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Factors related to the Central Bank instructions on money laundering

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Abstract

Purpose – This paper aims to investigate Jordan's framework specifics of the anti-money laundering (AML) policy and factors related to the Central Bank instructions on money laundering.

Design/methodology/approach – A questionnaire has been distributed to a random data sample of 100 branch bank managers and supervisors who have a sufficient experience in this issue, and a *t*-test statistical technique has been used.

Findings – The results revealed that commercial banks of Jordan are committed to the instruction of the central bank, and they are highly qualified in all investigated measures.

Practical implications – This study supports the Central Bank of Jordan's efforts in combating money laundering, which encourage all commercial banks of one country to follow the same adopted regulations to identify and report transactions of suspicious behaviour: investigate capability of the tellers and customer account representatives to report such activities, use AML software, filter customer's data classify available information according to levels of suspicion or based on the uncertain customers without being subject to the institutional secrecy jurisdiction and to work under cooperative management.

Originality/value – It has been recommended to utilize more advanced technology, intensify training and ensure for more knowing clients' knowledge. The importance of this paper is to insure the following: first, the banking system is obliged to recognize and report suspicious money laundering transactions, regarding up to date the FATFA equivalence status of other countries; second, increase the awareness and ensure the central bank efforts' success; third, assure the adequacy of different issues such as the internal control system tools; devices or tools availability; and sufficient employees' qualifications in facing launderers attempts; fourth, to be sure that suspected transactions are checked against any commercial bank records; finally, to be sure that commercial banks are giving enough considerations to all the AML proactive actions such as the regulations of checking while opening an account, accepting money on deposit, giving loans, issuing a debit card, traveller's check and collecting enough information about new clients.

Keywords Training, Internal control, Commercial banks, Administrative devices and equipment, Curbing money laundering, Knowing the clients

Paper type Research paper

1. Introduction

Countries around the world are facing difficult on-going money laundering challenges. Their differences relate to their specifics, such as the nature of their financial sector, adopted anti-money laundering (AML) policies and the central bank's ability to develop a suitable related factors framework. However, each country needs a central bank to create its own framework capable of removing obstacles and improving a sufficient AML policy. In doing so, they need to identify which factors are to be included.

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The Central Bank of Jordan's instructions include an awareness of and commitment to the banking sectors effective prudential regulations, amendments and explanations, as well as all the current circulars. Part of the regulations deals with the supervision and control of curbing money laundering, and a commitment to international regulating bodies, such as NAFTA, or cooperating with local legal legislative supervisory committees and maintaining a client's documentation.

The role and importance of internal control procedures for detecting or preventing money laundering operations can be identified by the guidelines and policies issued by the administration of commercial banks as well as the training given to employees on related issues; a banks' automated programmes or systems; the sudden or significant changes of their clients' accounts; the accomplishment of all the clients-specific information; and creating a culture of compliance to ensure staff adhere to the bank's policies and processes. However, the level of sophistication of the internal control systems should be commensurate with the size, structure, risks and complexity of the individual bank. The larger, more complex banks are more likely to implement better compliance departmental internal controls. Banks are in need of appropriately trained personnel, and training efforts are required to achieve the regulatory requirements and adherence to the bank's internal policies, procedures and processes. The bank's training programme must assure that the needs of all personnel are tailored to each specific responsibility. It should also encompass information related to applicable business lines relevant to regulatory requirements as well as the activities and overall risk profile of the bank and be updated on an on-going basis and incorporate current developments or changes to internal policies, procedures and processes.

It is difficult for individual banks to comply with the central bank's AML regulations without specific technology. In Jordan, bankers perceive the adoption of AML technology as a risk mitigation tool and a regulatory measure. Improving technology includes adopting better practices, adequate oversight, effective risk management and maintaining full compliance with local or international laws and regulations. Knowing the customer policy for banks is critical in insuring that suspicious transactions are reported based on law enforcement via the forms provided by the central bank. It is a prerequisite step that a bank must file specific information about transactions occurring in each bank. Knowing customers refers to maintaining reliable sources, investigating any proposed transactions or business, keeping documentation on high-profile customers, such as politicians, as well as negative news about customers in high-risk industries or countries and monitoring customers that have repeated suspicious transactions.

2. Literature review

2.1 Central banks and money laundering

A substantial number of financial institutions and scholars have argued about what the definition of money laundering is. For instance, the Organization for Economic Cooperation and Development (2009) defined money laundering as the process by which illegal funds are converted into seemingly legitimate funds. The funds are described as "dirty" because they come from illegal activities, such as drug transactions, tax evasion, smuggling, theft, arms trading or other corrupt practices. In addition, the US Department of the Treasury (2000) states that launderers are trying to disguise the origins of money obtained through any activities designed to make it look as though the funds were obtained from legal sources.

On the contrary, money laundering, as defined by the Jordanian AML Law No. 46 in 2007, is:

> […] every conduct involving acquisition, possession, disposing of, moving, managing, keeping, exchanging, depositing, investing of funds or manipulating its value or movement and transferring,

> or any action that leads to conceal or disguise it's source, origin nature place, disposition mean, ownership or related rights, with knowledge that the funds are proceeded of one of the crimes stipulated in the law [Anti-money Laundering Unit (AMLU), 2007].

This process is of critical importance, as it enables the criminals responsible to enjoy profits without others knowing their source (Robinson, 2007).

Accordingly, commercial banks are the preferred channel for money launderers, as they offer a variety of financial services and instruments, such as bank drafts, funds transfers, foreign exchange services and letters of credit. Each of these can offer a good opportunity for relocating funds, while maintaining the appearance of legitimacy (Viritha *et al.*, 2015). Launderers consider commercial banks their main target because of specific features, such as branching, correspondents around the world and advanced technology with safer, faster and easier ways of transferring money. Always ready to accept small and large deposits, it is a relatively inexpensive process to trace the course of funds (Viritha *et al.*, 2015). Commercial banks are competing for clients and they need to provide customers with the highest quality services to meet the customer expectations and keep them satisfied. Unfortunately, clients are not satisfied under close supervision which makes commercial and central banks at the risk of losing their reputation in the market place.

In the USA and the rest of the world, special legislative and regulatory standards were created to deter money laundering. In the USA, many authorities have been established to implement effective programmes. The Money Laundering Control Act of 1986, the Suppression Act of 1994, Strategy Act of 1998, the US Patriot Act of 2001 and the Bank Secrecy Act (BSA) were designed to combat money laundering and to help prevent banks and other financial service providers from being misused. This is achieved by requiring banks and other financial institutions to provide documentation (such as currency transaction reports), whenever clients deal with transactions that involve substantial sums of money (US$10,000 or more) that appear to be suspicious, aiming to give authorities the ability to easily reconstruct the entire situation (Federal Financial Institution Examination Council, FDIC, 2014).

The Financial Action Task Force (FATF) is an important inter-governmental body that develops and promotes policies to combat money laundering. It focuses on spreading messages to all continents and regions of the globe and monitoring the implementation of its recommendations. Global coordination efforts are essential to maintain success for the plans and policies that have been designed (FATF, 2016, 2010). In the same regard, Johnson (2002) claims that the FATF does make a significant difference when predicting money laundering. In addition, Cassara (2015) argued that there are three different broad types of hiding illegal funds and incorporating these funds into the real economy: first, physical – where bulk cash is smuggled from one country to another; second, using the financial institutions to introduce the illegal funds; and, third, transferring goods via real trade.

Jordan has enacted a comprehensive AML system, and on October 8, 2001 completed a conducted revision of all related systems and procedures, including the Jordan Panel Code that is involved in checking for assets of suspected organizations and any related reports. The conducted revisions revealed no actual events have been allocated. In December 2004, the USA and Jordan signed an agreement regarding mutual cooperation, and in 2006, the Central Bank of Jordan issued regulations defining the necessary steps banks must take to ensure the adapted efforts have been followed and all suspicious activity has been properly reported (Jordan Anti Money Laundering Unit, 2007). In 2007, Jordan's AML Law No. 46 established the Anti-Money Laundering Unit (AMLU), which is housed in the central bank and is under the supervision of a national committee. Jordan's AML regulations require financial institutions to establish systems that are guaranteed in examining the internal control and supervision. Accordingly, financial institutions in Jordan need to establish on-going AML programmes and to keep complete records of training for a minimum of five years (Jordan AMLU, 2007). In fact, it is quite important for the banking sector in Jordan to develop effective techniques to control the financial transactions efficiently.

The Central Bank of Ireland (2015) suggested that banks need to develop, administer and maintain programmes that ensure and monitor compliance with the international measures; more precisely, to insure the accomplishment of many banking issues, including the following record-keeping and reporting requirements, adapting sufficient internal control, daily coordination and monitoring of compliance, ensuring a sufficient training for appropriate personnel, conducting an independent testing compliance with effective customer relations programmes and enforcing banks to report transactions that highlight risks.

Specifically, the AHL Unit (2007) reported that the Central Bank of Jordan needs to carry out the following tasks:

- following-up and studying international best practices and codes on AML to track domestic and global developments;
- following-up issues that require cooperation between all authorities and regulators;
- coordinating all official correspondence and communication between the Central Bank and the local commercial banks; and
- conducting efforts against on-going activities, either off-site surveillance or on-site inspection of all financial institutions.

Such efforts include the following duties:

- follow-up on all issues relating to all financial institutions;
- assure that all financial institutions are in compliance with legal requirements, regulations and guidance issued by the Central Bank;
- carry out all relevant resolutions and decisions issued by competent bodies; and
- keep records of all money laundering-related issues.

The FATF (2011) showed that the most prominent parts of the central bank's efforts are verifying the identity of clients, presenting guidelines for the opening of personal accounts to include:

- obtaining a satisfactory identification;
- residence or place of business;
- call-verifying place of employment;
- spot the source of funds used to open the account; and
- checking prior banking references for larger accounts.

Additional steps may include verifying information-reporting agencies, banking references or by visiting the customer's business.

2.2 Commercial banks and money laundering

The channel most vulnerable to money laundering activity is commercial banks due to their dominance of the financial sector, the range of products they offer, the transaction volumes they handle and the interconnectedness of the banking sector with the international financial system. In Jordan, commercial banks have certain obligations in their efforts of blocking money launderer's access to the country's financial system based on the measures upheld by the central bank. They play the first defensive line against the placement stage, which is the starting point of the disposal cash proceeds via the financial system. Launderers at this stage may follow techniques such as depositing large amounts of money in several smaller deposits to avoid suspicion or detection (FATF, 2011). Commercial banks in Jordan have learned to follow the international guidelines of the Basel Committee on Banking Supervision, a forum of the world's leading bank supervisors which has so far come up with many guidelines for banks in combating money laundering, namely, 1916 and 1915 General Guide to Account Opening, 1913 Sound Management of Risks Related to Money Laundering and 2003 General Guide to Account Opening and Customer Identification. The FATF has also come up with 40 recommendations that the forum's global members are expected to adopt.

Johnston and Carrington (2006) argued that money laundering risk (MLR) poses serious threats not only to financial institutions but also to individual nations. The risks faced by financial institutions are:

- *Reputation risk*: The integrity of the banking and financial services marketplace depends heavily on the perception that it functions within a framework of high legal, professional and ethical standards.
- *Operational risk*: The risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. A public perception that a bank is not able to manage its operational risk effectively can disrupt or adversely affect the business of the bank.
- *Concentration risk*: This risk relates to the exposure of banking and financial services marketplace to a single customer or groups of related customers.
- *Legal risk*: Banks may become subject to lawsuits, resulting from the failure to observe mandatory KYC standards or from the failure to practice due diligence. An individual country can also be at risk because money laundering provides the energy for drug dealers, terrorists, arms dealers and other criminals to operate and expand their criminal enterprises. Hence, the government regulatory bodies partnering with the financial institutions and law enforcement agencies have initiated elaborate AML programmes to track and prevent financial crimes (Lilley, 2006).

Commercial banks in Jordan are always aware of many different related risks. One of these is the reputational risk of being a victim of money laundering activities. In the case of a single bank being accused, the reputation of all the systems in the market becomes lowered and is exposed to the risk of losing customers and having international relationships affected. The closure threat of one bank may result in allegations against the whole banking system. Banks together, therefore, need to protect themselves by continuously evaluating their customer base (AMLU, 2007).

Legal risks may come as a result of failing to observe "know your client" standards or from failure to practice ethically in client evaluation and acceptance. Therefore, commercial banks can suffer from launderers liabilities [Basel Committee for Banks Supervision (BCBS), 2011]. Concentration risk determines the limitations that restrict exposures to a single client or a group of clients. Consequently, each commercial bank needs to build up its adapted method of detection of suspicious transactions system and failure to report specific transactions subjects the bank to a central bank penalty risk [Basel Committee for Banks Supervision (BCBS), 2013].

Bank correspondent risk is related to accounts maintained on a bank's behalf, either between different domestic banks or between domestic banks and foreign banks. It involves provision of banking-related services by one bank (correspondent) or foreign to a local bank (respondent) to enable the respondent to provide its own customers with cross-border products and services. Nowadays, correspondent banking has become complicated in terms of quantity or quality [Basel Committee for Banks Supervision (BCBS), 2015], and the correspondent bank has no direct relationship with respondent clients, and often is not able directly to verify their identities and has only limited information regarding the nature of their transactions. For instance, in the case of letters of credit, payments are processed electronically by the respondent. The correspondent is subject to indirect relationships in many modern and significant banking services, such as foreign exchange, which are not face-to-face transactions and can cause the correspondent to be exposed into a high MLR without knowing [Basel Committee for Banks Supervision (BCBS), 2015].

Lack of AML practices in a respondent bank negatively affects its relationships and badly hurts correspondent banks. It is a cause for concern as a bank's reputation comes under threat from respondents that do not practice basic AML techniques. Correspondent banks are in need for the global banking system to practice genuine techniques. Respondents need to ensure that information conveyed in payment messages is accurate and verified [Basel Committee for Banks Supervision (BCBS), 2015]. Therefore, compromise risk can significantly cause potential damage if specific personal information is missing. Correspondents and respondents should verify the payers' identity and address and be able to detect any missing information and take remedial action. Governance structures are an area of concern and small banks tend to be lenient when accepting deposits and selecting clients. Their level of variation is not appropriate to the size and nature of the commercial bank business. The risk will increase if the board fails to allocate responsibility, establish an effective method of reporting, manage the conflict of interests between what is available and what is required and to take the appropriate decisions, when necessary.

This paper's main objective is to investigate money laundering-related elements within the main interest of the Central Bank of Jordan. It aims to help in fighting and protecting the banking system from different types of the following risks: the loss of public confidence and the loss of business caused by unintentional association with launderers, both of which undermine the integrity of the banks' employees and can cease deposits or other assets held by the banks. Ultimately, it is to save the integrity of the whole financial system because dirty money is most visible when it is first placed into a bank. The Jordanian and global banking systems require all financial institutions, including banks, entities providing credit, brokers, payment services, securities traders, insurance companies and foreign financial institutions, to take action to prevent and combat money laundering. All such institutions are required to fulfil all of the following:

- develop AML procedures;
- establish internal control and audit procedures;
- appoint specialized staff to carry out AML activities;
- keep records for a period of at least five years;
- identify and report both high-value and suspicious 15 transactions; and
- obtain suitable measures to prevent money laundering activity (Central Bank of Ireland, 2015).

Currently, the main method utilized for detecting suspicious transactions is staff awareness. The next most common method is examining reports created by information technology systems. Many organizations find it difficult to justify the perceived high cost of implementing a technical solution, and there are cost-effective technologies available that will help them meet their compliance obligations. Cost pressures and training means the low usage of technology, and this seems unlikely to be sustainable in the long-term. One key driver for automation through technology is the tight period for reporting suspicious transactions. Many banks are struggling to design and implement an effective AML strategy. One challenge remains the sheer cost and scale of such operations (Broome, 2003).

2.3 Money laundering stages

A large number of previous academic studies have introduced detailed empirical findings on the stages of money laundering. For instance, The World Bank (2006) argued that the placement stage involves the disposal of cash proceeds of the illegal activity when it is introduced into the financial system by a manner that avoids detection by the banks and the authorities. At this stage, launderers use techniques such as depositing large amounts of money in several smaller values. However, it is followed by layering stage through a series of transactions to erase its origin. This is done by transferring the placed deposits into other places or accounts held in the name of nominees. The last stage is the integration stage where successfully laundered money is integrated into the financial system. However, observed differences in money laundering legislation between banking systems around the globe have worked to the advantage of money launderers, as they can move the proceeds of their activities to less-regulated places. Therefore, to prevent launderers from taking advantage, many governments have decided to cooperate.

High levels of activities in the areas of the prevention of money laundering in Jordan have been investigated during the periods before this paper was written regarding official efforts to keep the country from becoming lax. Such efforts strive to regulate the issuing of acts and regulations, responses by the enactment of prohibition and prevention and selecting proper personnel to manage financial institutions. These include keeping an accurate record of the identification of clients record for a long period and reporting whenever there is reasonable grounds for complying with any defective measures of the central bank; adapting relevant hiring policies specialized officers in each branch; conducting training programmes; and recognizing that technology weaknesses has not given money launderers an opportunity to explore new techniques to commit and then cover their attempts. Following these strategies goes towards assuring fulfilling full co-operation and coordination within the banking industry.

The Basel Committee for Banks Supervision (BCBS) (2015) stated that money launderers attempt to disguise the origins of money obtained through illegal activities by transferring money through several countries to obscure its origins. Their action facilitates corruption, destabilizes economies, compromises the integrity of legitimate financial systems and ensures funds are available to conduct further criminal activities. This has been defined by the United Nations as the conversion or transfer of property and this definition allows for such property to be derived from any drug trafficking offence, or offences, for the purposes of concealing or disguising its illegal origin. In the same regard, the Basel Committee for Banks Supervision (BCBS) (2015) stated that money laundering is accomplished through three common steps: obtaining the money or introducing it into the financial system, transferring or concealing its source through complex transactions and returning the money back into the financial system of any country to appear legitimate. To be more specific, it occurs in three general well-known stages:

(1) Placement: the stage at which criminally derived funds are introduced in the financial system. It is to bring the cash and convert it into bank deposit. Illegal funds could be first brought into the financial system and then converted into a bank deposit.
(2) Layering: the substantive stage of the process in which the property is "washed" and its ownership and source is disguised. It is achieved through the process of distancing the placed funds from their illegal origins, hide its illegal origin and make them more useful. In this stage, the funds need to be moved from one place to another by using multiple banks and accounts, shuttled through a web of many accounts, companies and countries.
(3) Integration: the final stage at which the "laundered" property is re-introduced into the legitimate economy. This stage begins after the funds are layered and distanced from their origins. It becomes available to integrate into a business of any kind; the reality is that the previous three stages often overlap.

The Central Bank of Ireland (2015) reported that placement of the money into financial institutions is the most difficult. To overcome such difficulties, launderers may adapt different ways such as transferring money from bank to bank or from account to account; breaking up large amounts into smaller bank deposits; purchasing money orders in smaller money amounts; and breaking the cash into small amounts and purchasing cashier's checks. However, more popular money laundering techniques include one or more of different ways:

- Bulk cash smuggling is defined by bringing into a country (a prohibited item) secretively and intentionally, in violation of the law used to move the money into another country for deposit into offshore banks or other type of financial institutions that honour client secrecy.
- Trade-based laundering is used for obtaining invoices to show a higher or lower amount of documented transaction value to disguise the movement of money.
- Cash-intensive business is used because this type of business occurs and legitimately deals with large amounts of cash, and the launderers use its account to deposit money obtained from both everyday business proceeds and money obtained through illegal means.
- Shell companies and trusts are used to disguise the true owner of a large amount of money. Launderers try to control and use them.
- Bank owning refers to the use of a bank owned by money launderers.
- Real estate purchasing with money obtained illegally, then sells it.
- Casino or gambling laundering involves an individual going into a casino with illegally obtained money, gamble for a while and claims the money as gambling winnings.

Commercial banks' conflicts of interests are AML factors of personal relationships between launderers and the bank employees. In this type of interest conflict, potential clients and their effective influence on the bank management is reflective of a special type of a bank-owned secrecy or culture and is a complicated situation. Under such circumstances, a special financial infrastructure is developed, by which a perpetually global operation of electronic money in the form of symbols on computer screens can move anywhere in the world at extremely high speed and with ease. In such circumstances, it becomes complicated to apply what has been used to disrupt laundering activity, known as the three "f" factors (finding, freezing and forfeiting), which are mainly ways of confiscation and potentially could have been beneficial [Basel Committee for Banks Supervision (BCBS), 2015].

A substantial number of studies have examined the factors related to the central bank's instructions on money laundering. For example, Almubarak *et al.* (2003) examined money laundering issues in Dubai and found that banks in Dubai were strongly committed to the methods and control procedures to combat money laundering and showed cooperation with the authority of the central bank. The study recommended consistently offering more training for bank staff to help them cope with new processes. Further studies have examined the role of the banking sector in preventing money laundering. For instance, Hamouda and Adnan(2004) measured the role of commercial banks and the Central Bank of Jordan in the fight against money laundering and recommended better internal control and fully investigating the sources of funds. In the same vein, Tarawneh *et al.* (2005) aimed to evaluate the adapted methods of preventing and controlling money laundering and found that Jordanian laws and regulations regarding AML are weak and inadequate. In the same context, Shaaban *et al.* (2009) researched preventive measures and policies adopted by banks and found a significant relationship between the independent variables of reputational risk, operational risk, concentration risk and the dependent variable of the adoption of the bank programmes to combat money laundering. However, Al-Nuemat (2014) found that a significant relationship between the cooperation of foreign banks leads to avoiding money laundering as well as the exchange of information and reports with them in addition to other variables, such as the training and the use of technology.

In addition, Daniali's (2014) study found that the use of technology enhances the AML operations, and Subbotina's (2009) study reported non-compliance with money laundering operations in Russia. Another study was conducted by Alqudah *et al.* (2010), which uncovered that discrepancies between financial institutions are based on different variables such as knowing the source of funds, a level of coordination with the central bank and the lack of adequate international cooperation. On the contrary, Thawadi *et al.* (2015) found the role of staff at commercial banks and the Central Bank of Bahrain's regulations and their level of awareness about legislation level of development in AML to be very important. Another study by Khrawish (2014) has examined the impact of AML on investment funding where a significant negative relationship between money laundering and investments funding was discovered. To reduce its impact on the stability of the economy, Khrawish suggested reforming the law and regulations, improving control and training. On the other hand, a study by Aluko (2012) found that money laundering has a negative effect on economic growth and financial stability in different countries, and this is why these countries need to work together to reduce the negative consequences. In the same context, Ayodegi (2011) concluded that money laundering has a negative impact on economic growth and financial stability, so the author recommended to check all newly opened accounts, the money deposited and the required loans. On the contrary, a study by FATF (2010) showed that the use of secured industries for laundering money is considered to be an actual threat and a way of increasingly converting dirty money into clean funds through financial institutions. Furthermore, Simwayi and Guohua (2011) assessed the role of commercial banks in combating money laundering in the People's Republic of China (PRC). In doing so, they need to have sufficient policies and procedures in place, designated compliance activities and train their employees.

The Jordanian banking sector, like many other banking sectors around the world, is susceptible to money laundering problems. Money launderers employ several techniques and methods, and, therefore, it is quite important for the banking sector in Jordan and around the globe to employ effective techniques to detect any money laundering. Despite the massive amount of literature reviews that have examined the outcomes of the central bank instructions on money laundering, Viritha and Venkatachalapathy's study (2015) is considered one of the most well-known studies that concluded the level of compliance with regulatory guidelines on AML followed by the commercial banks of India. Results indicated that the banks were highly compliant with guidelines, reporting requirements and then with customer identification procedures, in spite of the deficient resources and the lack of customer support. As a result, it can be concluded that many researchers focused on the variables that have been investigated and all have agreed that the instructions of the central banks need to be followed to combat money laundering.

3. Methodology

Theoretically, commercial banks in Jordan, as in the rest of the world, are susceptible to attempts of laundering illegal funds. Launderers adapt more techniques due to the expansion banking products and services, complicated financial relationships, advances in technology and the increased velocity of money flow worldwide (Jordan AMLU, 2007). Currently, AMLUs either in Jordan or worldwide are mainly achieved by manual solutions focused heavily on detecting transactions and producing a steady stream of alerts for investigation. Their ability to manage effectively and efficiently is still needed for further investigation. Not being able to properly process the transactions and taking actions still has not solved the problem (Truman, 2006). A manual system could never be completely satisfactory as a total automatic transaction monitoring system, in particular for the larger institutions and for an entire country. Additionally, commercial banks need qualified and skilled personnel, an active central bank and a successful policy for the banks clients.

Launderers' on-going attempts are mainly responsible for creating instability and a lack of trust in financial systems and international and local efforts need to cooperate to curb them. The Central Bank of Jordan is taking the first step towards taking responsibility in ensuring and monitoring compliance with the international measures. In doing so, it is required to ensure written internal control procedures, owning suitable tools and equipment, continuous efforts in fully training banking staff and knowing the banks' clients. The entire financial institutions have been instructed by law to develop an integrated information system for maintaining records and documents related to money laundering, where transactions and transaction-related information needs to be tracked and should be easily traceable and reported to the relevant Jordanian authorities (Jordan AMLU, 2007). Therefore, the following five hypotheses have been developed:

H01. There are no commercial banks' commitments towards the central bank instructions on curbing money laundering at the significance level, $\alpha = 0.05$.

H02. There are no commercial banks' internal control sufficient in curbing money laundering at the significance level, $\alpha = 0.05$.

H03. There are no commercial banks' sufficient tools or devices in curbing money laundering at the significance level, $\alpha = 0.05$.

H04. There are no commercial banks' employees with sufficient experiences and abilities in curbing money laundering at the significance level, $\alpha = 0.05$.

H05. There are no sufficient banks' ability of knowing the clients in curbing money laundering at the significance level, $\alpha = 0.05$.

Subsequently, the following theoretical model is proposed (Figure 1).

Descriptive statistics were used to test the hypotheses and to identify factors related to the central bank's instructions on money laundering. The study population are those

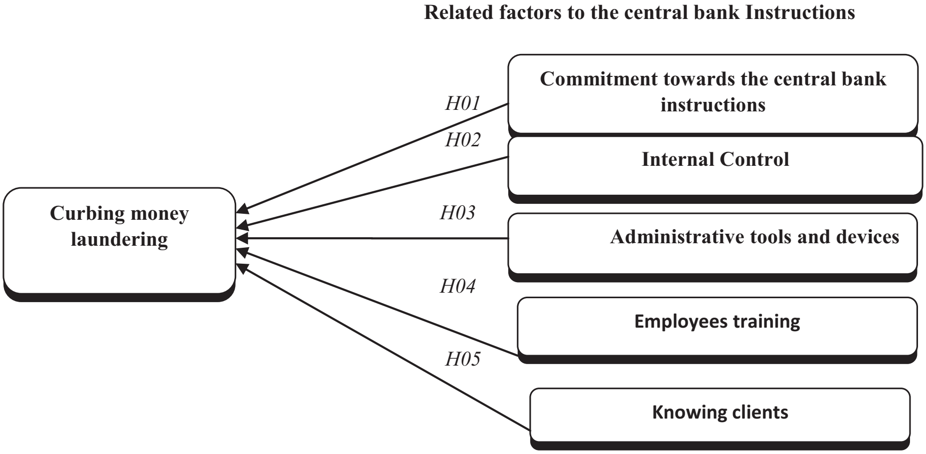

Figure 1.
The study model

commercial banks of Jordan consisting of 15 banks, a random sample of 100 managers and high-ranking supervisors have been selected. The researchers gather the data through the development of a questioner. A 5-point Likert scale was used.

A scale was used to measure the degree evaluation of the study sample by dividing it into five levels, starting from strongly disagree up to the fifth level of strongly agree. Respondents specify their level of agreement or disagreement on a symmetrical agree–disagree scale for a series of statements. Thus, the range captures the intensity of their feelings for a given item. After the questionnaire is completed, item responses are summarized to create a score for a group of items into the following three summative scales. The upper-low degree of agreement has been summed by the following: [(5-1)/3) = 1.33 + 1 = 2.33]. The upper-medium degree of agreement is determined based on the following calculation: (2.34 + 1.33 = 3.67). The upper-high degree of agreement is (3.67 + 1.33 = 5):

A Low degree of agreement (1 to 2.33);

B The medium degree of agreement (2.34 to 3.67); and

C A high degree of agreement (3.68 to 5).

In addition, each respondents statement of the distributed questionnaire is going to be classified into the previous A, B and C classes of agreements.

To check the reliability of the study, the researchers used Cronbach's alpha instrument variables reliability coefficients (to measure the internal consistency of the questionnaire paragraphs). The percentage of stability of the instrument overall was (90 per cent), which is very high to approve study results, as the acceptable per cent to generalize humanities and social research results are (60 per cent) or more.

To process the data that have obtained through the field study of the surveyed sample, the researchers used the following statistical methods:

- Cronbach's alpha coefficient: used to test the reliability tool to study under which the data are collected. In other words, it used to test internal consistency of the paragraphs of the questionnaire.
- Frequencies and percentages: used to identify the characteristics of the study sample.
- Mean: used to identify the level of severity of the answer to the sample of the study.

- Standard deviation: used to determine the dispersion of the study sample answers from the values of the arithmetic average.
- *t*-test was used for statistical analysis and hypotheses testing. The first independent variable is commercial banks internal control, the second is the bank employees' ability of adapted tools or equipment, the third is the banks employees' experiences and the fourth is the bank's ability of knowing the clients. The dependent variable is curbing money laundering.

4. Findings and discussion

Table I demonstrates the respondents' average agreement of 4.05 out of five. Its high-level number indicates the commitment of commercial banks in following the central bank instructions. However, room for further improvements is still in place. There is a need to lever commercial banks commitment to NATFA instructions, the coordination with international organizations and to check for the foreign branches internal control system. The low standard deviation of 0.165 reflects the respondent's closed opinion towards each statement.

Table II demonstrates the respondents' overall average agreement of 3.96 out of 5. Its high level number indicates the commitment of commercial banks in applying a suitable internal control policy. However, room for further improvement still has a place, and there is a need to manage commercial banks internal control specific policies for clients of diplomatic or governmental personnel and to assure the complete control of the staff banking transactions. The low standard deviation of 0.30 reflects the respondents' close opinion towards each statement.

Table III demonstrates the respondents' overall average agreement of 3.75 out of 5. Its high-level number indicates the commitment of commercial banks in applying adequate tools, equipment or devices. However, room for further improvements still has a place; there is a need to acquire a lot of equipment or devices, either to improve to further control all the withdrawals or deposits and to encourage further cooperation between local and international banking systems. The low standard deviation of 0.21 reflects the respondents' close opinion towards each statement.

Table IV demonstrates the respondents' overall average agreement of 3.46 out of 5. Room for improvement includes the following: encouraging staff participation in relevant

No.	Statement	Arithmetic mean	Standard deviation	Status
1	Commercial banks are committed to the central bank instructions in curbing money laundering	4.38	0.76	High
2	Commercial banks are committed to cooperate with local legal legislative and supervisory committees	4.62	0.49	High
3	Commercial banks are committed to maintain with clients documentation for at least 5 years	4.65	0.43	High
4	Foreign banks branches are committed to follow the instructions of the central bank	3.92	0.65	High
5	Foreign banks branches are subjected to their native countries central banks effective control policy	3.35	0.52	Medium
6	Commercial banks are committed to NAFTA instruction on money laundering	3.99	0.75	High
7	Commercial banks are committed to coordinate consistently with international organizations on money laundering	3.48	0.52	Medium
	Grand Average	4.05	0.165	High

Table I. Commercial banks commitment to central bank instructions in curbing money laundering

No.	Statement	Arithmetic mean	Standard deviation	Status
1	Commercial banks are committed to adapt a sufficient internal control for diplomatic and government personnel clients	2.90	0.25	Medium
2	Commercial banks are fully committed to subject all financial transaction to the internal control system	4.61	0.60	High
3	Commercial banks are committed to improve the internal control system periodically	3.81	0.87	High
4	Commercial banks are fully committed to subject all financial transfers to the internal control system	3.96	0.61	High
5	Commercial banks are committed to subject the staff banking transactions to its internal control procedures	3.01	0.88	Medium
6	Commercial banks internal control is capable to identify suspected financial interaction	3.90	0.79	High
7	The clients current account is being followed up and periodically subjected to internal control procedures	4.33	0.64	High
8	The internal control department is committed to review all the movements or changes of those clients accounts balances based on the central bank instructions	3.92	0.65	High
9	Commercial banks are committed to cooperate with local government agencies in curbing money laundering	4.57	0.47	High
10	Commercial banks are committed to fill all the clients specified information forms	4.60	0.45	High
	Grand Average	3.96	0.30	High

Table II.
Internal control

No.	Statement	Arithmetic mean	Standard deviation	Status
1	Commercial banks own the required devices to early uncover suspected transactions	3.65	0.77	High
2	Commercial banks own the required devices to encourage cooperation between local and international banking system	3.45	0.61	Medium
3	Commercial banks own the required devices for adapting and follow up the central bank instructions	4.30	0.85	High
4	Commercial banks own the required devices to control all the withdrawals and deposits transactions based upon the limits of the central bank	3.60	0.40	Medium
	Grand Average	3.75	0.21	High

Table III.
Commercial banks adequate tools and devices in curbing money laundering

workshops or conferences, improve the hiring policy and to publish education memos about MLRs. The low standard deviation of 0.23 reflects the respondents' close opinion towards each statement.

Table V demonstrates the respondents' overall average agreement of 3.79 out of 5. Room for improvement includes the following: the need for an on-site visit to become fully aware of the

No.	Statement	Arithmetic mean	Standard deviation	Status
1	Commercial banks are systematically committed to train the staff and enrich their skills	3.70	0.78	High
2	The training is covering the concurrent issues on international money laundering new instructions	3.82	0.66	High
3	Commercial banks are encouraging staff participation on relevant workshop and conferences	2.92	0.88	Medium
4	Commercial banks are adapting a hiring policy attracting the most qualified personnel	3.61	0.53	Medium
5	Commercial banks are committed to publish educated templates showing up the risks and the bad image of money laundering	2.39	0.41	Medium
6	Commercial banks are adapting adequate training plan on uncovering suspected money laundering transactions staff	3.88	0.84	High
7	Commercial banks staff is exposed to relevant training on curbing money laundering	3.94	0.80	High
	Grand Average	3.46	0.23	Medium

Table IV. Commercial banks staff qualifications

No.	Statement	Arithmetic mean	Standard deviation	Status
1	Commercial banks adapting specific forms of above limit deposits showing up its sources	4.61	0.58	High
2	Commercial banks determine ceiling for banking transactions or foreign transfers that in need for further investigations	4.58	0.51	High
3	Commercial banks are committed for at sight client visit to clarify the nature of his business activity	2.28	0.85	Low
4	Commercial banks collect complete information upon the client other banks relationship	2.81	0.81	Medium
5	Commercial banks refuse to open an account or accept any banking deal before clarifying the client identity	4.32	0.50	High
6	Commercial banks aware of updating the clients profile and information	2.88	0.96	Medium
7	Commercial banks adapt clear and written procedures in opening new accounts	4.42	0.72	High
8	Commercial banks committed in checking the clients identifications prior to any banking transaction	4.45	0.56	High
	Grand Average	3.79	0.21	High

Table V. Commercial banks checking the clients' identifications

clients' business activity, collecting further information about relationships with other banks and the awareness of updating the client profile and information. The low standard deviation of 0.21 reflects the respondents' close opinion towards each statement.

Table VI shows that commercial banks are highly committed to the central bank's instructions in Jordan; respondent arithmetic means were between 3.61 and 4.57 out of 5 on a Likert scale. The high grand average means of 3.96 and the low level of 0.165 standard deviation are very supportive indications. However, the table numbers are still showing the need for further improvements.

Commercial banks of Jordan can improve the function of monitoring their activities by modernizing relevant electronic devices or tools to face any further complicated attempts. Its current level of 3.68 out of 5 is an indication for the need for further in-depth cooperation with international specialized organizations to increase the attainable sufficiency tools. In spite the higher number of 3.76 out of 5 reflecting the high skills and qualifications level of the staff, more training is still required. However, the on-going basis training and a tight cooperation in implementing the central bank instructions may improve this number. Focusing on getting to know clients has a very prominent good indicator of 4.21 out of 5, but still can be sustained or supported by ensuring visits to clients' job locations and knowing the nature of their business activities. The commitment towards the central banks instructions of 4.57 indicates a high level of commercial bank's activities towards the central banks instructions combined with consistency in the study sample answers.

Table VII indicates the failure to refuse all four null hypotheses to conclude the following facts:

(1) There are commercial banks' commitments towards the central bank instructions on curbing money laundering.

(2) There is commercial banks' internal control sufficient in curbing money laundering.

(3) There are commercial banks' sufficient tools or devices in curbing money laundering.

(4) There are commercial banks' employee's sufficient experiences and abilities in curbing money laundering.

(5) There is sufficient banks' ability of knowing the clients in curbing money laundering.

No.	Instructions	Arithmetic mean	Standard deviation	Status
1	Commercial banks commitments to central banks instructions in curbing money laundering	4.57	0.518	High
2	Commercial banks adapting relevant internal control system	3.61	0.630	Medium
3	Commercial banks are owning adequate tools and devices	3.68	0.697	High
4	Employees are owning a sufficient qualifications and knowledge in curbing money laundering	3.76	0.960	High
5	Commercial banks are focusing in knowing their clients	4.21	0.771	High
	Total number of degrees	3.96	0.165	High

Table VI. Commercial banks commitments to central banks instructions

Hypotheses	T-test	T-table	Significant Level	Results
H01	47.3	1.98	0.00	Rejection
H02	26.52	1.98	0.00	Rejection
H03	23.21	1.98	0.00	Rejection
H04	17.25	1.98	0.00	Rejection
H05	27.18	1.98	0.00	Rejection

Table VII. Hypothesis testing

5. Conclusions

Researchers noted that the answer to the paragraphs of resolution levels were generally higher in a positive direction towards approving the need to adhere to the instructions of the Central Bank of Jordan to curb money laundering. The study showed strengths in AML efforts in Jordan in the availability of administrative and technical expertise to detect money laundering cases, the existence of adequate internal control systems and checking the identity and backgrounds of clients. But, on the other hand, this study also revealed the weaknesses of poor training and development as well as poor coordination with international and regional organizations. The study concluded that there are weaknesses in the performance of staff and the lack of verification of the client's financial and behavioural background and identity measures. The researchers can conclude that the Jordanian commercial banks are complying well with instructions from the Central Bank of Jordan, which enhances that AML is illegal in Jordan and demonstrates efforts to punish the perpetrators severely according to the law.

Overall, the effectiveness of AML could perhaps best be enhanced by paying more attention to staff training and development. It is likely that there is currently room for improvement. However, staff training is needed to focus on comprehending the client's financial and behavioural background and identity measures. Areas of staff training and development, if improved, could yield significant results in terms of factors relating to the Jordan central banks' instructions. Its practicality and effectiveness include efficient AML policies to ensure that money laundering will be increasingly deterred and become a less of a burden and more of an acceptable way of doing business in a civilised society. Therefore, it becomes appropriate to ensure that the regulations have the final word.

Therefore, the following were recommended:

- the need for further developing internal control systems in Jordanian commercial banks;
- the need for intensifying personnel training programmes to familiarize staff with money laundering methods through commercial banks;
- monitoring transactions being taken by some politicians and collecting information about the sources of their wealth;
- further strengthening coordination with international and regional organizations in terms of information and experience exchanges in the field of money laundering; and
- strengthening the supervision and communication behaviour of some workers in Jordanian commercial banks to ensure their trust and participation in the AML efforts.

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