate the perceptions of determinants of anti-money laundering compliance among banking officers in mitigating money laundering. There are three independent variables that are employed in this study to understand and analyze the level of perceived compliance among the banking compliance officers, which are the regulatory comprehensiveness, training, and awareness. The data were collected through the distribution of questionnaires to 56 banks in Malaysia. The findings of this study show that there is a positive relationship between regulatory comprehensiveness, training, and awareness on the perceived level of compliance. This study recommends that efforts should be made by the banking institution to strengthen the anti-money laundering regulation and policy to improve the efficiency of financial institutions in Malaysia. In addition, the compliance officer's competency should be enhanced to ensure better compliance quality.

Keywords Anti-Money Laundering, Compliance Perceptions, Banking Institution

1. Introduction

The consequence of money laundering cases has dented the world economy as they affect the operations in the global financial system. Hence, the problems have contributed to poorer economic policies Omar & Johari [13] and harm legal activities in the private sector, infiltrate the

financial system and lead to economic instability [24]. Money laundering is defined as the conversion, concealment, and transfer of criminal proceeds of crime to disguise their illegal origin [30]. According to Mekpor et al. [9], representative money, fiat money and commodity money are the key typologies of money discussed in existing literature.

There are three stages that are normally involved in money laundering namely, placement, layering, and integration. The physical disposal into the domestic or international financial systems of the cash proceeds is acquired from illegal activities. This can be achieved by placing illicit funds in a financial institution that is either domestic or offshore. In addition, it can be achieved by using illicit proceeds to buy luxury items, such as paintings, precious metals and real estate. The second stage is the layering stage. The layering stage includes the isolation of proceeds by the use of several complex financial transactions from their illicit proceeds. The last step is the integration stage. Illegal proceeds are converted into apparently legitimate business earnings by normal business activities during the integration stage.

Global money laundering statistics show that about 2 to 5 per cent of global GDP is lost each year due to global money laundering transactions. Malaysia has claimed that USD 150 billion (RM 482.92 billion) of illicit money has fled the country. Based on the 2019 statistics from the Global Financial Integrity Report, Malaysia is among the world's top 30 countries with an outflow of USD 33.7 billion in illicit funds. This indicates that regulatory comprehensiveness plays an important role to mitigate the

money laundering cases in Malaysia. In addition, compliance among financial regulators is also significant to ensure tighter control of money laundering cases.

The major challenges faced by the compliance officers in battling money laundering are the complexity of the process. Technological advancement and globalization have made it easier for criminals to facilitate their money laundering activities [31]. Banks being the first line of defense are always caught in the middle between reporting a suspicious transaction and providing a greater shareholders' return.

Hence, this study aims to examine the determinants of anti-money laundering compliance as perceived by compliance officers employed in the banking sector. The next section of this paper will review the underpinning theories as well as the prior study's findings. Next, the methodology section will discuss the sampling and analysis test involved. The finding section will table out the results and discuss them in detail. Finally, the last section concludes the overall study.

2. Literature Review

Compliance has various definitions, but a more definitive meaning of compliance has been mentioned in a study by Prorokowski & Prorokowski [16], which stated that compliance is defined as conforming to a rule, such as policy framework, standard or law. Compliance in the banking industry is described as identifying, recording, and assessing compliance risk connected with bank activities, such as new goods and procedures, planned development of new types of business, client relations, and major changes in the nature of such relations [12].

Level of compliance indicates that the degree of compliance an organization has achieved for a program or requirement is truly an important concept in a banking sector. This is due to the difference in the definitions that makes the level of compliance is critically argued about how to describe the level of compliance. According to Pok [16], compliance reporting is usually analyzed based on published reports but what goes inside an organization within the compliance reporting community is still unclear. In the banking sector, the level of compliance can be measured using many methods. Mekpor et al. [9] used AML/CFT compliance index in order to measure the compliance level of the FATF member states. Furthermore, Viritha et al. [26] measures the level of compliance by assessing the bank employee's perception towards the compliance of AML policy in their bank. Despite the fact that there are diverse definitions of level of compliance, the general understanding is that compliance officer's overall responsibility is to make sure that the company is compliant [11].

Verhage [25] interviewed bank compliance officers in Belgium to understand their practices and challenges and second, to assess the effectiveness of the compliance

officers' input in the anti-money laundering (AML) chain in Belgium. The compliance officers claimed that there were several challenges or "growing pains" occurring during their practices of compliance such as problematic access to information, lack of feedback from the authorities and limited investigative means despite of better improvement in risk disclosures among Malaysian banks over the years [18].

Lokanan & Nasimi [8] found that the international AML procedures in the fight against money laundering are compliant but there are still more procedures that banks in Bahrain should take into account in order to provide a more effective system to minimise the danger of money laundering.

However, by forcing institutions to report transactions that are less suspicious consequence to excessive reporting, and this will fail to identify what is truly relevant. Hence for this study, the measurement by Pok et al. [15] was used for measuring the perceptions of the compliance officers in banking sector. Perceptions of compliance officers refer to their perceptions towards the regulatory comprehensiveness framework, training and awareness.

Definition from the banking sector point of view in 2018 by World Bank, states that regulatory comprehensiveness captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. Similarly, Mekpor et al. [9] mentioned that regulatory comprehensiveness is measured how well the leadership of a country is able to develop laws and execute sound policies that create and enable environment for the public sector to thrive.

Sharman [19] studied the differences in adopting the same international strategy by developing and industrialized countries. One of the causes for low compliance in underdeveloped countries, according to his findings, is an inadequate regulatory structure. This illustrates that the comprehensiveness of the regulatory framework has a considerable impact on AML/CFT compliance.

Furthermore, Omar et al. ([14] examined the perception of Malaysian accountants on the requirement of AML/CFT. Many accountants believed that the enforcement action by the law enforcement authorities is the most effective in deterring and detecting money laundering. Somehow, security and privacy as well as perceived risks have a significant relationship with peoples' behaviour [1].

1 Malaysia Development (1MDB) case, which referred to a nationwide investigation from 2015 to 2020 by the Malaysian Anti-Corruption Commission (MACC), Attorney-Generals' Chambers, Royal Malaysia Police and Bank Negara Malaysia about the possible misused of public funds inside the 1 Malaysia Development Fund Berhad was considered to be the largest media coverage in Malaysia's corruption history. Due to the 1MDB scandal it has given an adverse effect on business in Malaysia and is one of the most powerful obstacles to the economic

development of a country as it weakens the rule of law and undermine the trust in public institutions.

Verhage [25] examined the quality of the AML policy in Belgium by measuring the effectiveness of the policy in curbing money laundering crimes. The findings state that the regulations imposed by the government such as the AML policy also help in increasing the compliance function in the banks. However, the findings also stated that, even though the AML policy has been substantial, the outcome of the AML chain seems modest. This means that, even the regulatory on money laundering is effective and comprehensive, it is still useless if the compliance officers are given limited access to several kinds of information. As a result, regulatory comprehensiveness of the banking sector might be defined as the effectiveness of policies and regulations in this study.

This study had used the measurement by Usman [24] for assessing compliance officers' attitudes regarding training in the banking industry. It will be made up of a mix of efficacy, frequency, and training types. Training acts as a strategic business tool for organizational development. Similarly, Milhem, et al. [10] explained, training refers to the obtaining of or transferring knowledge, skill and abilities process needed to carry out a specific activity or functions. In the perspective of a banking sector, Usman (2014) defined training as an effective coaching and mentoring process for changing the employee's attitude, skills, knowledge and behavior for better. Compliance officers must have decent individual attributes, ample experience and skills in the field in order to lead the compliance function.

Training modes can be either accreditation programs, face-to-face, seminars, written material-based, computer-based, DVDs and briefing by regulatory bodies (Omar, Mohd-Sanusi, & Prabowo, 2015). Pok et al., (2014) studied various modes of training conducted by the banking sector for the AML policy and their finding shows that most compliance officers in Islamic banks had undergone the training in each of the modes compared to the compliance officers in conventional banks.

People working in the banking sector are mostly well aware on the terms of money laundering due to banks being the gatekeeper of the crime. In general, awareness is defined as the state or capability to perceive events, objects or sensory patterns, to sense or to be conscious of them. Awareness by different groups of people such as accountants, compliance officer, customers and bank employees can be seen by several studies. For instance, the study of Omar et al. [14] showed that most of the accountants are aware on the requirements set up however most accountants believed that there should be more effective measures to deter and detect money laundering. This is supported by Zolkafli et al. [31] that highlighted knowledge and awareness of latest events can help to solve problems of complexity. Moreover, money launderers always find new methods in order to launder money without getting caught.

Viritha & Mariappan [27] reported on the compliance officers' awareness towards any new methods and found that compliance officers are more aware on the common methods of money laundering such as offshore banks, consulting firms, money transfer services, gold sector and jewelry sector compare to the more exotic methods.

The underpinning theory for this study is Rational Choice Theory (RCT). It is widely used in supporting any examinations from an offender's perspective. Rational Choice Theory determined what options are available and then chose the most preferred one according to some consistent criteria [7]. With regards to the compliance officer viewpoint, RCT is used during the decision-making process. Compliance officer calculates the cost benefits calculations when making a decision.

From the criminological point of view, this theory defines how criminals follow an identifiable cost-benefit analysis, displaying preferences for easy, rewarding and safe crimes while taking into account the risk, effort and potential reward [5]. In essence, the same concept can be applied to the compliance officer in making decisions identifying a transaction is deemed to be illegal or not.

3. Methodology

Hypotheses Development

Yepes [29] indicated that better regulatory comprehensiveness framework is usually associated with high compliance. The findings demonstrated that a better regulatory comprehensiveness framework has a positive and statistically significant impact on the country's compliance with the AML/CFT standard. When the regulatory is at the comprehensive level, it will bring about a higher compliance level. Furthermore, according to Mekpor et al. [9], the comprehensiveness of the international anti-money laundering regulatory system is heavily reliant on the comprehensiveness of local regulatory frameworks. As a result, no matter how good the FATF Recommendations are, when implemented to a local jurisdiction with a poor regulatory framework, they are often ineffectual.

In Malaysia, the banking sector is the major reporting institution scrutinized under the Anti-Money Laundering, Anti-Terrorism Financing Proceeds of Unlawful Activities Act 2001 (AMLATFPUAA), being a compliance officer in the banking sector will act at the forefront in fighting money laundering crimes. Furthermore, compliance officers as the leading edge in this crime are more capable of what changes are necessary for the process, legislation, monitoring or implementation that would yield the expected results. The regulatory authorities may consider a collaborative approach with the banking sector such as providing analysis of the reports submitted by compliance officers as it will help the ground-level agencies to train their staff accordingly and raise awareness about newer

methods of operation used by organized crime [15]. Furthermore, the regulatory framework has an impact on the quality or value of reporting because if compliance officers believe the regime is effective, they will produce reports that contribute to the regime's goal. If people do not believe the regime is effective, on the other hand, they are more inclined to file reports solely to stay out of trouble. This means that compliance officers can produce a higher-quality report when the regulatory framework is complete.

H1: There is a relationship between regulatory comprehensiveness and perceived level of compliance among compliance officers in banking sector in Malaysia.

Usman [24] found that training and the perceived level of compliance show a positive and significant correlation among the compliance officers. Consequently, the level of compliance could be improved by having a relevant training program. Furthermore, Bosworth-Davies [2], confirmed that training has a serious effect on the level of compliance. From the study, it was found that there is a direct correlation between training and the level of compliance. Additionally, Viritha et al. [27] studied the level of compliance among commercial banks in India towards AML implementation and found that lack of trainings to the employees and it acts as a constraint in the compliance function towards the AML policy. There was a positive correlation to performance in association with compliance officers with frequent and better-quality training, which led to a more functional compliance system.

Likewise, Omar et al. [14] mentioned that in order to detect, investigate and prosecute money laundering crimes, comprehensive training must also be conducted to the relevant authorities. Teichmann [22] mentioned that compliance officers that are trained in the criminal's perspective are able to anticipate and prevent the crimes from happening. Compliance officers are more probable to have earned a basic level of education and a strong qualified background in mitigating money laundering crimes in order to achieve great management. This study predicts that training is related to the perceived level of compliance of compliance officers.

H2: There is a relationship between training and perceived level of compliance among compliance officers in banking sector in Malaysia.

Zolkafli et al. [30] found that awareness on money laundering areas affected the level of compliance as it helps them understand the methods of money laundering and their consequence towards the society or economy. Generally, the finding showed that lack of awareness among compliance officers exists and this shortcoming might inversely affect the perceived level of compliance.

Likewise, Yasin et al. [28] supported the idea that there is a need to provide awareness programs on AML/CFT practices on a regular basis and be supplemented by refresher courses. It can be foreseen that consistent

awareness programs increase the compliance officers' knowledge in alleviating the crime. Their expertise is critical when dealing with suspicious transactions, as criminals have become more inventive in their attempts to launder money without being detected by regulatory agencies. As awareness of the compliance officers towards money laundering increases, the perceived level of compliance will also show significant increases, which inevitably, leads to better compliance system in mitigating money laundering. This is supported by Dujovski & Mojsoska [3].

However, Teichmann [22] explored that general awareness towards the existing money laundering crimes does not necessarily influence the level of compliance. The result of the study shows that in an era where the money laundering trends keep on changing, it is not enough to just have the general awareness. Instead, the study suggested awareness of compliance officers should be open to many other aspects such as the perspective of the criminal minds when committing the crime.

In spite of the mixed results from previous research, this study predicted that awareness would have a relationship with the perceived level of compliance of compliance officers. The following hypotheses were suggested on the basis of the literature review discussion:

H3: There is a relationship between awareness and perceived level of compliance among compliance officers in banking sector in Malaysia.

This research is a descriptive and quantitative study, in which the relationship between the independent and dependent variables was attempted to be explored. The dependent variable was represented by the perceived level of enforcement in this study, and regulatory comprehensiveness, training and awareness were represented by the independent variables.

The major focus of the study is a population of a sample, which may be thought of as a large group of people or organizations. Only compliance officers working in Malaysia's banking sector, which includes commercial banks, investment banks, Islamic banks, and other financial institutions, were asked to participate in this study.

The purposive sampling strategy was utilized in this study, in which the samples were chosen based on the study's goal. As a result, the compliance officers of the selected institutions are appropriate respondents to provide feedback on the factors that influence their money laundering compliance. The level of compliance officers chosen to participate in this study includes top management, middle management, and support employees from their banks who have expertise, abilities, and experience in the compliance process and are thus able to supply accurate information required for this study.

A questionnaire was utilized to collect data for this investigation. To make it easier for participants, the survey was written in two languages: Bahasa Malaysia and

English, and it was divided into four sections. Google Form, a web-based survey tool with real-time responses and charts, was used to create the questionnaire.

The questionnaire was divided into five pieces, one for each variable's measurement. Section A dealt with demographic data, Section B with regulatory thoroughness, Section C with training, Section D with awareness, and Section E with perceived compliance.

Out of the 156 surveys that were issued, 148 were returned. Thus, a response rate of 94.8 % was achieved for all the distributed questionnaires.

4. Variables Discussion

Compliance

Compliance refers to the perceived level of compliance in Malaysian banking institutions. The scores were comprised based on (Likert, 1932) "Strongly Disagree", "Disagree", and "Slightly Disagree"; the mean score on the continuous Likert scale was 1 to 3.5 ($1 \leq \text{Disagree} \leq 3.5$), the "Neutral" scores on the Likert scale were 3.6 to 4.5 ($3.6 \leq \text{Neutral} \leq 4.5$), and the "Slightly Agree", "Agree", and "Strongly Agree" scores were represented in 4.6 to 7.0. ($4.6 \leq \text{Agree} \leq 7.0$). Five statements test the perceptions of respondents on banks compliance towards anti-money laundering. The average score of 6.0333 shows that the respondents agreed with the perceived level of compliance.

Regulatory Comprehensiveness

The study pursues to determine the extent to which the statements were agreed by the respondents in relation to the regulatory comprehensiveness influencing the perceived level of compliance in Malaysian banking institutions. A scale of 1 to 7 was used. The scores were comprised based on (Likert, 1932) "Strongly Disagree", "Disagree", and "Slightly Disagree"; the mean score on the continuous Likert scale was 1 to 3.5 ($1 \leq \text{Disagree} \leq 3.5$), the "Neutral" scores on the Likert scale were 3.6 to 4.5 ($3.6 \leq \text{Neutral} \leq 4.5$), and the "Slightly Agree", "Agree", lastly, the "Strongly Agree" scores were described in 4.6 to 7.0. ($4.6 \leq \text{Agree} \leq 7.0$). Putting all four points together, the average score of 5.3542 indicated that the respondents agreed with the regulatory comprehensiveness on average.

Training

The research attempted to determine the extent to which the comments that the respondents agreed to apply to their training influence the Perceived Level of Compliance in the Malaysian banking sector. The scores were comprised based on (Likert, 1932) "Strongly Disagree", "Disagree", and "Slightly Disagree"; the mean score on the continuous Likert scale was 1 to 3.5 ($1 \leq \text{Disagree} \leq 3.5$), the "Neutral" scores on the Likert scale were 3.6 to 4.5 ($3.6 \leq \text{Neutral} \leq$

4.5), and the "Slightly Agree", "Agree", and "Strongly Agree" scores were represented in 4.6 to 7.0. ($4.6 \leq \text{Agree} \leq 7.0$). The average score of 5.4292 indicates that the respondents have agreed on training when all five statements are taken into account.

Awareness

The research aims to determine the extent to which statements that the respondents agreed to apply as awareness towards anti-money laundering are perceived in the Malaysian banking institutions. A scale of 1 to 7 by (Likert, 1932) was used. The average score of 5.9335 shows that the respondents agreed with awareness.

5. Findings

Demographic Information

Table 1 displays based on Part A of the survey, the findings of the demographic profile representing the respondent's gender, age, race, and monthly pay as follows:

Table 1. Demographic

Demographic Profile		Frequency	%
Age	21-30 years old	23	15.5
	31 to 40 years old	78	52.7
	41 to 50 years old	25	16.9
	Above 50 years	22	14.9
Gender	Male	79	53.4
	Female	69	46.6
Academic	Bachelor Degree	96	64.8
	Bachelor Degree + Master Degree	22	14.9
	Bachelor Degree + Professional	15	10.1
	Bachelor Degree + Master Degree + Professional	0	0
	Master Degree + Professional	5	3.4
	Master Degree + PhD + Professional	0	0
	Professional	10	6.8

According to the age results, 78 or 52.7 % of the 148 respondents were between 31 and 40 years of age, followed by 25 or 16.9 % between 41 and 50 years of age. In comparison, the gender data analysis revealed that 53.4% of the respondents were male and 46.6% were female. This indicates that this analysis covered both genders. First, the academic qualifications analysis found 96 or 64.8% of respondents have bachelor degree, followed by 22 or 10.1% of the respondents having bachelor degree and master, followed by 15 or 10.1% of the respondents having bachelor plus professional qualifications.

Correlation Results

Correlation analysis was used to see if there were any correlations between variables such as regulation comprehensiveness, training, awareness, and perceived compliance level. The analysis was carried out using the Pearson Coefficient Correlation, a parametric correlation tool, because the variables' values were found to be regularly distributed.

Table 2. Correlation Results

Variables		LPC	RC	T	A
LPC	Pearson Correlation	1			
RC	Pearson Correlation	0.411**	1		
	Sig. (2-tailed)	0.04			
T	Pearson Correlation	0.352*	-0.232	1	
	Sig. (2-tailed)	0.014	0.112		
A	Pearson Correlation	0.505**	0.317*	-0.282	1
	Sig. (2-tailed)	0.000	0.025	0.052	

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

*Correlation is significant at 0.05 level (2-tailed)

Based on Table 2 above, the Pearson correlation results showed that there was a moderate relationship between regulatory comprehensiveness and perceived level of compliance since Pearson correlation score was at 0.411 and significant at 0.04 (less than 0.01 levels). The correlation between training and perceived level of compliance showed a moderate relationship since Pearson

correlation score was at 0.352 and significant at 0.014 (less than 0.05 levels). Lastly, the correlation between awareness and perceived level of compliance showed a strong relationship since Pearson correlation score was 0.505 and significant at 0.000 (less than 0.01 levels).

The fact that all of the Variation Inflation Factors (VIF) were less than ten suggested that the variables were well-suited to predict the independent variables and were not biased. Because the model fits well, this study can be described as being in good motion.

Regression Analysis Results

Hypothesis H_1 foresees a significant relationship between regulatory comprehensiveness and perceived level of compliance among compliance officers in the Malaysian banking sector. It is identified that regulatory comprehensiveness has a significant relationship with the perceived level of compliance. This shows that regulatory comprehensiveness has an impact on the perceived level of compliance among Malaysia's banking sector compliance officers. This finding is consistent with previous studies conducted by [29],[9], as their findings showed that the level of compliance of compliance officers is influenced by regulatory comprehensiveness.

H_2 examined the significant relationship between training and perceived level of compliance among Malaysian banking sectors compliance officers. From the findings, it shows that training has a significant positive relationship with perceived level of compliance. The findings of this study are in line with the findings from [24], [2], [27]. This indicates that training can be used as a tool to improve perceived level of compliance among compliance officers in Malaysian banking sector.

Table 3. Multiple Regression Analysis

Variables	Coefficient	T test	Sig	Skewness	Kurtosis
Compliance	0.038	4.998	0.000	0.756.	1.307
Regulatory Comprehensiveness	0.070	2.266	0.025	0.092.	-1.000
Training	0.071	4.671	0.000	0.090.	-0.885
Awareness	0.043	2.821	0.006	0.249.	0.047
Adjusted R Square	0.151				

H₃ results showed that there was a significant positive relationship between awareness and perceived level of compliance from the perspective of compliance officers in Malaysian banking sector. Awareness seemed to have an impact on the perceived level of compliance of compliance officers in the Malaysian banking sector on the basis of the findings. This finding shows that an individual with a high level of awareness has the ability to justify their compliance action. The results were supported based on a previous study [31], [28], [3] where the studies mention that awareness programs on AML/CFT practices should be conducted on a regular basis and supplemented by refresher courses.

Overall, the results of the study provided evidence that training has a significant influence on the perceived level of compliance of compliance officers in Malaysian banking sector, while regulatory comprehensiveness and awareness does not critically impact perceived level of compliance of compliance officers in Malaysian banking sectors.

Variables normality distribution was not a concern based on Skewness and Kurtosis score below $+1.96$. Adjusted R² explained that the chosen variables have 15% influential factors in explaining the perception among bank officers in Malaysia towards anti-money laundering compliance.

6. Conclusions

Empirical evidence on the relationship between regulatory comprehensiveness, training and awareness of the perceived level of compliance among compliance officers in the Malaysian banking sector was presented in the previous chapter of this study. The aim of this study is to investigate the relationship between (i) regulatory comprehensiveness and perceived level of compliance; (ii) training and perceived level of compliance; and (iii) awareness and perceived level of compliance among Malaysian banking sector compliance officers.

Three hypotheses were developed and tested in this study using 148 respondents and several statistical analyses. According to the first hypothesis, there is a significant relationship between regulatory comprehensiveness and the perceived level of compliance among compliance officers in the Malaysian banking sector. The second hypothesis predicts that compliance officers in the Malaysian banking sector have a significant relationship between training and the perceived level of compliance. Finally, the third hypothesis suggests that compliance officers in the Malaysian banking sector have a significant relationship between awareness and the perceived level of compliance.

The findings of this study could provide a better knowledge of the Malaysian banking sector's system by identifying individual and external factors that can lead to the perceived level of compliance. In light of the perceived degree of compliance, the Malaysian banking industry should be able to investigate the root causes of the problem

and determine the policies that govern an individual's behavior during the compliance process.

While this study may have made theoretical and empirical contributions in many ways, it is subject to certain limitations, like any research. Firstly, there are only three variables being used in assessing the perceived level of compliance in the banking sector which is regulatory comprehensiveness, training, and awareness. Meanwhile, in the real world, the perceived level of compliance in the banking sector could be affected by other related variables such as compliance cost, competency of compliance officer and their positions in the management. Future research should consider these criteria to find the most influential factor on the perceived level of compliance, and the factors should be narrowed down further to encompass additional facets of a compliance issue.

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