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The regulatory compliance system: Impact of AML/CFT implementation on the financial performance of Lebanese banks

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Abstract
The purpose of this paper is to provide a better understanding of how the financing of the compliance obligations which are related to "AML / CFT" (Anti-Money Laundering and Combating the Financing of Terrorism) does affect the financial performance of banks in Lebanon. The main question is: Does the compliance system play a positive impact on the risk management in Lebanese banking sector?
Based on a sample of 66 respondents from BLOM Bank employees, the empirical results showed that the employment of a compliance regulatory system has increased bank's costs. However, its implementation is not an option since it guarantees the compliance with the local, regional and international policies.
Besides, the study revealed that there are numerous benefits associated with these costs that help banks to increase their awareness towards policies and regulations. These benefits are related to the high level of staff training, the closer due-diligence leveling, and the deeper contribution in combating tax evasion by implementing the CRS (Common Reporting Standards) standard in banks systems, which guarantee that information on financial accounts will be automatically exchanged between governments from a worldwide point of view

Keywords: Compliance, Regulatory, Anti-Money Laundering, Combating the Financing of Terrorism, Banks, Compliance Costs

1.Introduction

Fast developments in data, Hi-Tech (High technology) and internet speed allow money and funds trails to move easily anywhere around the world. Big amounts can be transferred from a country to another one via a simple mobile application. Criminals are well-known to abuse legal and financial professionals who, knowingly or unknowingly, set up networks of corporate structures to provide anonymity. On the other hand, there are many guidelines, measures and specifications created by numerous organizations and associations to assist in the Anti-Money Laundering (AML) process and to Combat the Financing of Terrorism (CFT). Financial institutions (FI's) and banks are supporting additional costs related to the application of local and international measures to combat Money Laundering (ML) and Terrorism Financing (TF).

It has already been mentioned by IMF (International Monetary Fund), that every year about 800 billion USD to 2 trillion USD are laundered worldwide. This amount presents 2% to 5% of the global gross domestic product (UNODC, 2011). Coming to Lebanon, confidence in the banking system is a somehow in a delicate situation. The secretary of the Special Investigation Commission (SIC) describes Lebanon's anti-money laundering and counter-terrorism financing framework as robust, and that local banks are in full compliance with international standards, foreign legislation, and national regulations (Arbid, 2017).

Lebanon faces significant money laundering and terrorism financing challenges; such remittances from expatriate workers and family members, estimated by the World Bank at approximately $7.6 billion annually over the last four years. Laundered proceeds come primarily from foreign criminal.

Lebanese banks are engaged in the fight of Money-Laundering and Terrorist Financing by applying local and international norms and standards. They have developed over the past two decades comprehensive and effective systems. In 2001, Lebanon finds itself enacted the anti-money laundering law no. 318, which was amended in 2015 by law no. 44 on fighting money laundering and terrorism financing. In addition, an official Special Investigation Commission (SIC) was established at the same year. This commission is a multi-functional unit with judicial status chaired by the governor of the central bank. It is the centerpiece of Lebanon's AML / CFT regime and it is considered as a platform for international cooperation. Besides, it plays a vital role in safeguarding the concerned sectors from illicit proceeds such as money laundering and related crimes (SIC, 2021).

On May, 2017, after expanding the scope of US sanctions targeting some persons and entities in Lebanon's banking sector, the Association of Banks in Lebanon (ABL, 2018) made an observation on the text of the proposed law and assessed the negative effects that may ensue the Lebanese banking activities. According to the Special Investigation Commission (SIC)'s 2019 annual report, the total number of suspected money laundering-related cases in Lebanon attained 637 in the year 2019, 80.03% of which were local cases and 19.97% were foreign. The SIC investigated 552 cases in 2019, while 85 cases are still pending. In this context, the Lebanese judicial authorities ordered the lifting of banking secrecy on 55 cases, of which 48 are local and 7 foreign. Lebanon was removed from the list of non-cooperating countries in the fight against money laundering since the year 2002, thanks to the procedures implemented by the Lebanese government and Banque du Liban (Central bank of Lebanon) to control flows within banks (Choueiri et al., 2020).

This research aims to explore the different impacts on the banks' financial performance while applying the compliance system in their operational process to prevent potential financial sanctions and to be compliant with the local, regional, and international policies. Thus, the main question of this research is: Does the compliance system play a positive impact on the risk management in Lebanese banking sector?
It starts with an updated scope of the literature review including the Lebanese case, followed by a well-structured and organized research methodology before representing and analyzing the collected data.
Lebanese banks, financial institutions and different foreign entities can use the results of this research to understand how the implementation of AML/CFT compliance regulations and standards could affect their financial performance.

2. An updated scope of the literature review

2.1.Money laundering perspectives

As money laundering is a result of nearly all profit-generating crimes, it can occur almost anywhere in the world. Generally, the quantity of money laundering generated in each country is reliant on the nature and extent of crime in that country, the presence or absence of banking secrecy, the government attitude, and the economic setting in which the crime and the laundering take place (Walker, 1998). The negative effects of money laundering and terrorist financing are difficult to quantify. It's clear that such offences have dangerous effects on essentials pillars to the economic growth, society, and the business itself where large sums of laundered money may arrive at financial institutions and banks and then disappear suddenly, without been noticed. This can lead to liquidity problems for financial institutions.

Money laundering not only threatens the financial system of a country but also deteriorates the moral and social standing in a society by exposing it to activities such as drug trafficking, smuggling, corruption and other criminal activities.

The resemblances that exist between money laundering and terrorist financing allow countries to use the same methods and mechanisms to combat both of them at the same time. International tools such as CDD (Customer Due Diligence) and STR (Suspicious Transaction Reports) can be used as investigative devices to determine the source of funds and also their ultimate destination. In addition, international cooperation mechanisms are located for the exchange of information, freezing funds, and cut down channels used to transmit funds. In order to evade these obstacles, terrorists

use practices such as legitimate systems with illicit merchandise or illegitimate systems such as trade-based money laundering (Kathryn and Gardner, 2007).

Money laundering threatens not only the economy of a country but also the other pillars such as society, government, and businesses because the funds enter the country to be laundered and then exits in a fast manner which has a bad impact on the whole economy flows. Consequently, various entities have adopted some strategies: introducing strict policies and procedures against money launderers and terrorist financing via efforts on predicate offences and introducing preventive policies to make sure that the proceeds of crime are not laundered through regulated financial institutions (Van den Broek, 2014).

The bank is not obliged to be aware directly of the illegality of the source of the suspicious funds or search about the truth, but it is sufficient to realize the existence of the suspicion to report it. In these circumstances and the fear of falling under the responsibility, banks should take preventive and reasonable measures to verify the identity of persons dealing with them in all banking operations, especially since most of these operations are based on confidence and personal considerations.

2.2. International compliance bodies

The international community has focused on the fight against money laundering and terrorist financing. There are several international bodies and special groups seeking to set standards and to promote effective implementation of legal, regulatory, and operational measures for combating money laundering, terrorist financing, financing of proliferation, and other related threats to the integrity of the international financial system.

Some of these international bodies are: Financial Action Task Force (FATF), Middle East and North Africa Financial Action Task Force (MENA FATF), European Union directives (EU), Basel Committee on Banking Supervisor (BCBS), The International Monetary Fund (IMF), The Organization for Economic Cooperation and Development (OECD), United Nations directives (UN) and the US Patriot Act.FATF defines the Financial Intelligence Unit (FIUs) as the national center for the receipt, analysis of suspicious transaction reports, other information relevant to money laundering, associated predicate offences and terrorist financing.

2.3. AML / CFT and central bank regulations in Lebanon

From a global perspective scope, according to the 2017 Basel AML Index (Basel AML Index 2017 Scores and Rankings), Lebanon occupies the 42nd place between the worst out of all 129 listed countries. The index measures AML/CFT systems combined with structural and functional vulnerabilities, such a high rate of perceived corruption, weak judicial systems and inadequate financial sector standards (Arbid, 2017).

Theoretically, banks were obliged to comply with regulations on AML/CFT as per Lebanese law and this has made conflict between the country requirements and banks vision since any financial institution is seeking for profits. However, being compliant with the local and international regulations may limit this goal. Banks were forced to cooperate, particularly after the 9th of September 2001, which changed the perspective of the fight against money laundering and terrorist financing and therefore, they were left with no option but to obey.

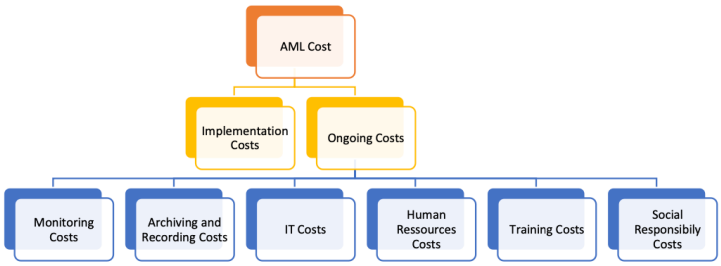
Lebanese banks are engaged in the fight against money laundering and terrorist financing by applying worldwide norms trough updated technological system (El-Chaarani and El-Abiad, 2018). They have developed over the past two decades comprehensive and effective systems (Sader, 2012). In 1995, the United Nations convention of 1988 on fighting illegal trade of narcotics and psychotropic drugs, known as the Vienna convention (UNODC, 1988), was the first international instrument to address the issue of proceeds of crime and to require states to establish money laundering as a criminal offence. At the end of 1996, the Lebanese banks signed the Due Diligence convention (DDC) on the commitment to fight the laundering of illegal drug trade funds between the Association of Banks in Lebanon and members-banks (Courson et al., 2019). In addition, Lebanon acceded to the UN convention for the suppression of the financing of terrorism, signed in New York on 9/12/1999 by passing law no. 53 of November 2015 (SIC, 2015). Law 44 describes money laundering as any act committed with the purpose of concealing the real source of illicit funds, or given an untrue explanation regarding the said source while being aware of the illicit nature of these funds, transferring funds, or replacing or investing the latter in purchasing movable or immovable assets or in carrying out financial transactions for the purpose of hiding or disguising the such funds' illicite sources (BDL law no.44, 2015).

The central bank of Lebanon' regulations are defined in BDL circular no. 83, "Regulations on the Control of Financial and Banking Operations for Fighting Money Laundering and Terrorist Financing". This circular mainly includes the relations with foreign correspondent banks abroad, relations with customers and due diligence measures, controlling certain operations and customers, committees and administrative units in charge of the control of operations for fighting money laundering and terrorist financing and their tasks and final provisions (BDL circular no. 83, 2001).

2.4. Compliance system implementation costs

There is a price in every monitoring, reporting and disclosure process. The obligations that responsible offices are requested to fulfill such as: Suspicious Transaction Report (STR), framing of an anti-money laundering system, conducting a regular examination and sponsoring anti-money laundering training projects in order to build a compliance culture within the institution. Due to the need for compliance, additional costs and expenses are expected to highly increase in the areas of administration, training, information technology and the provision of spaces for recording and archiving. Anti-money laundering costs can be divided into three distinct categories within a jurisdiction, those that affect the government, those that affect the financial services industry, and those that affect the general public (Yeandle et al., 2005).

Figure 1: Pyramid of Compliance Costs in a bank



Source: Author' own compilation

2.4.1. Human resources and training costs

Banks must check the integrity of their staff. They should verify if they have the adequate skills, knowledge and expertise needed to carry out their functions. The training should be of high quality, and pertinent to the bank's ML/FT risks, activities and updated with the latest policies / regulatory obligations and internal controls. It should be mandatory for all staff and custom-made to segment the business in the bank, prepare staff with a complete understanding of specialized money laundering / terrorist financing (ML/TF) risks they are expected to face and their obligations with those risks. This could be checked by requiring employees to pass tests/quiz and monitor their level of compliance set by the bank and by the regulator (Georgiou, 2017).

2.4.2 Monitoring costs

Transaction monitoring solutions allow financial institutions to monitor the transactions made by their customers in real-time and/or on a daily basis. These solutions not only look at current transactions but also analyze a customer's historical information and account profile. Thus, each customer has his specific analysis which appreciates his personal risk level. Transaction monitoring is vital to financial institution's AML procedures, as it can detect suspicious activities such as large cash deposits or wire transfers. As a result, transaction monitoring can allow organizations to spot financial crimes before they happen or at an early stage. AML transaction monitoring software can also include sanctions screening and customer profiling features (KYC-Chain, 2020).

2.4.3. Archiving and recording costs

As required by the law 44, Lebanese banks have to retain copies of documents related to all their operations and to keep information, data or copies of customers' identification documents for at least five years after performing the operations or ending the business relationship. These procedures imply costs, because financial institutions and banks have to dedicate spaces to retain documents for several years (SIC, 2015).

2.4.4. Information Technology (IT) costs

Banks in Lebanon experience information technology costs, as they have to acquire automated AML systems for monitoring clients' accounts and transactions. In addition, the users need to learn how to use the software in preventing and identifying organized crimes. They are responsible of spotting terrorists and reducing the incidence of money laundering within the banks or financial institutions. Thus, money laundering is conducted in a very refined manner. Launderers and cartels always find a way around the AML regulations and stopping them becomes traceable. In this concern, commercial banks have to improve their systems in order to be always updated with the money launders new techniques and methods of money laundering.

2.4.5. Social responsibly costs

The economic and political influence of criminal organizations can deteriorate the social fabric, collective ethical standards and ultimately the democratic institutions of a society. There are important social costs linked with money laundering. It allows and expands drug traffickers, smugglers, and other criminals' operations. The main result of this activity is the increase in government costs due to the demand for higher levels of law enforcement and health costs experienced in rehabilitating drug traffickers, protecting the public and combat the serious consequences that may result. In addition, money laundering could lead to the virtual take-over of legitimate government, which transfer the power from the government to criminals (McDowell and Novis, 2001).

3. Research methodology

This research is based on a descriptive analysis, which aims to describe and analysis a population, a sample, a situation, or a specific phenomenon. It focuses on answering the how, what, when, and where questions of a research problem, rather than the why. A survey is designed to collect quantitative and qualitative data from respondents. A paid version of "Survey Monkey" platform was chosen as the tool of collection and analysis for the survey. On the other hand, secondary data was collected from different specialized reviews. The population is composed from employees of BLOM Bank totaling more than 3000 employees distributed across branches and head office of the bank with a margin of error of 10% and a level of confidence of 90%. So, according to the sample size which is equal to 66 respondents, the following methods of distribution were applied: either by internal e-mail after getting the approval of the higher management of the bank to circulate the survey through the employees' internal emails, personal emails or the employees 'social media accounts (Facebook, Twitter, Instagram, WhatsApp, …) (Appendix I).

For the data analysis, the three following steps has been applied. First, the data filtering: since there are qualitative responses, this step reflects the process of excluding unnecessary data to simplify the responses to display and convert the qualitative data into quantitative data via Excel forms. Second, the presentation of the results by assembling or organizing the data collected in diagrams or visuals. Third, the last step is for analyzing, concluding and presenting of recommendations.

4. Empirical findings

4.1. Presentation of demographic data

The questionnaire was available for 7 days from the 17th to the 24h of June 2019. The sample is diversified regarding ages where, 59% are between 20-29 years, 24 % are between 30 - 39 years, 9% are between 40-49 years, 8 % are older than 50 years and none of the respondents is aged 18 years or less. The fact that the sample is mostly aged between 20 and 29 years explains that the majority of the respondents are in this age group, where 52% of the respondents were male and 48% were female (Figures 2 & 3).

Figure 2. Answers for the question "What is your age group?"

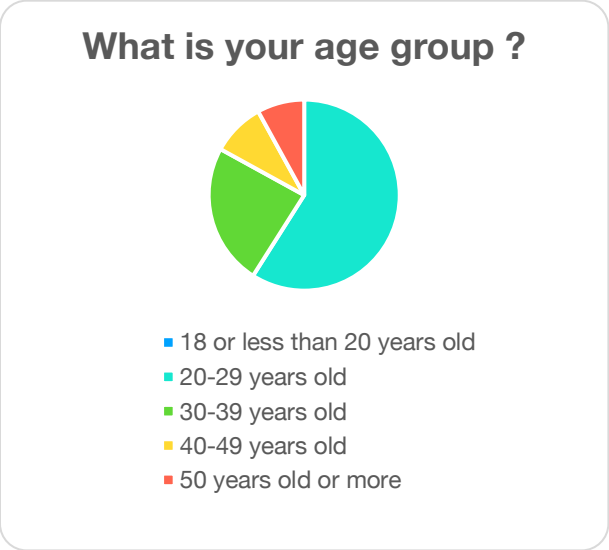
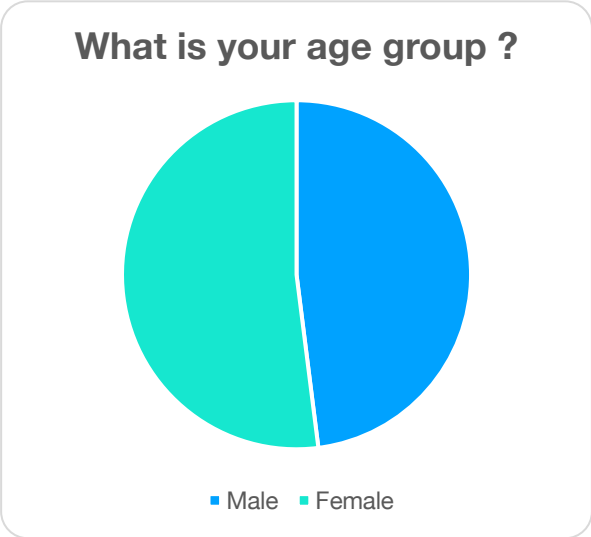


Figure 3. Answers for the question "What is your gender?"



According to the results, the whole respondents are full-time employees, neither contractual nor trainee. The majority are occupying the "Associate function" level (65%), and (35%) beginners. The reason of having such results for the position is because the major age of respondents is between 20 and 29 years old (Figures 4 & 5).

Figure 4. Answers for the question "Which of the following describes your status?"

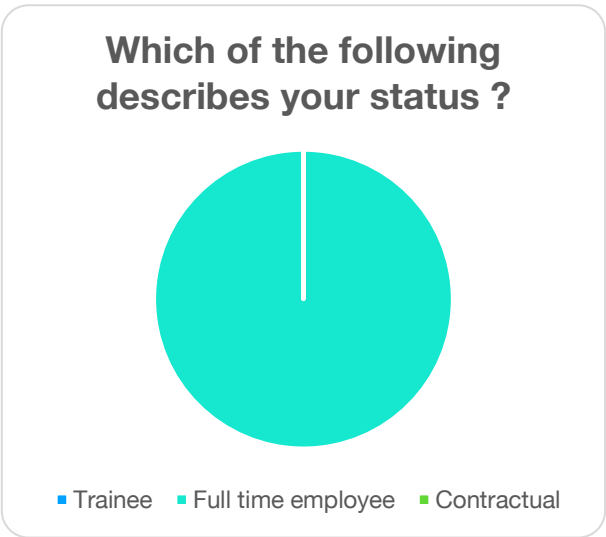
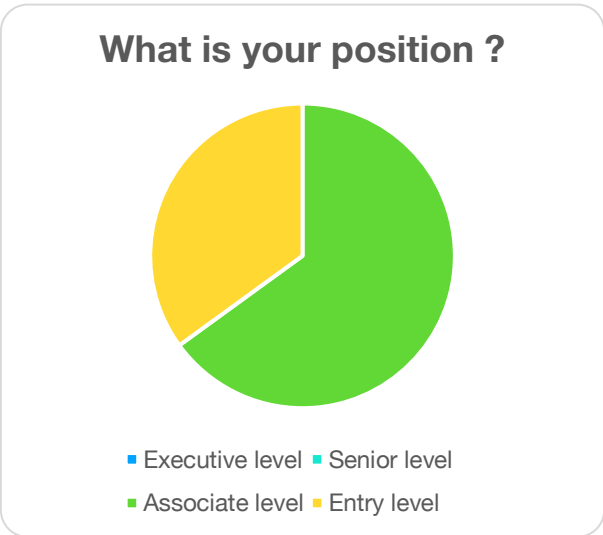
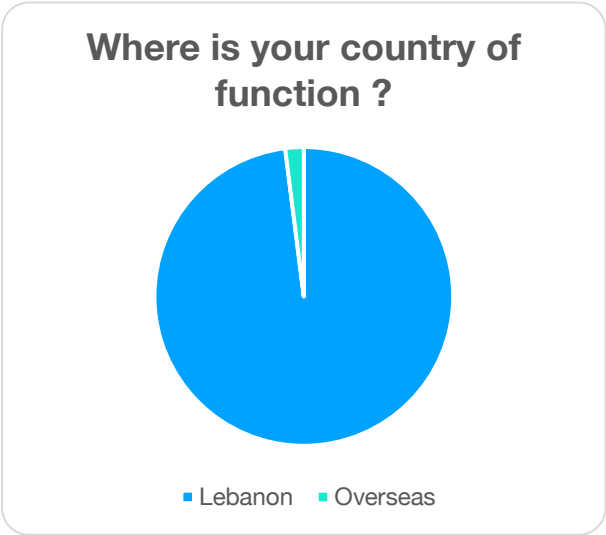


Figure 5.Answers for the question "What is your current position?"



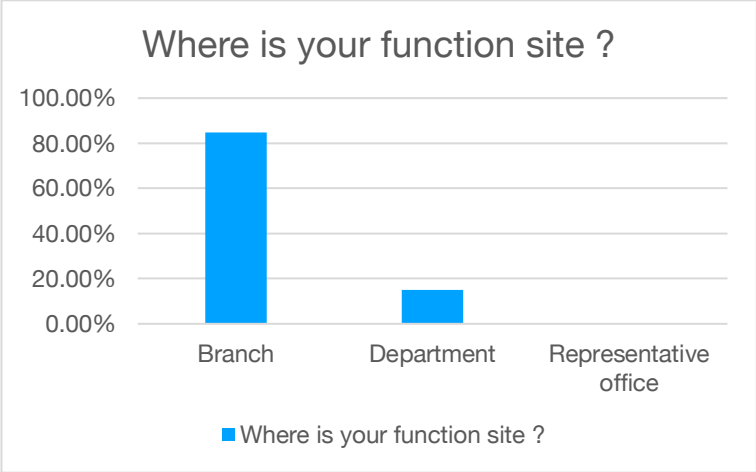
When it comes to the function country (Lebanon or abroad), 98% of the respondents are working in Lebanon (Branches/Departments) and only 2% only are working abroad (representative offices, branches abroad). Since our goal is to measure the effect of the AML/CFT procedures on the financial performance of the banks in Lebanon, the said 2% of the respondent were excluded because, the study is dedicated to the implementation of costs in Lebanon. Therefore, it's not possible for this study to measure the effect on different jurisdictions' data who follows different or non-similar policies and procedures (Figure 6).

Figure 6.Answers for the question "Where is your country of function?"



84.84% of the responses came from branches, where 15.16% came from departments and no responses from any representative office abroad, which means that the previously mentioned 2% above were only from overseas branches. In fact, BLOM branches are distributed among the whole Lebanese territory (68 branches) (Figure 7).

Figure 7. Answers for question "Where is your function site"



Regarding the work experience, the results were as follows: 59% of the participants have below 5 years of experience, 33% have 5 to 10 years, 6% have 10 years and one specific response weighted 2% has 29 years of experience. The cause of having such results for the experience is normal because the major age of respondents is between 20 and 29 years old and with the position of Associate / Entry levels (Figure 8).

Figure 8. Answers for the question "What is your work experience"

The results show that 88% of respondents work/deal or have experience in the AML/CFT compliance field, where the rest 12% don't have any experience in these fields (Figure 9).

Figure 9. Answers for the question "Do you have an experience with compliance/compliance related work or, do you work with compliance officers"

4.2. Analysis of general assessment section

Dichotomous questions were asked regarding the bank's regulatory system in the implementation of the AML/CF. According to results, respondents agree that the bank has a performing legal and regulatory AML/CFT framework to ensure that the organization follows relevant laws, regulations, and business rules. Banks are using this set of complex rules and tools to adopt, implement and monitor an integrated approach to ML/FT issues.

4.3. Analysis of survey section: Reportable transactions, prevention, and detection of funds obtained from illegal sources

Regarding the bank's AML/CFT framework, dichotomous questions were placed to check how the bank is taking care when a suspicious transaction exists. How it prevents such acts, and what benefits are coming from AML/CFT implementation. Results indicate that all the respondents follow a practice to identify, monitor, report and prevent AML/CFT and frauds acts. They also reveal that the bank is providing an AML/CFT program for all its employees in order to increase their knowledge regarding fighting money laundering and terrorist financing. Besides, two multiple choices questions were surveyed to study why the bank follows such policies and producers and what are the prospected benefits of this implementation (Table 1).

Table 1. Answers for the section: reportable transactions, prevention, and detection of funds obtained from illicit sources

Questions	YES (%)	NO (%)
Approved by the bank's board committee	100%	0%
Including of a designated officer	100%	0%
Written policies	100%	0%
The existence of internal audit function or another independent third-party auditor	100%	0%
All branches are included in addition to the subsidiaries	100%	0%
Practices for the identification and reporting of transactions	100%	0%
Implementation of an IT system to identify structured transactions	100%	0%
Customers and transactions concurrent screening	100%	0%
Monitoring program	100%	0%
AMLCFT training sessions for relevant staff	100%	0%

All the respondents indicated that the bank follows the regional and international AML/CFT regulations in order to: protect itself from money laundering and terrorism financing (44%), represent good business practice (26%) and avoid sanctions from the authorities and increase attractiveness (17% and 13% respectively) (Table 2). So, respondents believe that attractiveness is not the first goal of the financial institution when it comes to AML/CFT. They considered that what is important to the bank is to protect its reputation by fighting such acts.

Besides, results show that the most important attributes for the benefit of the implementation of compliance system is the reduction in fraud (46%) and in credit risk (20%). It can be clearly seen also that most respondents perceive the AML/CFT as a source for better customer knowledge (18%). The responses for the rest of the attributes were weak. The respondents believe that the implementation benefit doesn't lie neither on having new customers nor on cross-selling (Table 2).

Table 2. Answers for reasons for complying and the benefits of AML / CFT implementation

Reasons for being compliant with AML/CFT policies and procedures	
Answers	**Percentage (%)**
To avoid sanctions from the authorities	17%
To show good business practices	26%
Effective way to combat Money laundering and terrorism financing	44%
To increase attractiveness	13%
The benefits of AML/CFT implementation	
Better customer knowledge	18%
Having new potential customers	4%
Cross-selling strategy	2%
Reduction in credit risk	20%
Reduction in fraud	46%
Cost reduction	10%

At the end of this section, an open question was added. It asked the respondents to write or describe any point they believe that it should be included in the study. Only one response was received: "The AML/CFT compliance program

can help in spotting opportunities and potential weaknesses along the business process that may not be directly linked to AML/CFT. This helps to promote a culture that will definitely benefit the organization in the future".

4.4. Analysis of implementation costs and benefits

This section represents the answers about the agreement level with regards to the effect of compliance procedures (AML/CFT) on the financial performance of the bank. The questions were presented as a form of statements where the respondents should give a level from 1 to 5, where 1 strongly disagree and 5 strongly agree (Tables 3a & 3b).
The results show that the implementation of a compliance system has increased the transaction costs. Respondents indicate that they are neutral but also agree that the AML/CFT has a cost on the bank and it affects its financial performance, where 27.27% agree and 54.54% are neutral. On the other hand, the implementation of a compliance system has increased the staff size. According to the majority of the respondents, the implementation of the compliance system increased the human capital size of the bank. Results were: 42.42% for agree, 19.7% for strongly agree, 27.27% for neutral and 10.61% for disagree. No result was shown for strongly disagree.

According to 30.30% and 25.75% (more than the half) of the respondents, the compliance implementation had contributed to an increase in the financial risk provision and this is maybe because of the financial prevention system applied by the bank to cover financial losses in case of non-compliance by any means or reasons. Moreover, an important percentage of the respondents believe that it had a negative impact on the provision since the AML/CFT is a presentation system of control by itself. Furthermore, 65.16% of the respondents agreed and 34.84% strongly agreed that the implementation of AML/CFT regulations had led to a massif increase in the staff training program. According to the bank's internal policies, each employee has a distinctive and specialized training program which suits with his position. These trainings are not only to raise the AML/CFT awareness but also to create a suitable compliance culture. The majority of respondents agreed with 37.87% for agreeing and 43.93% for strongly agreeing that the implementation of the AML/CFT regulations in the bank led to an increase in the reporting to the authority (SIC: Special Investigation Commission). However, bank should report of suspicious transaction, client or account that seems to be doubtful. Besides, 53.03% of participants strongly agreed and 33.34% of them agreed that the monitoring costs have increased in the bank due to the AML/CFT regulations implementation.

By considering the capital consuming, 50.97% of respondents were neutral, 30.30% of them disagreed and only 4.54% of them strongly disagreed that the AML/CFT regulation implementation contributes to increase the consumption of capital. On other hand, only 9.09% of respondents have agreed and 5.10% of them have strongly agreed on this statement (El-Chaarani and El-Abiad, 2019).

In addition, 50 % of respondents were neutral about the effect of the compliance cost on bank opportunities and this means that the investments opportunities might still available even when the bank has an AML/CFT system. On the other hand, 27.27% of participants have strongly agreed and 15.16% of them have disagreed that AML/CFT regulation implementation didn't reduce the business opportunities for the bank. However, a really weak percentage of respondents agreed on the opposite statement and indicated that there is a chance for this compliance cost to reduce the bank potential opportunities (respectively 3.03% for agree, and 4, 54% for strongly agree).

Results reveal that 45.45% of participants have agreed and 45.45% have strongly agreed that the compliance system had induced to improve the identification and the prevention from possible fraud. However, 9.10% of respondents were neutral. Also, 54.54% of the participants strongly agreed, 27.28% of them agreed that the implementation of a compliance system in the bank reduced fraud cases, while 16.67% were neutral about this statement. Only 1.51% of respondents disagreed about the relation between the AML/CFT system and the fraud cases. No responses for "Strongly agree". 37.88% of the respondents agreed, 24.24% were neutral, 19.7% strongly agreed and 18.18% disagreed that the compliance system has positive impact on the financial performance of the bank in term of cost capital reduction. No responses for the option "Strongly disagree" were shown.

Mainly, 51.52% agreed and 30.30% strongly agreed that there are benefits from the implementation of AML/CFT regulations on the financial performance because of the centralized control units within the bank. However, 15.15% of them were neutral and 3.03% disagreed about this statement. Nearly all the respondents agreed and strongly agreed respectively by 33.34% and 65.15% that the compliance system affects positively the bank's reputation and improves its image. Therefore, it affects positively the financial performance. Only 1.51% of the respondents were neutral about

this statement and preferred to stay in the middle with the relation to the bank's reputation. While, 57.57% of respondents have agreed and 42.42% of them have strongly agreed that the AML/CFT regulations system improves the awareness on suspicious transactions when it comes to the compliance system benefit.

In addition, the majority of the respondents agreed that AML/CFT regulations contributes to allocate the bank resources in order to fight money laundering. The study initiates that 6.07% of participants were neutral, while 25.75% have agreed and 68.18% have strongly agreed that banks had allocated funds for anti-money laundering programs. Finally, 54.56% of respondents strongly agreed and 34.84% of them agreed that the implementation of the compliance system had led the bank to apply a new internal management information system for better communication with the higher management. This study showed that 10.60% of respondents were neutral about this statement.

Table 3(a). Answers for the implementation section of the survey

AML/CT implementation effects on the financial health	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Increases transaction costs	4.54%	7.57%	54.54%	27.27%	6.08%
Increases the staff size	0%	10.61%	27.27%	42.42%	19.7%
Increases the risk provisions	22.74%	9.09%	12.12%	25.75%	30.30%
Increases the staff training programs	0%	0%	0%	65.16%	34.84%
Increases reporting	0%	0%	18.20%	37.87%	43.93%
Increases monitoring cost	0%	6.06%	7.57%	33.34%	53.03%
Consumes higher capital	4.54%	30.30%	50.97%	9.09%	5.10%
Reduces business opportunity	27.27%	15.16%	50%	3.03%	4.54%

Table 3(b.) Answers for the benefits section of the survey

Benefits of the compliance system	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
The bank would deem more practical in identifying and preventing fraud	0%	0%	9.10%	45.45%	45.45%
Reduces fraud cases	0%	1.51%	16.67%	27.28%	54.54%
Reduces the bank's cost of capital	0%	18.18%	24.24%	37.88%	19.7%
dedicates more control units	0%	3.03%	15.15%	51.52%	30.30%
Improves the awareness on suspicious transactions	0%	0%	0%	57.58%	42.42%
Improves the bank's reputation	0%	0%	1.51%	33.34%	65.15%
Increases the in-bank's allocation of resources to fight money laundering	0%	0%	6.07%	25.75%	68.18%
Implies an internal management system for a better internal communication	0%	0%	10.60%	34.84%	54.56%

At the end of the questionnaire, an optional open-ended question has been set to study the future of the AML/CFT field in Lebanon. The answers were assigned to the following scale: "Positive Intention", "Negative Intention". The reasons stated by respondents were also taken into consideration (Table 4).

Table 4. Filtered opened ended answers by two scale (Positive or Negative Intention)

The future of the AML/CFT field in Lebanon			
Positive intention	**Stated reasons**	**Negative intention**	**Stated reasons**
8	Follow up and update, banking secrecy, beneficent, IT system and MIS (Management Information System), international agreements, better control and better image	2	Corruption, corruption of the politicians

This question found that 8 responses stated positive explanations with the relation of the future of AML/CFT in Lebanon. Respondents believe that there would be a promising AML/CFT future in the country, while 2 responses had negative explanations on the AML/CFT future. In order to analyze more efficiently the data related to the above question and rely on a second source, some data were retrieved from a research directed by a joint team from the International Monetary Fund (IMF) and World Bank (WB) visited Beirut, Lebanon during February 1-15 and March 29-April 11 to conduct an assessment under the Financial Sector Assessment Program (FSAP). The main findings of their research were about the importance of legislative procedures. Lebanon has set up a basic framework for the implementation of some targeted financial sanctions related to TF. A new and more comprehensive AML/CFT law was adopted in 2015. The new AML/CFT law appropriately strengthened sanctions for poor compliance, which now need to be applied as appropriate. While ML/TF risks are taken into consideration, a more risk-based approach to the implementation of AML/CFT supervision would be useful. The study included also some criticism and gaps about the AML/CFT system in Lebanon, where it is not clear that the assessment included all relevant risks (such as corruption). In addition, the legal framework has some residual gaps, regarding the criminalization of ML and TF. The AML/CFT law is not yet enforceable in respect of lawyers (as the required implementing regulations have not been issued). Banking secrecy requirements could be an impediment for front-line and compliance staff of banks to conduct customer due diligence measures with respect to holders of numbered accounts and safe deposits. (World Bank, 2016).
On other hand, several past studies have found similar findings. Ping (2010), Ricardo (2010), and Estrada (2011) have revealed that the application of an AML/CFT system in financial institutions affect its financial performance. It leads to an increase in costs because of the mandatory investment in the local, regional and international procedures of compliance. The benefits associated with these costs were the increased awareness towards the policies and the regulations due to high –level of staff training.

5. Conclusion, limitation and recommendation

This research concluded that the implementation of a compliance system provides more advantages than disadvantages for Lebanese banks. In fact, the advantages are that the bank would turn more practical in identifying and preventing possible fraud. It involves a reduction in fraud cases and ensures a more centralized control unit. In addition, it improves the bank reputation which is very needed nowadays in banking sector (El-Chaarani and El-Abiad, 2020). Besides, it involves the application of an internal management information system (MIS) for better communication with the higher management. However, disadvantages are related to the increase in compliance costs, transaction costs, employee costs, training costs and investment in anti-money laundering programs. Even though, this study concludes that several benefits are associated with the compliance to AML/CFT policies and procedures, such as: increasing staff awareness and prevention of money laundering, increasing customer and investor confidence in the bank, reducing penalties and costs related to non-compliance to the local and international regulations, better governance within the banks, increasing in reporting and improving bank's transparency.
This study recommends that banks and financial institutions should always be updated with the latest policies, procedures and regulations. Besides, they should invest in modern information technology and artificial intelligence to reduce the costs of screening and monitoring, identification of suspicious activities or transactions.

One of the major challenges was to identify the size that represents the population. The size of the sample cannot accurately represent the entire population of banks in Lebanon. Also, another point considered under the limitations and boundaries in this study was in data collection, more specifically how to encourage the staff to complete the answers; since some participants are skipping or ignoring to answer not only this survey but any survey sent through the human resources department.

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Appendix

I - Questionnaire

Demographic

1. **What is your age group?**

☐18 or less than 20 years
☐20-29 years
☐30-39 years
☐40-49 years
☐50 years or more

2. **What is your gender?**

☐Male
☐Female

3. **Which of the following describes your status the best?**

☐Employee
☐Contractual
☐Trainee

4. **What position do you hold in the bank?**

☐Entry-Level
☐Associate-Level
☐Senior-Level
☐Executive-Level

5. **Where is you function Country?**

☐Lebanon
☐Overseas

6. **Where is your function site?**

☐Branch
☐Department
☐Representative Office

7. **What is your work experience**

☐Below 5 Years
☐5-10 Years
☐Above 10 Years
☐Specific.....

8. **Do you have an experience with Compliance / Compliance related work or you work with compliance officers / persons?**

☐Yes ☐No

General Assessments

1. **Is the AML/CFT (Anti-Money Laundering & Combating the Financing of Terrorism) compliance program approved by the bank's board committee.**

☐Yes ☐No

2. **Does the Bank has a legal and regulatory compliance program that includes a designated officer that is responsible for coordinating the overseeing the AML/CFT framework?**

3. **Has the Bank developed written policies documenting the processes that they have in place to prevent, detect and report suspicious transactions?**

☐Yes ☐No

4. **In addition to inspections by the regulator, does the bank have an internal audit function or other independent third party that assesses AML policies and practices on a regular basis?**

☐Yes ☐No

5. **Are the bank's AML/CFT policies and practices being applied to all branches and subsidiaries of both in the home country and in locations outside of that jurisdiction?**

☐Yes ☐No

6 Reportable transactions, prevention and detection of funds obtained from illegal sources :

1. **Does the bank have policies or practices for the identification and reporting of transactions that are required to be reported to the authorities?**

☐Yes ☐No

2. **Where cash transaction reporting is mandatory, does the bank implement IT systems to identify transactions structured to avoid such obligations?**

☐Yes ☐No

3. **Does the bank screen customers and transactions against lists of persons, entities or countries issued by government or competent authorities?**

☐Yes ☐No

4. **Does the bank have a monitoring program for unusual and potentially suspicious activity that covers funds transfers and money instruments such as traveler's checks, money orders, etc.?**

☐Yes ☐No

5. **Does the Bank provide AML/CFT training to relevant employees**

☐Yes ☐No

6. **Reasons for complying with AML/CFT policies and procedures?**

☐to avoid sanctions from the authorities.
☐to represent good business practice.
☐Effective at Combating Money Laundering and Terrorism Financing.
☐to increases attractiveness.

7. **The benefit of AML/CFT Implementation**

☐ Better Customer Knowledge
☐ Having New Customers
☐Cross selling
☐Reduction in Credit Risk
☐Reduction in Fraud

You are free to write or throw more light on any of the issues above for which you provided an answer:

7 Implementation Costs and Benefits

1. To what extent do the operational costs affect AML in Lebanon?

Very great extent [ ]
Great extent [ ]
Moderate extent [ ]
Little extent [ ]
No extent [ ]

2. The following are some of the statements on the effects of Anti-Money Laundering and Combating the Financing of Terrorism Costs. Kindly indicate your level of agreement with each statement, **where 1= strongly disagree** and **5 = strongly agree**.

The AML/CFT Implementation:	1	2	3	4	5
Increased transactions costs					
Increased the staff size					
Increased the risk provisions					
Increased staff training programs					
Increased reporting					
Increased Monitoring Costs					
Implementation of AML has consumed high capital					
AML has reduced business opportunities for the bank					

3. Below are some of AML/CFT actions, please indicate the extent of your agreement with each statement regarding its effects on the financial performance on a scale of 1 to 5, **where 1= strongly disagree and 5 = strongly agree.**

Benefits of AML/CFT systems on the financial performance	1	2	3	4	5
The bank would turn more practical in identifying and preventing possible fraud.					
Reduce fraud cases in the bank					
Reduce of the bank's cost of capital What is Cost of Capital : : *"Cost of capital refers to the opportunity cost of making a specific investment. It is the rate of return that could have been earned by putting the same money into a different investment with equal risk. Thus, the cost of capital is the rate of return required to persuade the investor to make a given investment."*					
A more centralized control units					
Improve the bank reputation					
Improve the awareness on suspicious transactions					
Increase in bank's allocation of resources to fight money laundering.					
Application of an internal management information system (MIS) for a better communication with the general management					

4. In your opinion what is the future of anti-money laundering in Lebanon?