**BINDURA UNIVERSITY OF SCIENCE EDUCATION**

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**COMMERCIAL BANKS ROLE IN COMBATING MONEY LAUNDERING: A CASE STUDY OF AFC.**

**BY**

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**B1953629**

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS OF THE BACHELOR OF COMMERCE HONOURS DEGREE IN ACCOUNTING AT BINDURA UNIVERSITY OF SCIENCE EDUCATION**

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**BINDURA, ZIMBABWE.**

# **APPROVAL FORM**

The undersigned certify that they have read, supervised and recommend to the Bindura University of Science Education for acceptance of a research project submitted by **Nyamombe Vannessa Kudzanai** in partial fulfilment of the requirements for the **Bachelors of Commerce Honors Degree in Accounting** . The submitted research project is titled: **“Commercial banks role” in combating money laundering: A case study of AFC bank”**

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# I hereby declare that this thesis is my own original work except for quotations and summaries which have been duly acknowledged. The thesis has not been submitted before to any institution for assessment purposes. Further, I have acknowledged all sources used and have cited these in the reference section.

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# ABSTRACT

Money laundering has become a global problem. Financial crime is becoming more common, and proceeds from illegal activities are increasingly being laundered via the financial system to seem as clean money. This study uses AFC Bank as a case study to investigate the role of commercial banks in combating money laundering. Zimbabwe was categorized as a high-risk country by the Financial Action Task Force, an international organisation responsible for money laundering concerns, which affected the research. AFC bank's Compliance department submitted information through questionnaires and interviews. The data was examined using qualitative content analysis. The outcomes of the survey revealed what commercial banks are doing to prevent money laundering. However, various obstacles develop during the operation. These were mostly the result of a lack of interbank coordination, personnel knowledge gaps, and system failures. The Reserve Bank of Zimbabwe should support continuing anti-money laundering training for all banks and establish a forum for banks to communicate with one another. Commercial banks, according to the findings, play an important role in the battle against money laundering. Finally, the findings indicate that more research into the role of financial institutions in combating money laundering is needed..

# DEDICATION

I dedicate this project to my family and friends most importantly my parents, Mr and Mrs Nyamombe for the financial support and words of encouragement, siblings and fiancé for being there for me and as well as giving me overwhelming support in the completion of this work. I also dedicate this work to my roommate, Mishell Rwanga for inspiration. Above all l thank the Almighty for protection.

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# LIST OF ACRONYMS

**AFC – Agricultural Finance Corporation**

**RBZ – Reserve Bank of Zimbabwe**

**FIU – Financial Intelligence Unit**

**ZIMRA – Zimbabwe Revenue Authority**

**NSSA – National Social Security Association**

**ESAAMLG – Eastern and Southern Africa Anti-Money Laundering Group**

**ZACC – Zimbabwe Anti-Corruption Commission**

**KYC – Know Your Customer**

**EDD – Enhanced Due Diligence**

**CDD - Customer Due Diligence**

**AML – Anti Money Laundering**

**FATF – Financial Action Task Force**

**PEP – Politically Exposed Person**

**CFT – Combating the Financing of Terrorism**

**SWIFT – Society for World Wide Interbank Financial Telecommunication**

**ZAMLI – Zimbabwe Anti-Money Laundering Institution**

**MER - Mutual Evaluation Review**

**GoAML- Go Anti-Money Laundering**

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# CHAPTER I: INTRODUCTION AND BACKGROUND

## 1.1 Introduction

The banking sector is the financial system's backbone; filthy money is only visible when it is placed in banks. As a result, because the financial system is the first point of contact for anti-money laundering activities, the primary goal of this research is to determine the role of commercial banks in combatting money laundering through a case study of AFC Commercial Bank. According to ESAAMLG (2013), the majority of dirty money in Zimbabwe is laundered through the banking system.

## 1.2 Background

Because of improved technology, the globe is undergoing fast social, political, and economic progress. This technology actively aids the global flow of commodities and services. This, however, has a detrimental influence on the economy and makes it vulnerable to organized crime. Money laundering is one of the most common financial system abuses. According to Mathuwa et al. (2020), what most criminal and terrorist operations have in common is the necessity to conceal the origin and purpose of monies gained via these unlawful activities. Money laundering is the practice of concealing finances for illegal activity. Despite the fact that money laundering has been present for a long time and has grown fast, it has only lately been identified as a serious concern and danger to global security (Nafula, 2019).

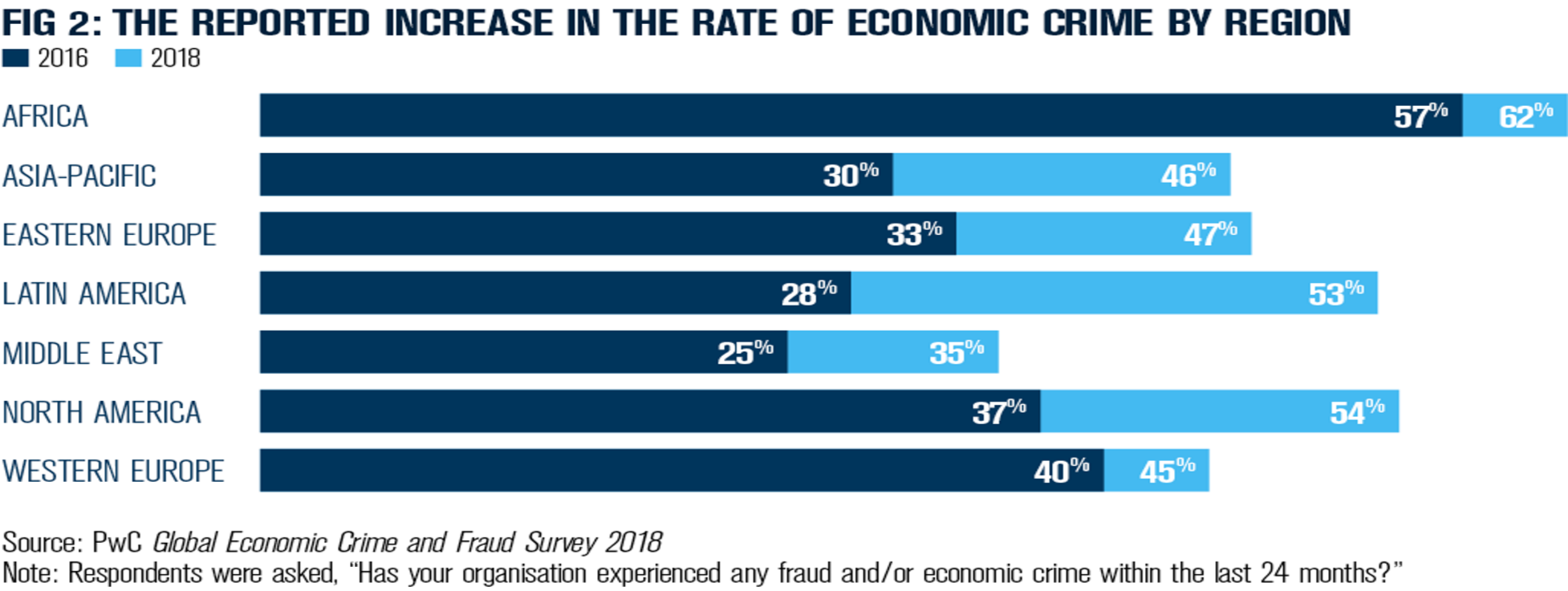
The collapse of the Bank for Commercial Credit International (BCCI) in 1991, according to Simwayi and Guohua (2011), exposed the bank's complicity in money laundering and other financial crimes. According to reports, the bank operates multiple locations in Colombia where it launders money and aggressively strives to give financial services to drug traffickers, terrorists, and tyrants. Money laundering has grown into a multibillion-dollar industry, with The Economist magazine estimating that between $500 billion and $1.5 trillion is laundered via banks each year. Furthermore, the Financial Action Task Force (FATF), an intergovernmental body led by the Organization for Economic Cooperation and Development (OECD), estimates that the cost of money laundering ranges from $590 billion to $1.5 trillion (Mohammas et al 2022). Money laundering contributes for between 2% and 5% of worldwide economic activity (Mohammas et al. 2022). Given the secrecy and criminal nature of this activity, determining the degree of money laundering is challenging. However, the figures demonstrate the scope of the problem. In this respect, financial institutions, particularly banks, serve as conduits for the movement of monies, including money laundering. As a result, because dirty money is most evident when it is initially admitted into the financial system, the financial system is the main focus of anti-money laundering activities. Money laundering is becoming a more serious concern throughout the world as the internet has grown in popularity. According to the Global Economic Crime Survey, it is estimated that money laundering accounts for 3-5% of global GDP (2019). According to Lieonov et al., the cost of money laundering in the United Kingdom is estimated to be £27 billion per year, while global money laundering is projected to be $1 trillion per year and is continually expanding (2021).

Money laundering is costing the African area billions of dollars, hence it is necessary to examine the effectiveness of anti-money laundering policies in reducing money laundering. Money laundering is one of the crimes that create $18 billion in illegal revenues, according to the National Risk Assessment Report (2018). Criminals involved in money laundering and other related crimes are increasingly resorting to the Internet to expedite illicit activities and maximize earnings in the shortest possible period. Because of the negative consequences of money laundering, the Group of Seven (G7) meeting in Paris in 1987 formed an international committee to develop and promote AML/Combating the Financing of Terrorism (CFT) to combat money laundering. The FATF's primary job is to set standards and guarantee that they are effectively implemented in all jurisdictions. According to Nafula (2019), these requirements are required to provide the framework for the identification and prevention of money laundering, but they do not guarantee that controls operate properly in financial institutions. Countries must build trust-based global remittance systems based on proven codes and honor-based trading partnerships. Combating money laundering necessitates a collaborative, worldwide, and targeted anti-money laundering regime. Banks, for example, are an essential line of defense in the fight against money laundering; they are responsible for customer due diligence and continual monitoring of their customer accounts. When suspicious activity are found, banks, including those in Zimbabwe, are required to report them to authorities such as law enforcement agency or financial supervisors.

The Bank Utilization Promotion Act (BUP) and Serious Offenses Act No. 4 of 2004 were enacted in Zimbabwe (Nyarungwe 2020). The Unit for the Promotion of Banking Use and Combating Money Laundering (BUPSMLU) was founded as the primary government entity in charge of investigating, preventing, and tracking money laundering and terrorist funding (Shabare 2021). Furthermore, the Zimbabwean Parliament passed the Money and Proceeds of Crime Amendment Act No. 32 of 2018. (the Amendment Act). The Amendment Law addresses several of the original Law's shortcomings, such as formally renaming BUPSMU the Financial Intelligence Unit (FIU) and reorganizing its makeup. Despite the fact that these laws are being enforced, money laundering is still prevalent in the nation. Tax evasion, corruption, fraud, outsourcing of finances, illicit trade in gold and precious stones, and smuggling are the primary offenses in Zimbabwe. According to Kakono (2017), these crimes produced an estimated $1.8 billion in 2016, or around 13% of the country's GDP in the same year. Part of Zimbabwe's low performance might be attributed to a lack of robust and clear banking rules and anti-money laundering measures. The goal of this research is to examine commercial banks' roles in the battle against money laundering in Zimbabwe.

According to the PwC Global Economic Crime and Fraud Survey, all continents saw an increase in economic crime and fraud between 2016 and 2018, with money laundering being the most common kind of crime.

***FIGURE 1****.*



According to the Zimbabwe Anti-Corruption Commission (ZACC), 36 asset recovery cases totaling US$4.5 million were investigated in 2020. Money laundering cases grew to 43 in 2021, with assets totaling US$24,1 million and 6 instances involving ZWL$173 million in ill-gotten wealth. In order to claim the assets, ZACC has formed relationships with organizations all around the world. The vast bulk of them are hidden in foreign bank accounts and trust funds.

## 1.3 Problem Statement

According to the IMF, only a few countries have established anti-money laundering regimes that are operational and hence capable of providing relevant statistics. Such is the situation in Zimbabwe, where money laundering activities are estimated to be worth around 1.8 billion dollars (Kakono 2017). Performance evaluation has become a normal requirement on Zimbabwean banking institutions to thoroughly evaluate their successes on current anti-money laundering legislation, if they are applicable. There have been cases of unexplained money in the economy, resulting in financial sector instability. Banks in the country have served as a conduit for many money laundering activities, highlighting inadequacies in the banking sector's procedures and operating processes. Many joint efforts have been undertaken by financial institutions to combat money laundering, but its incidence continues to rise, necessitating the need to identify alternative responsibilities that commercial banks in Zimbabwe might play in combating money laundering.

## 1.4 Research Objective

The study's major goal will be to examine the role of commercial banks in combatting money laundering. AFC Commercial Banks is a case study.

The precise goals will be as follows:

• Analyze the strategies currently employed in the banking industry to prevent money laundering.

• Identifying issues in Zimbabwe's banking industry in combatting money laundering.

• To propose alternative solutions to tackle the problem of money laundering in the banking industry.

## 1.5 Research Questions

• What procedures are now being utilized in Zimbabwe to launder money?

• How are Zimbabwean banks combatting money laundering?

•What are the banking sector's problems in preventing money laundering?

## 1.6 Justification of the study

As the fight against money laundering continues, the desire for commercial banks to tighten their anti-money laundering procedures grows. Using AFC Commercial Bank as a case study, this study will aid in understanding commercial banks' contributions to anti-money laundering efforts. Companies will gain from decreased reputational, financial, and legal risk by tackling money laundering.

This report will help the government reassess anti-money laundering rules. The Reserve Bank of Zimbabwe and the Financial Intelligence Unit will benefit as well by attempting to address the issues that commercial banks have in their AML activities. It will assist other commercial banks in assessing their AML policies and processes and making improvements where necessary.

## 1.7 Scope of the study

The analysis is confined to the AFC Commercial Bank headquarters in Harare, Zimbabwe, because the bank's operations are consolidated there. The analysis spans the period beginning in January 2000, when money laundering became a global issue. The compliance and ICT departments are the intended audience. It focuses on AFC Commercial Bank's anti-money laundering methods and the issues it has while dealing with money laundering. What other banks do to combat money laundering was not evaluated; instead, what they are supposed to do was.

## 1.8 Assumptions of the study

• Commercial banks play a vital role in combatting money laundering.

• Money laundering cannot be removed altogether, but it can be regulated.

• Every commercial bank has anti-money laundering safeguards in place.

## 1.9 Limitations of the study

• Respondents were hesitant and unwilling to share information owing to workplace obligations for privacy and confidentiality. The secrecy provision ensured their protection.

• Electricity disruptions hampered internet access and typing since the devices used require power. I took advantage of the period while electricity was available.

• Due to the nature of the study, qualitative analysis was performed; it is difficult to quantify. The data was analyzed using qualitative content analysis by the researcher.

## 1.10 Delimitations of the study

The study will focus on AFC Commercial Bank in Harare, Zimbabwe. Data from both primary and secondary sources will be used. Trends will be developed from 2017 to 2021, with no other time periods considered.

## 1.11 Definition of terms

**AFC –** Agricultural Finance Corporation Commercial Bank

**AML –** Anti Money Laundering

**Money laundering -** is the prohibited practice of converting bulky sums of money produced by illicit activities to seem as if they were generated from a genuine source.

**Combat –** taking action to prevent or reduce something undesirable.

**Curb –** to check or restrain.

**The bank –** AFC Commercial bank

## 1.12 Summary

This chapter presented an outline of the study to appreciate the foundation and scope of the study.

It has also highlighted how it will contribute to the stock of knowledge.

# CHAPTER 2: LITERATURE REVIEW

## 2.1 Introduction

This section will examine studies conducted by other researchers to focus on the subject under investigation. The literature will come from a variety of theoretical and empirical sources. Sources for a literature review might include published books, published journals, newspaper and magazine articles, unpublished academic work (thesis and dissertations), corporation reports, and many more.

## 2.2 Money laundering

Ferguson (2018) described money laundering as the act of concealing the source of criminal earnings or funs and integrating them into the regular economy. Simply put, it presents criminal monies as legitimate; the method is intended to escape discovery by law enforcement and to spend vast sums of money gained unlawfully so that they look to have originated from legitimate activities in the financial sector. It is known as laundry, which meaning washing.

Passing composite transfers or transactions cleans the money. It can also travel through several exchanges in an attempt to conceal the illegal source of cash and seem as clean corporate earnings.

Because of information and technology, the laundering process has evolved from paper work to electronic work (Menezes, 2017). As globalisation and the creation of new technology have interconnected financial businesses across all nations, the possibility of money laundering has grown. It gained popularity as a result of the terrorist attack in the United States on September 11, 2001. Since then, it has become a worldwide concern, with the international community focusing on the broad concept of money laundering since it aids the growth of illegal activities (Kumar, 2012).

## 2.3 Money laundering typologies.

Money laundering typologies are the techniques and methods of laundering money through the financial system. There are several techniques in use but this study has focused on the following:

### 2.3.1Smurfing

Smurfing is a method of placement by which cash is broken into smaller deposits of money, used to defeat suspicion of money laundering and to avoid anti-money laundering reporting requirements. A sub-component of this is to use smaller amounts of cash to purchase bearer instruments, such as money orders, and then ultimately deposit them again in small amounts (Passa, 2014).

### 2.3.2 Use of wire transfers

Use of wire transfers is usually in two forms;

**Identity theft**

Identity theft is a cybercrime in which imposter manages to get hold of key pieces of personal identifiable information such as ID number, driver’s license to pose as someone else (Tahir, 2021). It is a form of fraud or cheating of another person's identity in which someone pretends to be someone else by assuming that person's identity, typically in order to access resources or obtain credit and other benefits in that person's name. Email fraud, advance fee fraud and other phishing scams are the most common and most widely used forms of identity theft and

**Internet fraud**

Internet fraud which refers to the actual use of internet services to present fraudulent solicitations to prospective victims, to conduct fraudulent transactions, or to transmit the proceeds of fraud to financial institutions or to others connected with the scheme. In the context of organized crime, both may serve as means through which other criminal activity may be successfully perpetrated or as the primary goal themselves, though with the advent of social networking fake websites, accounts and other fraudulent or deceitful activity has become common place ( Nafula 2019).

### 2.3.3 Use of sham transactions

Cash-intensive businesses involved in receiving cash will use its accounts to deposit both legitimate and criminally derived cash, claiming all of it as legitimate earnings. Often, the business will have no legitimate activity (Said et al 2013).

### 2.3.4 Use of shell nominee and front companies

Trusts and shell companies disguise the true owner of money. Trusts and corporate vehicles, depending on the jurisdiction, need not disclose their true, beneficial, owner.

### 2.3.5 Tax evasion

Tax evasion, a form of financial crime, is facilitated by the existence of jurisdictions that have low tax rates, maintain relatively lax financial regulations and practices and that do not share information on client accounts with the tax authorities of relevant jurisdictions. As with any other crime, technological advancements have made the commission of tax evasion easier, faster and more globalized (Mbwayo, 2015).

### 2.3.6 Bulk cash smuggling

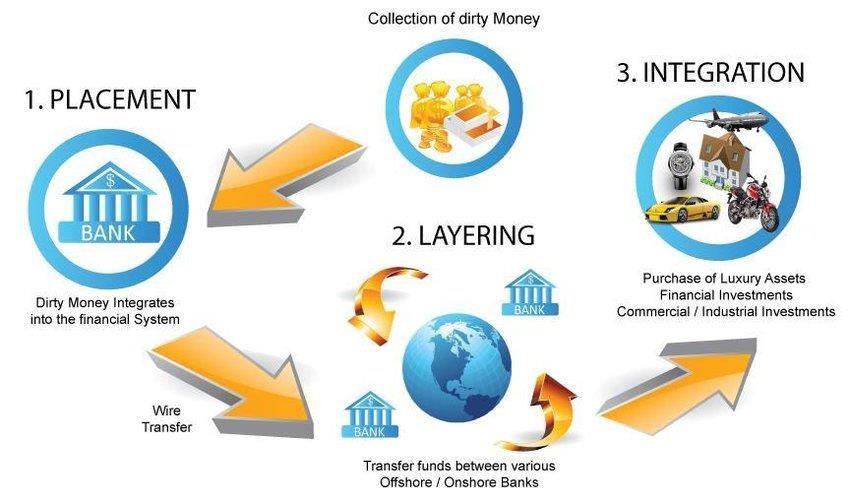
Physically smuggling cash to another jurisdiction, where it will be deposited in a financial institution, such as an offshore bank with greater secrecy or less rigorous money laundering enforcement.

## 2.4 Money Laundering stages

Money laundering takes place through three basic processes namely placement, layering and integration. The process of money laundering originates from illegal activities cash being introduced into financial businesses, large amounts of money are broken down into smaller sums that are then transmitted and deposited into the bank account. Funds are processed relatively close to the underlying activity, usually in the country where the funds originated, this is the placement stage (Policy and Procedure Manual, AFC 2020).

Layering is the stage that involves separating the proceeds of criminal activity from their source through the use of layers of complex transactions. These layers are designed to disguise the origin of funds. Integration stage entails to the launder back the proceeds into the economy as legitimate funds. The money is then made use easily with no need to continue hiding it. These steps are not followed in all instances, sometimes they are omitted, depending on the situation (Abudu, 2012).

Fig 2: Money laundering stages



## 2.5 Importance of AML within the banking sector

Banks are considered to be the focal point of the financial system of every economy so confidentiality is one of its principles. Banks also are capable to handle large sums of cashless transactions and transmit funds efficiently, which makes them the targets of black money activities. According to, Raweh et al (2017) the major network of laundering income of unlawful actions is the financial system. Anti-money laundering initiatives are considered to be a legal requirement for banks for detection of placement, layering and integration of illegal income. Carrying out these operations without the use of banking system services is impossible because of the advancement of banking operations and the use of modern electronic services (Alzeaideen and Masadeh, 2019).

Patel and Thakkar 2012 money launders typically employ banking institutions because they provide simple methods for moving funds to other financial institutions, storing deposits and transferring assets both inside and without borders. Compliance with AML has always come with a price hence it needs to be implemented throughout organisations so that it can satisfy auditors and regulators. Compliance must be highlighted as a culture across the whole organisation for it to be effective, and that a wider outlook is necessary for combating financial crime.

Combating money laundering is important because it helps to protect against fraudulent transactions. Business that have been inspected or fined for laundering may appear untrustworthy to customers. The value of institutions is attributed to their reputation as a result of the goodwill that activities and all types of crimes have generated. Money laundering is viewed as a driver of crime (Rahman, 2015) which can ruin the reputation of the bank through a headline of bad news. When AML initiatives are effectively implemented it increases brand awareness and leads to customers viewing the business safe. Financial fraud charges are extremely serious and have a high potential for becoming headline news. Any AML crisis can have a significant impact on their reputation.

Anti-money laundering helps a bank to avoid unnecessary cost associated with being penalised for non-compliance to regulatory requirement. Abudu (2012), stakeholder’s confidence is supported with the operation of the organisation. If money laundering activities are being carried out without any hick-ups in the system, bank’s reputation is tarnished resulting in loss of investors.

AML not only safeguards a bank's reputation and protects it from regulatory demands, but it also collaborates with other risk operations within the bank to decrease risks and improve long-term business predictions. Rather than being a hindrance or a distraction, compliance adds significant value to the entire organization (Choon, 2019).

## 2.6 Effects of money laundering

Several studies on money laundering have been conducted, with a focus on its effects and how to reduce it. This is due to the harm it is causing to the international community. When money laundering is ignored, the integrity of national economies and financial systems is jeopardised.

According to Carvalho(2011), money laundering causes economic distortion and instability. Money laundering and financial crime can harm economic growth by diverting funds from sound investments to low-quality investments that conceal gains. Illegitimate proceeds in developing market countries may cause government budgets to fall, resulting in government losing control over economic policy. It causes more volatile international capital flows, interest rates, and currency prices as well as unexpected fluctuations in money demand.

Money laundering has the potential to undermine financial institutions as well as the entire financial system (Mekpor et al., 2018). Money laundering directly harms financial institutions because there appears to be a link between money laundering and fraudulent operations carried out by institution personnel. It has a negative impact on the financial sector, which is critical to economic growth. Similarly, as money laundering activities increase, major parts of a country's financial institutions become vulnerable to criminal elements. This strengthens criminals and other money-laundering parallel systems. This may result in the elimination of less prepared competitors and the formation of a monopoly.

According to the Asia Pacific Group (2011), money laundering reduces government tax collection and thus indirectly harms honest taxpayers. It also makes government tax collection more difficult. For example, tax evasion reduces government revenue, limiting the government's ability to spend on development programs and harming a large segment of the population who would have benefited from such spending.

International authorities such as the United Nations (UN) and the Financial Action Task Force (FATF), among others, have put in place anti-money laundering systems. The Financial Action Task Force (FATF), an international body established to combat money laundering globally, emphasized that the political and economic influence of criminal organizations could weaken the social fabric, collective ethical standards, and democratic institutions of society. Money laundering is inextricably linked to the underlying illegal activity that generated it. As a result, the FATF emphasized that laundering facilitates criminal activity.

Reputational risk and social costs are also associated with money laundering. A country's reputation and financial institutions cannot afford to be harmed by a link to money laundering. Financial crimes' unfavourable reputation reduces legitimate worldwide prospects and long-term growth while attracting international criminal groups with bad reputations and short-term ambitions. This can result in diminished development and economic growth. Furthermore, once a country's financial reputation has been tarnished, restoring it is difficult and expensive, requiring large government resources to address an issue that could have been avoided with adequate anti-money laundering procedures (The Asia Pacific Group, 2011).

## 2.7 Money laundering counter measures

According to Cummans (2020), standardizing systems aids in the fight against money laundering. AML efforts can be hampered by system disparity, which prevents separate branches from interacting efficiently with one another; thus, standardizing systems across the entire organization is critical. Because there is sync and common ground, the uniformity will allow for the smooth flow of AML operations.

Structured training for AML staff to keep them up to date on how to combat money laundering. AML personnel must be aware of what to look for. Constant training is required to bring everyone up to speed and to regularly put the entire bank through its paces (Sullivan, 2020). As money laundering trends shift, it's important to keep employees informed so they don't miss anything important that could jeopardize their progress in AML initiatives.

Changes in AML laws should also be communicated because they have an impact on the entire process.

Data analytics are a vital component in the fight against money laundering. Making use of data analytics to find patterns by banks can help in fighting money laundering Once AML staff recognize questionable trends they have to be looked at with immediate effect (Nafula, 2017). Money laundering is initially detected when a deviation from the normal transaction trends is noticed. Most companies use applications that have data analytics codes embedded in them to help detect unusual transactions. Human reasoning is also needed to ascertain the need to flag it as a suspicious transaction.

## 2.8 Challenges faced in combating money laundering

Abudu (2012), some of the challenges banks face in their efforts to combat money laundering include insufficient interbank cooperation, a knowledge gap among staff, and a lack of money laundering software. Banks are encouraging customers to purchase AML software, and central banks should make it a requirement for all banks. Staff in AML-related departments should be trained on a regular basis.

According to Soyinka (2019), the global fight against money laundering is a failed experiment. Despite money laundering regulations, criminals can retain up to 99.93 percent of their profits. The system is designed to catch criminals. It has little effect on crime. In practice, the effectiveness rate of anti-money laundering safeguards in criminal accounts is little more than a rounding error. A major issue is the emphasis on activity and effort rather than results. The amount of criminal funds intercepted is not insignificant.

## 2.9 Empirical review

Money laundering is a major global issue that has the potential to devastate financial and economic systems. The Financial Action Task Force (FATF) is an intergovernmental organization affiliated with the Organization for Economic Cooperation and Development. It estimates that ML is worth between $590 billion and $1.5 trillion. It accounts for between 2 and 5% of global economic output. Given the confidentiality and illegal nature of business, determining its exact scope is difficult (Fundanga, 2003). To build an effective system to combat ML, banks and financial institutions must implement strict measures and procedures represented by controlling them, as Simwayi and Wang (2011) discovered that commercial banks in Zambia generally followed the 2004 Bank of Zambia anti-money laundering initiatives. AML policies, such as Know Your Customer (KYC) rules and Customer Due Diligence (CDD) measures, have been established in banks in response to demands to strengthen the capacity to prevent financial sectors from being abused.

Masciandaro and Filotto argued in 2001 that the primary goal for financial institutions is to balance revenues and costs and to identify how anti-money laundering regulations affect banks and other financial institutions. According to Broome (2005), the highest levels of AML compliance in individual institutions will be achieved when they are motivated by self-interest. Increased professional, legal, and ethical standards are required to achieve effective AML compliance in financial sectors. According to Al-Mubark (2003), banks in Dubai strictly adhere to anti-money laundering control procedures and methods. According to Awadallah (2005), banks should adopt clear internal policies for combating money laundering and train employees to be able to confront such operations and account for the results. According to Al-Ajis (2008), banks in the Gaza Strip are forced to refuse to open an account for a client or enter into any banking transaction if the identification procedures are not followed. Shaheen (2009) described the scope of this phenomenon and its negative consequences for overall banking activity.

Simwayi and Wang (2011) examined commercial banks' roles in combating money laundering in the People's Republic of China (PRC). According to the study, all five banks that responded to the questionnaire were not assessed by the People's Bank of China between 2006 and 2010. (PBOC). According to Idowu and Obasan (2012), there is a strong positive relationship between bank performance and the implementation of sound ML policy, with a value of 0.881. Delston and Walls (2009) concentrated on preventive measures needed outside of financial institutions (normally banks). While it is true that more should be done to identify ML activities outside of financial sectors, bankers losing track of the Trade-based money laundering (TBML) system will have serious consequences.

Scott (2008) examined the relationship between TBML and the banking sector and concluded that ML, via trade financing, is an issue that banks that finance international trade transactions must keep an eye on. Due to the growing influence of ML, Baity (2000) proposed that banks and non-banks accept greater responsibility for promoting increased transparency and eliminating practices that encourage crime, undermine financial systems, and harm their own institutions. Strengthening the audit trail, increasing regulation of non-bank business sectors, strengthening KYC requirements, increasing attention on complex, unusual, and large transactions, improving border monitoring of cash, improving supervision of banks and other financial institutions, and constructing an effective international financial sub-regime were among the recommendations made by Zagaris and MacDonald (1992), International Organization of Securities Commissions (IOSCO), 2004.

The KYC policy has emerged as an important national and international strategy for waging a proactive war against ML. In terms of policy, most countries require financial institutions to identify their clients and the legitimacy of their respective financial transactions. As a result, KYC compliance necessitates the creation of auditable evidence of due diligence activities in addition to the requirement for customer identification. To meet KYC compliance requirements, financial institutions must confirm that their customers are not or have not been involved in illegal activities such as fraud, ML, or organized crime (Arasa and Ottichilo, 2015). It should be noted that KYC is adequate for identifying money launderers based on their names and profiles, such as By-ends and friends. However, Tuba and Van Der Westhuizen argue that it is insufficient on its own, and that continuous monitoring of ulterior motives of manipulating transactions in order to balance their banking accounts is required. According to Byrne (2000), full implementation of all aspects of KYC programs is difficult because it is difficult to determine when a financial institution is in compliance. KYC was regarded as difficult to implement due to the lack of a clear end point for the information that would be useful to a bank manager in attempting to prevent ML.

Perpetrators of ML crime use all available means to conceal the true source of money or profit earned in this manner. Banking secrecy is one of the main barriers to anti-money laundering because it serves as a barrier to access to bank deposits as well as a safeguard for suspect funds, as it is one of the traditional rules applicable to working banks, where clients' secrets and banking operations are protected by the bank's commitment to law and custom, unless otherwise provided for in the law or in the agreement (AlNuemat, 2014). When Blum et al. (1999) examined OFCs and jurisdictions, they found that bank secrecy prevailed as a vehicle for ML and other financial crimes. Today, an increasing number of countries are enacting laws and regulations. Finally, the growing threat of global ML and terrorism justifies overriding banking secrecy, because effective prevention of the threat is impossible without a flow of information from banks (Rahman, 2013). Singh and Raipur (2009) concluded that governments must step up efforts to eliminate any harmful rules and practices that impede international cooperation against ML. Countries are hesitant to jeopardize financial secrecy. As recommended by Al-Hamadneh (2001), there is a need to strike a balance between financial confidentiality and allowing things to devolve into a money-laundering haven, where it is necessary to strengthen global cooperation on information sharing and law enforcement to implement systems for dealing with money laundering.

Johnson (2001) investigated the sources of laundered money from bribery and corruption, corruption "at the top," in oil sales, tax evasion, the illegal sale of wildlife, and prostitution, and he concluded that corresponding banking poses a greater risk to international financial systems than combating ML. However, Nawaz et al. (2002) stated that informal financial services networks have played an important role in the international movement of finance for terrorism and ML. Bartlett (2002) concentrated on the negative effects of ML on the financial sector, specifically how it impedes the development of important financial institutions.

According to Ihsan and Razi (2012) and Khrawish (2014), AML mitigates the impact of ML on economic stability and investment funding. When introducing the problem of laundering 'dirty' money, Reuter and Truman (2004) demonstrated macroeconomic/microeconomic estimates. They reported that at all levels and in all jurisdictions, a balance of competing objectives is required. Geiger and Wuensch (2007) discussed how AML affects banks and the financial services industry. According to the authors, the implementation costs associated with AML impose a significant burden on financial entities, particularly smaller market participants.

Murithi (2013) stated that operational costs have a significant impact on the performance of commercial banks in Kenya due to the increased/high transaction costs that the bank incurs, including training employees to detect suspicious activities. They also suggested that the bank's management provide employees with anti-money laundering training. Usman (2014) discovered that employee training has an effect on anti-ML towards the banking system. Tupman (2015) reviewed the actions in some countries and addressed the fact that political instability will increase crime. Hamin et al. (2016), who focused on terrorism financing in Malaysia, also stated that ML crime associated with terrorism should be taken seriously in formal intuitions. Collaboration between all institutions seriously in formal intuitions is effective in combatting ML (Hamin et al., 2016).

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## 2.10 Theoretical Framework

### 2.10.1 The Walker-The Gravity Model

The Walker model was one of the conventional approaches for assessing money laundering.

Walker created this model in 1995 with the goal of assessing money-laundering patterns in the Australian market. The hypothesis was based mostly on Isaac Newton's gravitational model. It was referred to as the estimation of the flows of illicit funds from and to each jurisdiction in the whole world thus, the attractive force between the two things. According to the Walker Model, once the scale of money laundering is known, macroeconomic effects and impact of crime prevention, regulation and low enforcement effects on money laundering and transitional crime can also be measured. However, this was not acknowledged vividly because the flows of money laundering stay in the dark and unnoticeable which makes it impossible to assess the quality of the formula and the effectiveness of the forecasting.

Money-laundering rates, according to the hypothesis, are determined by a country's crime rates, levels of crime sophistication, and GDP rates (Unger & Linde, 2013). It was highlighted in this case that there was more sophisticated crime in industrialized countries, such as Australia, and as a result, greater proceeds under money laundering. Nonetheless, it was highlighted that not all laundered money is transferred globally, as domestic institutions may not always provide sufficient cover for such money. This theory's application was tweaked in order to assess money laundering in the Netherlands. The Walker model's definition and scope for money laundering cases were enlarged as a result of the changes. In this aspect, it has extended to include typical underground economic activities like drug dealing, terrorism and crime, as well as revenues from the shadow economy like tax evasion.

The Walker Model consists of two parts. First it calculates the proceeds from domestic crime that are being laundered, and second it estimates the proceeds from foreign crime that flow into a country for laundering. It is the second part that is the more controversial one in the debate on money laundering. Money can be laundered in the country in which it was generated or sent to another country or countries for laundering. An important point within this model is that as soon as money has travelled (flowed) at least once, it is “whitewashed,” or laundered. This model only counts this first transaction involving the placement of funds. Although “hot money” can be moved on multiple occasions in efforts to disguise its criminal origins, this model does not count each of these transactions, or movement of funds, in order to avoid double counting.

What is still not captured in the Walker Model is the full layering phase of money laundering (money laundering is measured at the first phase, at placement, when it is generated and invested domestically or sent abroad). But while the second phase of money laundering, when money is transferred all over the globe in order to hide its origin, is much higher in volume and much more prone to all kinds of financial tricks and sophisticated constructions, it is only sporadically treated. The advantage of avoiding double counting is set against the disadvantage of underestimating actual gross criminal flows.

Walker was concentrating on the flows of money laundering in the economy from one country to another not the role of commercial banks in controlling money laundering. The research was more based in rich industrialised countries as they say richer countries generate more income per crime than the poor ones. The model has been populated using crime data from the U.N.’s most recent survey results for each country, using regional average rates per population, multiplied by UNDP population data, for countries where no crime data were available. Walker took the relative “proceeds per recorded crime” for each type of crime from his own Australian analysis, adjusted by UNDP data on GDP per capita.

### 2.10.2 The Systems Theory in Money Laundering

The systems theory is the second tested theory in the money laundering process. In all paradigm thinking methodologies, the systems theory is used.' According to the principle, any functioning entity's operations work together as a complete system. According to systems theory, for any system to fully function, the various sub-systems must work together and toward a common purpose of reaching a set of aims and visions. In the money laundering procedure, this is the same scenario. The many systems must work together in order for the process to succeed. The stakeholders are one of the system's main components (Mei & Zhou, 2015). External stakeholders, who are the actual money launders, must take the first initiative in money laundering, while internal stakeholders, who often favour complacency, assist in disguising the processes. Although certain systems have difficulty detecting money laundering activities, the vast majority of transactions are recognized and hidden by internal individuals and systems (Levi, Halliday & Reuter, 2014).

The systems theory application, on the other hand, is utilized to determine the various stages of money laundering. Overall, money laundering is carried out in three stages, namely placement, layering, and integration. The illegal money proceeds are first placed into the system during the placement step. This is the point at which unlawful proceeds from the underground and shadow economies are incorporated into financial systems. The second stage, dubbed layering, comes after that. The proceeds are hidden in the banking system at the layering step. The employment of a cash conversion technique, in which the existing paper trail is covered through many layers of currency, is one of the most popular approaches under this concealing strategy. The launders dispersed their cash into various instruments in the majority of cases, decreasing the danger of significant transactions being reported by financial institutions.

The integration stage is the final step in the money laundering process. This is the final step in the process of transferring filthy money into the mainstream economy. The integration process is carried out with the help of financial institutions, through forged loans, or other unwitting tactics, such as the use of bogus invoices for export and import revenues by the launders (Ardizzi et al., 2014).

According to a critical analysis of the systems theory, a money laundering process might be influenced by the financial institution's unawareness or complacency. It also demonstrated that such a process progresses through three basic stages. As a result, the theoretical findings served as a strategic foundation for the various stages of participation in Zimbabwean financial institutions.

The model only states out the stages of money laundering in the financial institutions both private and public institutions only cash transactions.

### 2.10.3 Crying Wolf Theory

According to Takats (2011), excessive reporting or crying wolf‖ can water down the value of the data of reports. The initial formal analysis of ML practice is triggered by excessive reporting. Banks monitor transactions and report suspicious activity to government agencies. These agencies use the data to identify investigation targets, and banks are fined should they fail to report ML. However, to avoid fines, banks resort to reporting transactions that are less suspicious, which dilutes the information. Excessive reporting fails to recognize information that is truly important, as informational value of the reports is watered down. Generally, the crying wolf phenomenon indicates that information does not merely refer to data, but can identify truly important data. Where the agency problem has been revealed by this theory model‘s between the banks and the formal institutions. The formal model builds on five main economic obstacles. The first obstacle is communication between the banks and governments.

However, the problem lies in accuracy and not in the verification of information. The second obstacle is that the bank incentives to report are coarse. Banks are fined only for concealing potential ML information, but not failing to report transactions that are prosecuted later as ML. In the third obstacle, banks are always unsure of the true nature of transactions, which makes every transaction a potential case for ML. In the fourth obstacle, banks assume the dual task of having to oversee all transactions in order to report suspicious cases. The fifth obstacle pertains to bank information, i.e., signal on the transaction which is not verifiable ex-post because local information during judgment cannot be reproduced later. As banks cannot share its signal with the government, the government must decide on reports proffered by the banks.

### 2.10.4 Transparency-Stability Theory

Regulation has moved beyond the dichotomous language of public authority versus private interests (Hancher and Moran, 1989). Evidently, differences between national regulatory requirements resulted in distorted consequences. Hence, regulations across the globe apply multi-level governance through specialized discourse that includes specialist epistemic communities, broad financial policy, and advocacy networks (Raweh et al 2017). Regulatory action can result in practices by building shared understandings of problems and solutions among participants. Mitch et al. (2007) suggests banking crises are less likely to occur in countries implementing greater regulated disclosures and transparencies. Transparency-stability theory suggests that greater disclosure and greater transparency facilitates efficient resource allocation by reducing informational asymmetry. Assuming accounting information as a public good (Watts and Zimmerman, 1986) and central banks are funded by conscripted taxpayers and investors, then central banks could reasonably produce extensive disclosures to satisfy the informational needs of the public. This notion flies in the face of transparency-fragility theory, which states that greater disclosure may indicate widespread problems in the banking system. Consequently, this situation could create negative externalities, such as runs on money and concerns regarding the financial system‘s vulnerability. As raised by Smellie (2004) it is globally acknowledged that the fight against organized crime cannot be won unless some form of enforcement is instituted. According to Murithi (2013) the enforcement should be incorporated in the contribution of extensive disclosure practices of central banks.

## 2. 11 Research gap

There is not much literature in relation to money laundering related to commercial banks. Most of the studies were conducted globally in developed and industrialised economy. The researcher therefore undertook a study at AFC commercial bank in a Zimbabwean economy which is still developing. The research will focus on the way financial institutions regulate and control the rate of money laundering as the financial system is the pivotal point of washing money both cash or transfers.

## 2.12 AML in the future

According to Techanvio, the anti-money laundering software industry is expected to increase by USD 2.09 billion between 2021 and 2025, with a CAGR of over 14%. Regulatory compliance requirements with international regulatory organizations, as well as an increase in the number of wired transactions, have contributed considerably to the expansion of the global AML software industry. Financial institutions have to pull up their socks in their efforts to fight money laundering.

## 2.13 Summary

The chapter examines the available literature on the subject critically. In this example, the evaluation identified the essential aspects that needed to be included in the study phenomenon under investigation. The research also included a theoretical review. The majority of previous studies were conducted in different economic conditions than those seen in Zimbabwe, so this study aims to bridge the gap.

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# CHAPTER 3: RESERCH METHODOLOGY

## 3.0 Introduction

The previous chapter was about the literature review on the critical effects of money laundering in the banking sector. This chapter is about the methodology used to examine the problem under the study with research design, population covered, sample and research instruments used to gather the data.

## 3.1 Research design

The strategy for answering a set of questions (McCombes, 2019). It is a framework that includes the methods and procedures to collect, analyse and interpret data. The research was qualitative in character and used a case study methodology.

According to McCombes (2022) a case study is a way of capturing details of specific subject for describing, comparing, evaluating and understanding different aspects of a research problem. The research design had the main purpose of providing relevant data with minimum costs of time, money and effort using both qualitative methods.

Qualitative data provides depth and complexity, and it motivates people to make detailed comments, which may lead to the discovery of new issues that were previously unconsidered (Chiinze, 2017).

## 3.2 Population

Green and Carmone (2011) defined research population as the collection of individuals, objects, and subjects with common qualities and features that can be extrapolated from sample data. The population for this study is the Compliance department staff members for AFC Commercial bank. It is the best population because the compliance department is the one responsible for enforcing and monitoring AML procedures of all branches of the bank. The

target population is five individuals.

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## 3.3 Sampling design

Kumar (2011), sampling is the process of selecting a few from a bigger group to become the basis for estimating or predicting the prevalence of unknown piece of information regarding a bigger group. This study used a technique called purposive sampling. A purposive sample is one that is chosen in a deliberate and non-probability manner in order to achieve a certain aim (Foley, 2018). It rely on researcher's judgment when choosing members of the population to participate in the study to meet the research objectives. When selecting samples for the study, the investigator exercises discretion. The selecting process contains some prejudice (Murphy et al., 2008).

### 3.3.1 Sample size

The sample size was based on AFC bank in Zimbabwe. The sample was formed at two levels: first level being choice of sample bank and the second level was the choice of respondents. As a result in level two of sampling, participants should have at least 5 years’ experience working in the banking sector and should have at least 2 certificates in AML related courses. The head of department, compliance manager, compliance officer and two compliance analysts are the respondents for the study because they have more than 5 years working experience in the compliance department and they possess relevant certificates.

**Table 3.1 Study population and sample**

|  |  |  |  |
| --- | --- | --- | --- |
| **Respondent Group** | **Population** | **Sample** | **Sample %** |
| Head of department | 1 | 1 | 70 |
| Compliance manager | 1 | 1 | 90 |
| Compliance officer | 1 | **1** | 80 |
| Compliance analyst | 2 | 1 | 50 |
| **Total** | **5** | **4** | **90** |

### Source: Researcher’s compilation (2022).

### 3.3.2 Justification of sample size

David (2010) as supported by Jones that a large and adequate sample size should be more than 50%x of the target population. Therefore in accordance with this assertion the researcher used a sample size of 90%x of the target population. Kumar (2011)x goes on to say that a reliable sample is the one which is more than 30%x of the target population. This assertion was also supported by Borg and Gall (2012)x who pointed that the best way of determining a sample is to use the greatest sample possible.

## 3.4 Sources of data

As a key source of data, the researcher relied on surveys and telephone interviews. Regulatory authorities’ publications and academic journals were used as secondary sources of data.

### 3.4.1 Primary data

The researcher collects raw data, using methods such as interviews, observations and questionnaires. It provides raw and relevant responses to specific study questions in order to provide a realistic picture of the findings. A questionnaire is a research tool that consists of a series of questions designed to elicit information from respondents (Borg et al, 2012).

An interview, according to (Kapoulas, 2012), is a communication process in which the responder and the interviewer exchange information. The respondent has an impact on the information acquired during interviews. For this study, my primary data was obtained from AFC Commercial bank through questionnaires and telephone interviews of the compliance department personnel.

### 3.4.2 Secondary data

Pederson (2020) defined secondary data as to information collected earlier by someone for the purposes of another study or for record keeping but is still useful. Using secondary data was economic as someone else had already collected the data thus lowering research costs. It is trustworthy because it is gathered and published by professionals, adding value to the study. Secondary data was obtained from RBZ anti-money laundering publications as well as FATF guidelines and recommendations.

## 3.5 Data Collection Instruments

Harris et al, (2010) mentioned that questionnaires and interviews have been often used in carrying out researches. Above all the researcher opted for the questionnaires because of their well-listed rewards. Interviews were used to counter the weaknesses of questionnaires and to come up with adequate evidence for the research findings.

### 3.5.1 Questionnaires

Questionnaires were administered to the respondents in order to obtain significant information about the problem at hand. The questionnaires assisted in obtaining both quantitative data as well as qualitative data. The questionnaire comprised structured as well as open ended questions which made it easier to tap some information and easily understandable by the respondents in interpreting and completing the questionnaires (Adam & Cox, 2008). The response from the questionnaires were meant to bring out the impacts of Risk Based Audit in banking performance. The researcher used questionnaires because they help cover all aspects of the research topic, enabling the researcher to ask as many questions as possible (Debois, 2016). According to Mcnabb (2009), using varied questionnaires is advantageous, flexible and also cost effective as compared to face to face interviews which requires both time and money. More so Malhotra, et al (2012), depict that a questionnaire presents information in writing to the respondents and requires a written down response targeting information as per research question. These are structured questions on paper where the respondent is expected to fill in short and precise answers with little or no space to deviate from the subject. These allowed comparability of responses from one respondent to another and they are easy to answer and are less time consuming.

Open ended questionnaires were also used such that respondents would be able to fully express their views towards the topic under study. The use of questionnaires enabled the researcher to gather much relevant information from the respondents. Thus, the questionnaires provided the researcher with a significant assortment of information. Also, the information could be easily analysed with the use of computers and becomes relatively easy to gather qualitative and quantitative data.

Furthermore questionnaires avoided the influence from others (group influence) on the respondents (Hair et al, 2002). Therefore, the respondents felt secure and much confidence in disclosing their information as the information shared was regarded anonymous. Debois (2016) points out that questionnaires allow respondents to maintain concealment which enables complete invisibility which therefore maximises comfort for the respondents. The anonymity enhances privacy in communication because respondents are not obliged to produce their names or identity on the questionnaire. The feeling of being confidential enables the respondents to deliver truthful information and this made the findings more accurate.

However, some of the respondents were not willing to disclose some information they felt confidential and some failed to interpret the questions.

### 3.5.2 Interviews

This also played a vital role in gathering data as it countered the weaknesses that were posed by the questionnaire. Interviews made it easier for question answering since there was clarification in terms that were not understood by the respondents if any. The use of interviews enabled the researcher to probe for further questions where need was felt for more justification for a particular response as mentioned by Kremmling (2003). Also the researcher was able to get rid of non-verbal communication by the respondents.

However, interviews have a challenge that some respondents may not be comfortable in some areas which they consider sensitive which might result in falsified data. Fear of victimisation and breaching of contract agreements might cause some respondents to be reluctant in disclosing necessary information (Phellas et al, 2011). More time is required when collecting data using interviews as was illustrated by Peterson (2000) and also Kremmling (2003) is of the view that data collected through the use of interviews requires validation and this can be achieved through testing for uniformity and reliability of the sources.

## 3.6 Validity and reliability of data

**3.6.1 Data reliability**

According to Drost (2011) reliability is the extent to which measurements are consistency and repeatable when different people perform it on different occasions, conditions and purpose. Data from research instruments was compared to one another in order to reach a reliable result. This study compared data from questionnaires and interviews to see if the data points towards the same response then results would be considered reliable.

**3.6.2 Data validity**

Data validity the extent to which measure adequately represents the underlying construct that it is supposed to measure, (Drost, 2011). The data collected from respondents was valid because the findings were similar to those collected from other closely related studies. Data collection methods used were also similar to those used by closely related studies.

In the pilot study, the designed questionnaires were distributed to a small group of students who found it easy to answer all the questions as they were clearly asked and structured in an understandable way. This ensured that the questionnaires would collect valid and reliable data. The research carried out was reliable as a good representation of the target population was achieved at 100%. A valid study must have a sample population that is at least half the size of the entire population (Green, 2011).

## 3.7 Ethical Considerations

To avoid plagiarism the researcher cited and acknowledged all authorities who were used as references during the research. The respondents were guaranteed of anonymity and confidentiality to ensure that they produce information as generously as possible. This research guaranteed that people’s rights are not infringed by making all information collected confidential and stating that it shall be used solely for purpose of this research.

## 3.8 Data collection and procedure

Qualitative data collection methods were considered. The data collection period lasted for one week. The data was collected by the researcher herself. Questionnaires were send through emails and interviews by telephone because of the Covid 19 pandemic. These data collection methods were most suitable because they provide a variety of information which is not limited or biased. In addition, material from the literature was gathered to supplement the data collected in order to meet some of the objectives.

## 3.9 Data presentation and analysis

All of the information gathered was qualitative. In addition to the use of questionnaires, the researcher used qualitative content analysis. The data was analysed using a step-by-step technique in order to obtain answers to the study questions.

## 3.10 Summary

The technique and way in which the study data was obtained and evaluated were examined in this chapter. Purposive sampling was used to acquire the required information via questionnaires and interviews. The data was analysed using qualitative content analysis.

# CHAPTER 4: DATA ANALYSIS AND INTERPRETATION

## 4.0 Introduction

This chapter presents the results and findings from the surveys and interviews, as well as the literature studies. It also contains a comprehensive discussion of the study's findings, which serves as the foundation for the recommendations and conclusions that follow.

## 4.1 Profile of respondents

Five questionnaires were designed and sent to the Compliance department of AFC bank. There was a 100% response rate since all questionnaires were returned. As shown below, all respondents have at least 5 years working experience in the banking sector and possess at least 2 AML related course certificates. This makes their contributions valid in this study.

**Table 4.1: Respondents profile**

|  |  |  |
| --- | --- | --- |
| Respondent | No. of AML related courses certificates | Banking Experience |
| Head of department | 5 | over 15 |
| Compliance manager | 3 | over 10 |
| Compliance officer | 3 | over 8 |
| Compliance analyst | 2 | over 5 |
| Compliance analyst | 2 | over 5 |

## 4.2 Why commercial banks should have and apply AML procedures

In response to the question of why commercial banks should have anti-money laundering procedures in place, the head of compliance, compliance manager, compliance officer, and compliance analysts stated that it is in the best interests of banks to maintain sound anti-money laundering procedures due to the consequences of not having these procedures in place. The following are their responses:

**4.2.1 Non-compliance penalties**

The Money Laundering and Proceeds of Crime Act requires banks to follow anti-money laundering procedures and to train their employees on the Act's provisions as well as internal money laundering standards. Anti-money laundering guidelines are in place at the Reserve Bank of Zimbabwe. Other RBZ directives and warnings emphasize the importance of banks adhering to anti-money laundering procedures. Noncompliance with these policies and guidelines results in severe penalties imposed by the Reserve Bank of Zimbabwe. The penalties could include the withdrawal of the defaulting bank's banking license. Noncompliance becomes a cost to the bank when it is penalized and fined. In severe cases of noncompliance, operating licenses are revoked, resulting in bank closures for good (Abudu, 2012).

**4.2.2 Threat to commercial bank’s future**

Banks that grow as a result of laundered funds will eventually go out of business. Failure to adhere to anti-money laundering protocols could imply that the bank is holding laundered funds. This amount accounts for the vast majority of the bank's deposits. Laundered funds do not last long because criminals typically withdraw or transfer large sums of money in the blink of an eye. In the absence of AML processes to prevent the influx of illegal funds into the bank's capital, the bank may face a major liquidity problem, jeopardizing the bank's survival. Money launderers simply deposit their funds in banks to facilitate future transactions. The money will not remain in the bank for long before it is discovered. Putting it in the bank allows for multiple transactions when moving it away (Sullivan, 2020). When money is transferred, it is completely removed.

**4.2.3 Reputational risk**

The banking industry's lack of anti-money laundering processes also casts a negative light on the industry. When money laundering activities are carried out successfully, the bank will be perceived as a welcoming environment for money laundering. This will erode AFC bank's trust among existing customers, potential customers, and other banks. It is difficult to repair a bank's reputation once it has been harmed. As a result, the bank's business partners may be persuaded to take their business elsewhere, reducing the bank's competitiveness. It also poses a risk to Zimbabwe's reputation. Nobody wants to be linked to money laundering.

That is why the launderers try to conceal their dirty money as well. Money laundering has been declared illegal by the United Nations, putting those who do not take it seriously at risk of losing their reputation. Doing business with such entities becomes risky because it exposes you to risk simply by entering into a business agreement.

**4.2.4 Investor confidence loss**

Investors will lose trust in banks and the financial sector as a whole if AML countermeasures are not developed and implemented. This will result in them withdrawing their investments and losing potential investors. This will put a strain on Zimbabwe's economy. Investors need to put their money somewhere safe, so if you are deemed a risk to their investments, they will withdraw all of their funds. The primary goal of an investor is a high return (Reuters, 2012).

**4.3 Measures commercial banks have in place to curb money laundering**

Based on questionnaire responses and interviews with the compliance head of department, compliance manager, compliance officer, and compliance analysts, AFC bank implemented the following measures as part of its contribution to money laundering prevention:

**4.3.1 Formation of a vibrant compliance department**

AFC bank has long had a compliance department to combat money laundering in order to monitor adherence to regulatory requirements. The department collaborates with the bank's legal staff. The department's responsibility is to ensure that the bank and all of AFC's subsidiaries are in compliance with regulatory requirements. Because it enforces compliance across the entire organization, this protects the bank from being penalized. FATF mandates that all financial institutions have AML departments.

**4.3.2 Co-operation with regulatory authorities**

AFC Bank has demonstrated excellent cooperation with the RBZ, FIU, ZIMRA, ZACC, and NSSA. Accounts of suspected fraudsters are frozen in accordance with central bank and FIU directives. Requests for account opening documents and statements of accounts for specific accounts under investigation were immediately fulfilled. Garnishment orders issued by ZIMRA and NSSA were also forwarded to respective branches for processing. The bank has also monitored withdrawals, and those who want to withdraw more than the limit must submit an application to the FIU for approval. AFC Bank has backed the regulatory authorities. The RBZ has established withdrawal limits that must be followed in order to prevent money launderers from withdrawing their funds. This will assist banks in detecting dirty money prior to withdrawal. Because of its bulkiness, they are unable to withdraw all of their money.

**4.3.3 Customer Due Diligence**

Customer due diligence is performed when accounts are first opened to verify the identity of customers. Before onboarding a new customer, the RBZ is required by law to conduct customer due diligence. The bank's customer identification process includes customer ID verification, confirmation of client proof of home or business operating premises, and assessment of their background information and risk profile. Adverse media screening is performed on high-risk clients to determine whether the customer has received negative publicity.

Customer due diligence protects the bank from potential risks, assists in deciding whether or not to accept the client, allows businesses to identify unusual behavior of their clients, and protects against deception and malpractice such as identity theft. AFC employs a registrar general's office application that contains information on all registered Zimbabweans. It is used to validate the authenticity of the client's identification details. The bank verifies the authenticity of legal documents submitted by artificial persons such as corporations for account opening purposes by requesting their memorandum of association, articles of association, valid tax clearance from ZIMRA, and directors' identity documents. The bank also conducts customer due diligence on company account signatories as if they were individual account holders. This is also known as "know your customer" (KYC). Before onboarding and doing business with a customer, the bank must first get to know them.

**4.3.4 Enhanced due diligence**

Certain clients, such as those who are politically exposed, are at a larger risk than others. In these situations, increased due diligence measures should be implemented. AFC bank does enhanced due diligence on its high risk customers. This is done to investigate if the potential client has previously been convicted or involved in a crime and if there are any suspicious signs of illegal activities in their financial statements. An ongoing control and surveillance of client’s businesses is done by the bank to avoid potential risks associated with high risk customers. FATF recommends financial institutions to continue assessing account activities of its high risk clients as they pose risks to them by virtue of them being high risk clients.

**4.3.5 Monitoring of customer transactions**

It is the bank's responsibility to continuously monitor customer transactions in order to detect any deviations from the customer's usual transaction patterns. To achieve this, the bank uses FLEXCUBE, an application for account monitoring which generates alerts when unusual activities are detected on an account. The compliance department personnel will then look into it to analyse the trend. When a deviation from the normal trend is observed, it becomes a suspicious transaction(s). These are transactions that do not correspond to the usual trend or past transaction levels given the customers declared business and sources of income. In the event of suspicious transactions, AFC bank compiles suspicious transaction reports and submit them to the financial intelligence unit for further investigation. The United Nations has come up with an application known as GoAML which helps financial intelligence units of countries to monitor money laundering transactions done through financial institutions.

**4.3.6 Existence of Internal Controls**

AFC Bank has a functional compliance handbook in place. The handbook contains the bank's anti-money laundering (AML) policies and procedures, which govern the bank's operations in the fight against money laundering and terrorist financing. This manual is updated whenever significant advances in the field of money laundering are made. An active internal audit department is in charge of performing annual audits on branch and head office departments and reporting to the audit committee of the board of directors. It determines whether all branches and departments are in compliance with the rules. The internal audit department is required to assess the compliance manual during its audit of the compliance department to ensure that it is being followed and meets the best anti-money laundering standards.

**4.3.7 AML employee training and education program**

According to the bank's AML manual, the bank must conduct AML training semi-annually. Every employee must be trained on new anti-money laundering trends, and AFC bank must receive a training report as part of its anti-money laundering monitoring. For future reference, copies of training attendance records and training slides were kept.

Employees' knowledge of money laundering was assessed using AML e-learning courses. All employees were required to take these courses. Compliance department staff would attend AML and CFT workshops as well as external training with other financial institutions to increase their knowledge in this area and stay informed on what others are doing to combat money laundering.

**4.3.8 International transfers assessment**

AFC Bank offers wire and telegraphic transfers. Before processing transactions, the reconciliations department seeks guidance and approval from the compliance department. These are international transfers of funds from one account to another. Worldwide, all wire transfers are processed through the Society for Worldwide Interbank Financial Telecommunication (SWIFT) platform. The SWIFT platform enables real-time global interbank fund transfers. In order to complete these transactions, standard information requirements must be met. They include the remitting bank's details, the remitting customer's details, the beneficiary bank's details, the beneficiary customer's details, the purpose of transfer, and the correspondent bank's details in the case of foreign transfers involving an intermediate bank. The summaries of all SWIFT transfers were saved for future reference. Telegraphic transfers are commonly used for sending money outside of the country. All telegraphic transfers were also recorded. The compliance department then checks to see if these international transfers are being carried out in accordance with regulatory requirements. Money launderers, according to ZACC, typically hide their funds in offshore bank accounts and buy properties abroad. As international transfers are commonly used in cross-border transactions, they must be closely monitored.

## 4.4 Challenges that commercial banks face in implementing anti-money laundering procedures

Even though AFC banks have some anti-money laundering measures in place, the processes are not immune to challenges that impede progress. As seen below, the issues mentioned included, among other things, a knowledge gap among employees, a lack of interbank cooperation, and system glitches:

**4.4.1 Short notices from regulatory authorities**

As part of its regulatory cooperation, AFC banks receives numerous requests for information from the RBZ, FIU, ZIMRA, NSSA, and ZACC. The notice periods for providing relevant information by these authorities can be very short. It is more difficult to meet deadlines when requests are for longer periods of time because retrieving process takes time. When many requests for information for particularly busy accounts are made at the same time, the bank is frequently forced to provide the information at the expense of other important routine actions. In some cases, after searching, it is discovered that the requested information is unavailable.

**4.4.2 Absence of standards to detect unlawful activities**

Money laundering-related activities are difficult to quantify due to the lack of standard guidelines for reporting such illegal activities. Among the operations are terrorist financing, human trafficking, murder, kidnapping, and smuggling. The majority of these activities are difficult to detect in the normal course of business at the bank, unless a deposit or transfer into an account is suspected to be the result of illegal activity, in which case the source is traced and reported to the RBZ and FIU for further investigation.

**4.4.3 Difficulties in verifying authenticity of companies**

When a company opens a bank account, it can be difficult to prove that the company exists because they have provided all of the required documents. This raises the issue of shell companies. These are companies that only exist on paper, with no offices or employees. Shell corporations are commonly used for tax evasion and money laundering. According to Sullivan (2020), shell companies are commonly used to launder money.

**4.4.4 Inadequate interbank co-operation**

Other banks' interbank cooperation was lacking. When a request was made to another bank, it could take some time to receive a response. This would jeopardize the bank's progress because the requested information is critical. Because there are connections between banks, money launderers can use transactions across different banks to conceal their dirty money. As a result, there is a need to consult with other banks to confirm some information, so interbank cooperation is critical to preventing fraudsters from operating accounts and laundering illegal funds through the financial system.

**4.4.5 Knowledge gap between staff**

Although anti-money laundering programs for staff were conducted on a semi-annual basis, the overall level of knowledge among staff was disappointing, with the exception of staff members in the compliance department. Some employees were unsure of what constituted suspicious transactions and what should be done if they were discovered. Despite the fact that AML training programs were on the calendar twice a year, they were not held on a regular basis because of the covid 19 pandemic and usually done online.

**4.4.6 Difficulty in performing enhanced due diligence**

It is the bank's responsibility to conduct ongoing due diligence on its customers. The bank's customer base is growing by the day, but staffing levels remain stable. As a result, the customer-to-employee ratio is increasing. This decreases the amount of time spent paying attention to consumers, which has an impact on monitoring their behaviours and updating their risk profiles. Customer data, such as line of business, number of operations, location, and company directors, is rendered obsolete by the bank over time.

**4.4.7 System glitches**

System flaws make it difficult to monitor customer transactions. When the systems used to track customer transactions go down or there are network issues, some transactions made during that time period may not be visible for tracking when the system comes back up. It is impossible to keep track of all cumulative transactions made by the country's banks. System flaws can result in the loss of data intended to facilitate AML initiatives (Cummans, 2020). If the information cannot be recovered, it becomes a stumbling block to AML efforts. Money launderers can also use the system to carry out their transactions undetected (Menezes, 2011).

In most cases, the institution will believe it is a system flaw, despite the fact that the system would have been operational.

## 4.5 Summary

The acquired findings were analysed in this chapter and the study's objectives were met in full. The results were also linked to the requirements and standards of regulatory authorities pertaining to money laundering.

CHAPTER 5: CONCLUSION AND RECOMMENDATIONS

# 5.1 Introduction

This chapter presents the summary and conclusions based on findings made in the previous chapter. It also proposes recommendations in line with findings made during the study.

## 5.2 Summary

The Reserve Bank of Zimbabwe regulates banks in Zimbabwe. Various policy guidelines and regulatory standards are used to regulate their activities. The Reserve Bank of Zimbabwe's Financial Intelligence Unit is a unit of the central bank, but it has its own governing rules, giving it a mandate separate from that of the central bank. Its efforts are mainly focused on suspicious transaction reports combating money laundering and counter terrorist financing.

The Reserve Bank of Zimbabwe Act, Banking Act, Exchange Control Act and Money Laundering and Proceeds of provide the guidelines and regulatory requirements to assist in combating money laundering. Banks are also under the supervision of the Financial Action Task Force when dealing with money laundering. In the battle against money laundering, the FATF assigns obligations to banks and other financial institutions.

It is important for commercial banks to have anti-money laundering procedures because of the implications of their absence. Not having AML procedures results in non-compliance penalties from regulatory bodies which can in extreme cases lead to the revoking of operating licenses. The commercial banks future as a going concern is also threatened if the bank does not take AML seriously. Banks with weak or no AML procedures are subject to reputational risk which tarnishes their image and investor confidence loss as investors want to put their money in safe institutions.

AFC banks has implemented a variety of measures to combat money laundering as part of its role in the fight against the problem. These include formation of a vibrant compliance department, cooperation with regulatory bodies, customer due diligence procedures, enhanced due diligence on high risk customers like PEPs, monitoring customer transactions, internal controls like audits, staff training on AML and international transactions assessment. The duty of the compliance department is to monitor and ensure that regulatory requirements are being followed within the whole organization as well as leading in AML initiatives. Verification of identity of clients is done to avoid forgery. Internal controls help to enforce the set rules. Training of staff keeps them abreast of the importance of combating money laundering and reporting all suspicious transactions.

Even though AFC has AML measures in place, it faces some challenges during the process. The challenges include short notices from regulatory authorities, inadequate interbank cooperation, knowledge gap between staff, system glitches, difficulty in performing enhanced due diligence and verifying authenticity of some companies. Generally, AML knowledge among staff is low. This can be attributed to the covid 19 pandemic which affected the periodic AML trainings. Because banks have a tough time determining the authenticity of firm registration paperwork, it is almost impossible to detect bogus accounts quickly. As a result, it should come as no surprise that fraudsters continue to operate accounts in a variety of banks, implying that the fight against money laundering will continue.

## 5.3 Conclusion

Having money laundering procedures is important as it protects the banks overall image as it will be regarded as legit thereby reducing costs associated with non-compliance as well as guarantee the banks future as a going concern. It is good to have these procedures as they have a positive impact on the performance of the bank.

AFC bank has in place measures to help in battling against money laundering. These measures are meant to help in detecting money laundering activities before they are executed. The compliance department leads in making sure that the AML measures are effectively adhered to so as to safeguard the bank.

AFC bank is doing its best in combating money laundering in Zimbabwe, however some challenges are faced during the process. As the findings indicate, the bank's efforts to combat money laundering have been hampered by a number of reasons, some of which are beyond their control. There are flaws that the bank must address, as well as actions taken by other parties such as the Reserve Bank of Zimbabwe, if the objective of eradicating money laundering in Zimbabwe is to be realized.

## 5.4 Recommendations

Following are some proposals to improve AFC bank efforts in preventing money laundering in Zimbabwe, based on the conclusions reached above. Employees in the compliance department should be required to complete the Certified Anti-Money Laundering course.

Arrangements by the Human Resource Department for staff from the compliance department to attend regular external anti-money laundering training sessions provided by reputable AML training organizations such as the Zimbabwe Anti-Money Laundering Institute (ZAMLI) should be made.

AFC bank's internal audit department should review the compliance function on a regular basis and make recommendations for improvements to the systems already in place. The Reserve Bank of Zimbabwe should also conduct an anti-money laundering audit of all banks on a regular basis to ensure that they are meeting regulatory requirements and following its guidelines. Heavy penalties should apply for non-compliance.

The Reserve Bank of Zimbabwe should establish a platform for banks to work together to remove fraudsters and criminals from Zimbabwe's financial system. This should be stressed at meetings of the Bankers Association of Zimbabwe, which represents all Zimbabwean banks. AFC bank should also play its part by responding to requests from other banks on time.

The Bankers Association of Zimbabwe should advocate for co-operation between financial institutions and the utility companies to develop a database of utility customers whose details will be easily accessible to all Banks on the database.

Reserve Bank of Zimbabwe should also equip compliance officers with knowledge in AML issues by holding regular mandatory training sessions. Knowledge acquired from these sessions will then be transmitted to staff of the various banks and strengthen the compliance function of these banks.

## 5.5 SUGGESTIONS FOR FURTHER STUDIES

The study's findings have sparked ideas for additional investigation. The focus of this study was the AFC bank. It emphasized the difficulties the bank is facing in dealing with the threat. The majority of the difficulties mentioned may not be unique to AFC Bank. More research on anti-money laundering systems at other banks and financial institutions is needed to get a better understanding of the issues that all banks and non-banking entities face in the fight against money laundering. This will make it easier to develop a long-term solution to the challenges of enforcing money laundering controls in financial institutions.

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**Appendix I**

**QUESTIONNAIRE COVER LETTER**

Bindura University of Science Education

PO Box AC 939, Ascot, Bindura Zimbabwe Tel: +263292282842 Fax: +263292286803

Dear Respondent

Re: Request for your participation in a research case study.

I am Nyamombe Vannessa K, a student at the Bindura University of Science Education studying for Bachelor of Commerce Honors Degree in Accounting. I am kindly requesting your participation in a research study entitled: Role of commercial banks in combating money laundering: A case study of AFC Bank.

May you please answer the attached questionnaire. The intention is to ascertain the role of commercial banks in combating money laundering.

Participation in this study is completely voluntary and you may withdraw from the study at any time. The study is completely anonymous, therefore, it does not require you to provide your name or any other identifying information. However, all responses will be used for academic purposes only and confidentiality clause is honoured.

I appreciate your willingness to participate in the interview.

Yours Sincerely,

V Nyamombe

**Appendix II**

**RESEARCH QUESTIONNNAIRE**

**Please fill in your responses in the spaces provided and tick where applicable**

**APPENDIX II**

RESEARCH QUESTIONNNAIRE

Please fill in your responses in the spaces provided and tick where appropriate.

**Gender:** [ ] Male [ ] Female

**Age:** [ ] 18 -25 [ ] 26-35 [ ] 36-45 [ ] 46-55 [ ] 56 above

**Official Title:** ………………………………………………………

**Academic Qualification:** [ ] First Degree [ ] Post Graduate

[ ] Professional Qualification [ ] Other……………………………

**Work Experience:**

[ ] 5-10 years

[ ] 11-20 years

[ ] Above 20 years

|  |  |  |
| --- | --- | --- |
| **AML policies and procedures** | **Yes** | **No** |
| Does AFC bank have a compliance manual approved by its board? |  |  |
| Has AFC bank developed written policies and procedures they have in place to prevent, detect and report suspicious transactions? |  |  |
| In addition to inspections by the central bank, does AFC bank have controls meant to assess AML compliance on a regular basis? |  |  |
| Does the bank have policies covering Politically Exposed Persons? |  |  |
| Are AFC bank’s AML procedures being followed by all its branches across the country? |  |  |
| Does the bank have risk assessment of its customers? |  |  |
| **Customer due diligence and enhanced due diligence** |  |  |
| Does AFC bank have a requirement to collect information regarding its customers’ activities? |  |  |
| Does the bank verify customers’ identity before doing business with them? |  |  |
| Does the bank update its customers’ information for high risk customers? |  |  |
| Are there procedures in place followed when onboarding new customers’ i.e identification documents and Know Your Customer Information? |  |  |
| Does the bank have an option for clients to indicate their source of income so as to understand their normal and expected flow of funds and transactions? |  |  |
| **Suspicious transactions and AML training** |  |  |
| Does AFC bank have an AML software to detect suspicious transactions? |  |  |
| Are high risk customers screened from adverse media and sanctions? |  |  |
| Are there specific steps followed when dealing with a suspicious transaction? |  |  |
| Does the bank provide AML training to its employees? |  |  |
| Does the bank communicate AML changes and new laws to its employees? |  |  |
| Are records for training sessions retained for future reference? |  |  |
| Does the bank engage its employees in external training? |  |  |

**Appendix II**

**Interview Guide**

1. Does your institution retain records of customer identification and other information?
2. What action(s) do you typically take when a suspicious transaction is detected as a result of your ongoing monitoring process?
3. Please describe AFC bank’s policies on minimum documentation requirements.
4. Please briefly describe the employee AML training program and its requirements.
5. What are the bank’s policies and procedures on international transfers and what are the difficulties associated with handling these?
6. How often does the bank’s internal audit function review the bank’s Compliance manual?
7. How does the bank identify suspicious transactions in its database?
8. How strong are the AML procedures of AFC bank? Are they in line with RBZ guidelines?
9. How does the bank identify PEPs and are they filed?
10. Has any of your staff acquired any professional certification in anti-money laundering?
11. How co-operative is AFC bank with regulatory authorities’ i.e RBZ, FIU, ZIMRA, NSSA, ZACC when it comes to AML issues and what are the challenges you faced?
12. How are the archives managed by AFC bank?
13. Are there any useful points you would want to make or experiences you would like to share to aid the study?