



International Journal of Research Publication and Reviews

Journal homepage: www.ijrpr.com ISSN 2582-7421

Anti-Money Laundering and Managed Services

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ABSTRACT:

Recent headlines have highlighted shortcomings in banks' Anti-Money Laundering (AML) practices. This thesis explores the critical role of AML and Customer Due Diligence (CDD) in preventing illicit money flows, emphasizing the importance of proper customer identification, verification, and understanding beneficial ownership, especially during client onboarding. The primary objective of this study was to assess the current state of AML and CDD practices in Finnish banks and to anticipate future developments in this field.

A survey of AML professionals revealed that technology, particularly information systems, is expected to play an increasingly significant role in combating money laundering. The study also anticipates a greater unification of AML regulations, leading to clearer and simpler supervision processes. This will likely result in more stringent AML requirements for banks and necessitate improvements in the current systems of public organizations. Unifying these regulations is expected to enhance the sensibility and effectiveness of AML efforts. The thesis also notes that AML is a relatively new concept for banks, emphasizing the need for all bank officials to grasp its fundamental principles for effective internal implementation.

Table of Contents

- Introduction
- Literature Review
- Research Methodology
- Results and Discussion
- Limitations
- Conclusion and Recommendation
- References
- Appendices

I. Introduction

The frequent appearance of money laundering in recent headlines has brought to light concerns regarding how financial institutions, particularly banks, have managed their Anti-Money Laundering (AML) responsibilities. This increased public and regulatory scrutiny highlights the critical need to understand and improve mechanisms designed to prevent illicit financial flows. AML frameworks and Customer Due Diligence (CDD) practices are central to these preventative measures, ensuring the integrity of the financial system. Key steps in thwarting money laundering activities include accurately identifying and verifying customers during onboarding and meticulously determining the true beneficial owners of companies.

1.1. Situational Analysis: The current financial landscape is characterized by sophisticated money laundering techniques and a dynamic regulatory environment. Banks face significant pressure to comply with complex and evolving AML regulations while managing operational costs and resource constraints. Challenges include the high volume of transactions requiring scrutiny, the need for advanced technological solutions to detect subtle illicit activity patterns, and a persistent shortage of skilled AML professionals. This creates a complex operational dilemma for financial institutions striving to balance stringent compliance with efficient business operations. Recent media attention has further amplified the urgency for banks to reassess and strengthen their AML and CDD capabilities.

1.2. Literature Review Orientation:

Existing academic and industry literature provides a foundational understanding of money laundering typologies, the evolution of AML regulations, and general principles of financial crime compliance. This project specifically aims to address the practical challenges and future trajectory of AML and CDD practices within the Finnish banking system, bridging the gap between theoretical understanding and real-world application.

1.3. Exploratory Research:

An exploratory research approach, specifically a survey among AML professionals, was used to gain a comprehensive understanding of the current and future state of AML and CDD in Finnish banks. This method allowed for the collection of direct insights and qualitative data on current practices, perceived challenges, and emerging trends from individuals actively engaged in the field.

1.4. Further Explanation of Research Topic:

Anti-Money Laundering (AML) refers to laws, regulations, and procedures designed to prevent criminals from disguising illegally obtained funds as legitimate income, encompassing activities from suspicious transaction reporting to sanctions screening. Customer Due Diligence (CDD) is a core component of AML, involving the identification, verification, and risk profiling of clients, including Know Your Customer (KYC) procedures essential for understanding client business and financial activities. This project specifically examines the application of these elements in the Finnish banking sector and explores anticipated shifts in their implementation and regulatory oversight.

2. Research Questions

This project aims to understand the current operational realities and future strategic direction of AML and CDD within Finnish banks amidst increasing regulatory demands and technological advancements.

2.1. General Research Questions:

- What is the current state of Anti-Money Laundering (AML) and Customer Due Diligence (CDD) practices within the Finnish banking system?
- What are the anticipated future trends and developments in the field of AML, particularly concerning technology and regulatory unification?

2.2. Specific Research Questions (Hypotheses):

- **H1:** Information systems and technology will play an increasingly significant role in enhancing the effectiveness and efficiency of AML operations in Finnish banks in the future. (Logic: The complexity and volume of data in AML necessitate technological solutions for effective processing and analysis, leading to a greater reliance on IT.)
- **H2:** There will be a trend towards greater unification of AML regulatory standards, leading to a clearer and more streamlined supervision process for Finnish banks. (Logic: Disparate regulations create compliance burdens; unification is a logical step towards more sensible and effective oversight.)
- **H3:** AML requirements for Finnish banks are expected to increase in stringency, necessitating greater proactive efforts from both private and public sector organizations. (Logic: The evolving threat landscape and past compliance failures drive a need for more robust preventative measures and enforcement.)
- **H4:** A foundational understanding of AML principles by all bank officials is crucial for maximizing the internal effectiveness of a bank's AML processes. (Logic: AML is a relatively new and complex area; widespread basic knowledge ensures a collective, effective defense against financial crime.)

3. Research Objectives

Derived from the research questions and hypotheses, the objectives of this project are designed to provide measurable insights for management decision-making within Finnish financial institutions regarding their AML and CDD strategies.

- **3.1.** To comprehensively document and analyze the current operational state of AML and CDD practices within Finnish banks, establishing a baseline understanding of existing processes and challenges, thereby enabling management to identify areas for improvement.
- **3.2.** To identify and project key technological advancements and regulatory shifts likely to impact AML and CDD in the Finnish banking sector, helping management anticipate future demands and plan strategic investments in information systems.
- **3.3.** To assess the perceived impact of potential regulatory unification on the efficiency and clarity of AML supervision, providing insights for management on adapting to a changing compliance environment.
- **3.4.** To highlight the critical importance of widespread basic AML knowledge among all bank officials, offering a clear standard for internal training and awareness programs that can enhance the overall effectiveness of a bank's AML defense, directly informing management on human capital development in compliance.

II. Literature Review

Understanding Money Laundering Money laundering is the process by which individuals or organizations conceal the origins of illicitly obtained money, typically through transfers involving foreign banks or legitimate businesses. This process transforms 'dirty money' into seemingly 'clean' assets, making it difficult for law enforcement to trace its criminal origins.

Stages of Money Laundering:

- **Placement:** The first step, where illegally obtained cash is introduced into the financial system, often through tactics like structuring deposits, purchasing negotiable instruments, or funneling money through cash-intensive businesses.
- **Layering:** The launderer attempts to disguise the illegal origin of funds through complex layers of financial transactions, which may include transferring funds between numerous accounts in various jurisdictions, investing in offshore financial centers, employing shell companies or trusts, or using digital assets like cryptocurrencies.
- **Integration:** The final phase involves reintroducing the laundered money into the legitimate economy, often through investments in real estate, luxury assets, or business enterprises, aiming to make the funds appear derived from a legitimate source.

AML Legal Framework in the United States

- **The Bank Secrecy Act (1970):** Requires financial institutions to report cash transactions exceeding \$10,000 via Currency Transaction Reports (CTRs), file Suspicious Activity Reports (SARs) when irregularities are detected, and maintain thorough records for investigations.
- **The USA PATRIOT Act (2001):** Strengthened AML enforcement after 9/11. Key sections include:
- **Section 352:** Mandates AML programs with internal policies, designated compliance officers, training, and independent audits.
- **Section 314(a):** Allows law enforcement to request information from financial institutions about suspected money launderers.
- **Section 314(b):** Permits voluntary information sharing among financial institutions.
- **Section 326:** Requires Customer Identification Programs (CIP), collecting data like name, address, date of birth, and identification number.

Pillars of BSA Compliance:

- **Internal Controls:** Development of AML policies and procedures.
- **Independent Testing:** Regular audits by third parties or internal personnel.
- **Designation of a Compliance Officer:** A knowledgeable individual overseeing AML procedures.
- **Employee Training:** Ongoing training on AML obligations and risks.
- **Customer Due Diligence (CDD):** Gathering information on source of funds, occupation, beneficial ownership, and account purpose.

Key Regulatory and Oversight Bodies

- **FinCEN:** A bureau of the U.S. Department of the Treasury, acting as the Financial Intelligence Unit (FIU) to analyze financial crime data and share it domestically and internationally.
- **OFAC:** The Office of Foreign Assets Control implements U.S. sanctions, freezing assets, imposing penalties, and managing the Specially Designated Nationals (SDN) list.
- **FATF:** The Financial Action Task Force is a global policymaking body providing 40 Recommendations guiding AML frameworks worldwide.

Risk Indicators and Fraud Techniques Common money laundering techniques include:

- **Structuring:** Dividing large transactions into smaller ones to avoid detection limits.
- **Smurfing:** Using multiple individuals ("smurfs") to conduct transactions below reporting thresholds.
- **Rapid Movement of Funds:** Immediate withdrawals after deposits with unclear purpose.
- **High-Risk Jurisdictions:** Transactions involving sanctioned countries or those with poor AML standards.
- **Shell Companies:** Businesses existing only on paper, used to conceal ownership and fund sources.
- **Offshore Accounts:** Located in jurisdictions with strong secrecy laws (e.g., Cayman Islands), often used with shell companies.
- **Out-of-Pattern Activity:** Behavior inconsistent with a customer's profile.
- **Funnel Accounts:** Accounts used for geographically dispersed deposits that are withdrawn quickly, often linked to trafficking.
- **Front Companies:** Real businesses mixing legitimate income with illicit funds.
- **Money Muling:** Use of individuals to transfer or withdraw illicit money for a commission, part of smurfing and structuring.

Financial Fraud Financial fraud occurs when money or assets are taken through deception or criminal activities.

- **Identity Theft:** Unauthorized acquisition and use of personal information for financial gain. Red flags include sudden address changes, requests for sensitive documents, unusual account activity, and multiple inquiries from financial institutions.
- **Account Takeover:** Unauthorized access and control of a bank account or credit card. Red flags include unusual login attempts, unauthorized transactions, changes in contact information without consent, and requests for account information or password resets.
- **Embezzlement/Property Fraud:** Misappropriation of funds or assets entrusted to an individual or organization. Red flags include unexplained lifestyle changes, unusual transfers to personal accounts, missing/altered records, and lack of cooperation with audits.
- **Tax Fraud:** Deliberate misrepresentation of income or deductions to avoid taxes. Red flags include cash-only transactions, complex business structures, unreasonable deductions, and failure to file returns.
- **5. Credit Card Fraud/Skimming:** Unauthorized use of credit card information obtained through skimming or other methods. Red flags include unknown charges, decline of legitimate transactions, receipt of statements with unknown charges, and suspicious online activity.
- **6. Elder Financial Exploitation:** Misuse of an older person's financial resources through deception or undue influence. Red flags include sudden changes in financial behavior, unusual withdrawals, isolation from family/friends, and new caregivers without background checks.

- **7. Romance/Person in Need Fraud:** A scam where a criminal establishes a romantic relationship to gain trust and access finances. Red flags include requests for money/gifts after a short period, pressure for quick financial decisions, insistence on secrecy, and stories of financial hardship.

Identifying Red Flags in Transaction Monitoring: Transaction monitoring systems help identify potential financial crimes by looking for patterns and anomalies. Red flags include: unusual transaction patterns, sudden changes in account activity, complex ownership structures, transactions with high-risk jurisdictions, suspicious relationships, and inconsistent or missing documentation.

KYC (Know Your Customer) KYC is a foundational aspect of AML policies, designed to verify customer identity and risk profile.

- Customer Identification: Collecting essential personal or corporate data.
- KYC Remediation: Regularly updating customer records.
- Due Diligence Types:
- Basic Due Diligence: For low-risk individuals.
- Enhanced Due Diligence (EDD): Required for high-risk profiles like PEPs.

PEPs and CRAs:

- **Politically Exposed Persons (PEPs):** Individuals who hold or have held public positions of influence.
- **Close Relatives and Associates (CRAs):** Often benefit from the PEP's influence.

Beneficial Ownership Refers to the real person who owns or controls an entity, directly or indirectly.

- **Ownership Prong:** Identifies individuals owning 25% or more of a legal entity.
- **Control Prong:** Individuals who exercise significant control (e.g., CEO, CFO).

Sanctions Sanctions restrict dealings with countries, entities, or individuals to influence behavior.

- **Types of Sanctions:** Economic, diplomatic, military, sports, and environmental.
- **Specially Designated Nationals (SDN):** A list of entities/persons affiliated with terrorism, narcotics, or sanctioned countries.

Risk-based Approach (RBA) A method to assess and address risks associated with clients/customers, involving identification, prioritization, and management of risks to allocate resources and efforts more effectively. Sanctions, PEP, and adverse media screening are commonly used to determine customer risk levels. Information generally determined in a customer risk profile includes: industries the customer works in, nationality and countries served, match to sanction/PEP/adverse media data, purpose for opening an account, type of actions performed, trading volume, currencies used, and monthly average income.

AML Screening and Transaction Monitoring

- **AML Screening:** Verifying customer identities against watchlists to determine money laundering risk, crucial for compliance and preventing illicit use of financial institutions.
- **Types:** PEP Screening (identifying politically exposed persons), Sanctions Screening (checking against sanctions lists), and Crime and Watchlist Screening (checking against databases of criminals and sanctioned entities).
- **Key Elements of AML Screening:** Customer Identification, Due Diligence, Transaction Monitoring, and Reporting.
- **Transaction Monitoring Workflow:** Alert Generation, Initial Review, Risk Assessment, Customer Profile Review, Investigation, Documentation, Peer Review, Decision (e.g., filing SAR), Reporting, Escalation, Continuous Monitoring, and Training/Feedback.

Source of Funds (SoF) and Source of Wealth (SoW)

- **Source of Funds (SoF):** The origin of funds used in a specific transaction, explaining where the money came from for that activity (e.g., salary, business profits). Verification involves bank statements, salary slips, loan documents, or asset sale proceeds.
- **Source of Wealth (SoW):** The origin of a person's total accumulated funds over their lifetime, explaining how overall assets were acquired (e.g., inheritance, successful business ventures, investments). Verification involves wills, audited financial statements, trust deeds, or asset title documents. Both SoF and SoW are critical to Enhanced Due Diligence (EDD), helping identify legitimacy and risks associated with customer finances.

III. Research Methodology

This section outlines the research methodology, data collection methods, characteristics of the data sample, and the data gathering process.

1. Methodology Given the limited number of highly specialized AML professionals, collecting a large quantitative sample is challenging. Therefore, this research adopted a qualitative approach to gather rich, detailed insights from a focused sample. The primary objective was to investigate the current AML situation and identify future trends from the perspective of banks, also considering the role of information systems.

2. Data Collection Empirical data was collected directly from AML personnel through a survey designed for individuals involved in AML processes. This direct approach was crucial due to limited prior research and allowed for diverse input from various financial sector segments (AML, legal, IT, customer service). The research summarizes the current state of AML in smaller Finnish banks, makes assumptions about the future trajectory, and proposes how the AML scheme should be managed by banks, including future improvements and recommendations for regulators and IT providers to enhance the entire AML system's effectiveness.

3. Sample Primary data was collected through a survey of bank personnel working with AML-related tasks. Respondents included AML compliance officers, managers, or executives. The survey aimed to collect qualitative data from these participants, as only a handful of people in the banking industry possess deep knowledge of customer due diligence and related topics.

4. Data Collection Process Initially, about 30 questions were prepared, but 25 were selected for the final survey. The survey was conducted in May, with the link sent via email to respondents. Google Forms was used as the data collection platform.

5. The Survey Structure The survey design aimed to understand diverse perspectives on the current and future state of AML practices. Its primary goals were:

- To understand AML personnel's views on the current AML situation, including legislative requirements and compliance obligations, given that AML is a mandatory obligation for banks.
- To explore the future of the AML phenomenon, recognizing the rapid pace of change and the active exploration of new methods by leading banks and organizations.

The survey included three types of questions: multiple-choice, predefined answers, and open-field questions. For multiple-choice questions, a five-level Likert scale was used, with options ranging from "Strongly disagree" to "Strongly agree".

IV. Survey Results and Discussion

This section presents the findings from the survey, starting with responses to multiple-choice questions (Likert scale), followed by insights from open-ended questions, and concluding with an overall summary of findings.

1. What the Numbers Told Us: Multiple Choice Questions The survey used a Likert scale from 1 (Strongly disagree) to 5 (Strongly agree). The results are summarized in the table below:

Question	Mode	Average (Avg.)	Min.	Max.	Standard Deviation (STD)
Q5	5.00	5.00	5.00	5.00	0.00
Q6	4.00	4.00	2.00	5.00	0.87
Q7	5.00	4.13	3.00	5.00	0.93
Q8	2.00	2.13	1.00	4.00	0.93
Q9	2.00	2.25	1.00	4.00	0.97
Q10	5.00	4.50	3.00	5.00	0.71
Q11	3.00	3.25	2.00	5.00	0.97
Q12	2.00	1.88	1.00	3.00	0.60
Q13	5.00	4.38	3.00	5.00	0.70
Q19	5.00	4.88	4.00	5.00	0.33
Q20	5.00	3.88	2.00	5.00	1.45
Q21	5.00	5.00	5.00	5.00	0.00
Q22	5.00	4.88	4.00	5.00	0.33
Q23	4.00	3.38	2.00	5.00	0.99
Q24	4.00	3.50	2.00	5.00	1.00

- Export to Sheets
- **Strong Agreement on AML's Importance (Q5 & Q21):** There was unanimous agreement among AML professionals that AML is important (Q5, average 5.00, STD 0.00), and that more effort should be invested in information systems related to AML (Q21, average 5.00, STD 0.00). These findings align with industry trends and literature, emphasizing AML's significance and technology's crucial role.
- **Divergent Views on Algorithms and Cost (Q20):** Question 20, "By using more automatic algorithms, the prevention of money laundering can be improved, and the total costs can be reduced at the same time," showed the largest deviation (STD 1.45). This divergence likely stems from varying perspectives on whether automation can both improve prevention and reduce costs, or if increased investment in AML will negate cost savings.
- **Other Key Insights from Likert Scale Questions:**
- **Media Attention (Q6 & Q7):** While respondents generally agreed that recent media coverage was intense (Q6 average 4.00), they also indicated that this news prompted banks to take AML more seriously (Q7 average 4.13).
- **Bank Secrecy vs. CDD (Q8 & Q9):** Professionals generally disagreed that there is a conflict between CDD and bank secrecy (Q8 average 2.13) or that bank secrecy limits monitoring (Q9 average 2.25), suggesting they do not see these as conflicting.
- **Ease of Reporting (Q10):** A high average (4.50) for Q10 indicates that banks generally find the reporting process straightforward.
- **Clarity of Guidance (Q11):** Responses averaged around "Neither agree nor disagree" (3.25), suggesting that guidance on money laundering prevention might not always be perfectly clear.

- **Impact on Business (Q12):** Most respondents disagreed that AML tasks negatively impact bank business (average 1.88), seeing it as a necessary function.
- **Focus on Risk Countries (Q13):** There was strong agreement (average 4.38) that focusing on high-risk countries is an effective strategy for combating terrorist financing.
- **System Integration & Cooperation (Q19, Q22, Q23, Q24):** High agreement was observed for the need for a single system covering the entire AML process (Q19 average 4.88), more cooperation between banks (Q22 average 4.88), global regulation (Q23 average 3.38), and a global AML center (Q24 average 3.50). This indicates a strong desire for integrated, collaborative, and unified AML efforts.

2. Diving Deeper: Non-Likert Scale Questions This section analyzes responses from multiple-choice questions with multiple selection options and open-ended questions.

- **Combating Terrorist Financing (Q14):** The most crucial CDD information for fighting terrorist financing was identified as analyzing international payments, especially those involving high-risk countries, followed by sanction list monitoring and other payment monitoring. Customer identification and verification during new account opening ranked third. Other important points included updating customer risk classifications, noticing unusual money transactions, and paying attention to beneficial owners of companies.
- **Combating Money Laundering (Q15):** For general money laundering, analyzing suspicious and unusual transactions (e.g., unexpected payments, international transfers, comparing actual vs. expected amounts) was the most popular answer. Customer identification and verification was a crucial second point. The third most popular response highlighted focusing on companies, particularly their ultimate beneficial owners, as companies are often used for money laundering. Respondents also stressed the need for banks to adopt a risk-based assessment approach.
- **Biggest AML Monitoring Challenges (Q16):** Professionals identified key challenges as: the sheer volume of data, the rapid speed of transactions, difficulty distinguishing genuine unusual transactions from actual money laundering, missing customer data, and inconvenient information systems. These highlight operational complexities.
- **Easiest Abuses to Spot (Q17):** Unusual transactions and large cash deposits were consistently mentioned as easiest to spot.
- **Hardest Abuses to Spot (Q18):** Money laundering carried out through companies was the most challenging to detect, reinforcing that companies can obscure true ownership and illicit activities. Frequent small transactions were also cited as particularly difficult to spot.

3. Looking Ahead: Future AML Improvements (Non-Likert Scale Questions) The survey elicited insightful ideas for future AML improvements.

- **Integrated Systems (Q25):** The most common suggestion was to consolidate the entire AML process under one dedicated, automated system, centralizing information for greater efficiency.
- **Information System Enhancements (Q24):** Ideas focused on making systems more user-friendly and intelligent. A dynamic system that requests more details based on previous answers during customer identification and verification was suggested for more accurate AML data. Other ideas included sharing more information between banks, ensuring all necessary customer information is filled out, and allowing officials to customize the system based on risk assessments to focus on higher-risk customers.
- **Automation and Robotics:** A recurring theme was the need for increased automation and robotics, as much AML work is currently manual, presenting a clear area for future efficiency gains.
- **Customer Due Diligence Improvements (Q26):** Responses focused on better analysis of customer transactions and more training/information about CDD itself to help officials understand its importance. The robustness of data was highlighted, emphasizing the need for perfectly complete customer data for effective analysis. One suggestion was to focus on major opposing parties in money transfers, crucial for tracing illicit flows.
- **Knowing the 'Why':** An insightful point was the importance of knowing a company's actual beneficial owners and the real reasons behind their business activities, directly addressing the challenge of money laundering hidden within corporate structures.

V. Results and Discussion: Connecting the Dots in AML

The core focus of this research was to examine the current state of Anti-Money Laundering (AML) efforts, both within Finland and globally, and to understand emerging future trends. This section synthesizes insights from the literature review, regulatory analysis, and empirical survey findings. Limitations of the study and suggestions for future research are also provided.

The answers to the research questions are presented below:

Primary Question: How can banks conduct effective customer due diligence monitoring related to AML and the prevention of terrorist financing under the current regulation?

The answer to this primary question is that banks need to significantly improve various aspects of their AML efforts. A recurring theme was the call for more unified global AML regulation, which would greatly assist in preventing global money laundering. Furthermore, greater effort must be directed towards enhancing information systems to ensure they support the AML process as effectively as possible. A third crucial point is the need to improve knowledge within banks, so that a broader range of personnel are aware of money laundering risks and how to prevent them.

Sub-question 1: What are the requirements that banks must follow based on regulation?

Banks are obligated to demonstrate to FIN-FSA (Finanssivalvonta – the Finnish Financial Supervisory Authority) that they are adhering to regulations and undertaking sufficient work related to anti-money laundering.

Sub-question 2: What is the current state of AML in Finnish banks?

The current state of AML in Finnish banks is considered passable, but certainly not optimal; there is clearly a substantial amount of work still required in the AML domain. Banks cannot shoulder the entire burden alone; greater effort from regulators is also necessary to facilitate the AML process for banks. Currently, the regulation and guidance are quite imprecise and unclear, meaning banks often have to be creative in meeting regulatory requirements. It appears that the current AML process in Finnish banks largely relies on information systems. There are various approaches to how the AML process is practically completed. Even with information systems, many improvements can be made to enhance efficiency and power. A considerable amount of manual work is still performed that could be automated. While investing in an AML platform requires significant resources and is expensive during implementation, once in place, the analytical work becomes much more sufficient and effective.

Sub-question 3: How can the AML process be improved in the future?

Various sources suggest greater integration among different stakeholders involved in the AML challenge. Currently, entities such as banks, FIN-FSA, and the Financial Intelligence Unit often operate separately due to strict bank secrecy rules. It seems obvious that more emphasis will be placed on AML information systems, which will help combine data and simplify daily tasks. Customer transaction information is central to AML, especially transfers outside the SEPA area. Other major issues relate to company ownership and beneficial owners. From the standpoint of information systems, the most crucial aspect is to make the AML process as simple as possible.

Overall Summary of Results In summary, the current state of AML largely aligns with expectations. The easiest money laundering cases to detect typically involve high amounts. More challenging scenarios involve money laundering hidden within companies or through numerous small, frequent transactions. Looking to the future, respondents expressed a strong desire for a more integrated AML process, ideally within a unified system. There's also a clear call for more internal education and training within banks, so that all personnel understand the fundamental importance and purpose of AML processes.

VI. Limitations

The results and discussions in this thesis should be interpreted considering inherent limitations and assumptions.

- **Sample Size and Generalizability:** The qualitative nature of the survey and the specialized domain of AML limited the ability to collect a large quantitative sample. While rich in qualitative insight, findings may not be fully generalizable to the entire Finnish banking sector or other national contexts without broader research. The sample, though targeted, might not perfectly represent the full spectrum of opinions across all bank sizes or types within Finland.
- **Potential for Bias:** As with any survey-based research, potential for response bias exists, where respondents might provide answers aligning with perceived best practices. Non-response error could also subtly influence findings. Efforts were made to encourage honest responses, but inherent biases cannot be entirely eliminated.
- **Subjectivity of Open-Ended Questions:** While open-ended questions provided valuable qualitative data, their interpretation can be subjective, and researcher bias in categorizing/summarizing responses is a possibility.
- **Snapshot in Time:** The survey captures opinions and practices at a specific point in time (2019). Given the rapid evolution of AML regulations, technologies, and criminal typologies, some aspects of the "current state" may have shifted since data collection.
- **Focus on Finnish Context:** Empirical data is specifically from Finnish banks. Regulatory nuances and operational practices may differ significantly elsewhere, limiting direct global applicability of all findings.

Problems Encountered and Efforts to Overcome Them: The main challenge was securing a large number of responses due to the niche nature of AML expertise. This was addressed by consciously shifting to a qualitative approach, prioritizing depth of insight over statistical generalizability. The survey design, incorporating both Likert scales and open-ended questions, aimed to capture structured opinions and nuanced perspectives, mitigating limitations of a smaller sample size by extracting richer data.

Lessons Learned for Higher-Quality Research in the Future: For future research, a larger, more diverse sample, potentially leveraging international networks of AML professionals, would enhance generalizability. Incorporating follow-up interviews or focus groups could provide deeper qualitative insights and clarification. Longitudinal studies would also be beneficial to track the dynamic evolution of AML practices and the impact of new technologies and regulations over time. Additionally, future studies could explore specific sub-segments of the banking sector (e.g., large vs. small banks) to identify more granular differences in AML approaches and challenges.

VII. Conclusions and Recommendations

Conclusions: The research highlights a critical juncture for Anti-Money Laundering (AML) and Customer Due Diligence (CDD) within the Finnish banking system. AML professionals universally acknowledge the paramount importance of these functions. While current practices are "passable," there is a significant consensus for substantial improvement. Reliance on information systems is evident, but there's a strong call for more integrated and automated solutions to reduce manual work and enhance efficiency. Challenges include managing vast data, rapid transaction speeds, and nuanced identification of illicit activities. Money laundering through complex corporate structures and numerous small transactions poses the most significant detection hurdles, while high-value unusual transactions and cash deposits are more readily identified. The collective sentiment points towards a future where AML is more unified, technologically advanced, and collaboratively managed, both internally and externally. The imprecise current regulatory environment contributes to operational complexities for banks.

Recommendations: Based on empirical findings and expert judgments, the following recommendations are proposed for managerial action within Finnish banks, and for regulators and IT providers:

- **Strategic Investment in Integrated Information Systems:**

For Banks: Prioritize investment in comprehensive, unified AML platforms that automate processes from data ingestion to suspicious activity reporting, reducing manual workload, improving data accuracy, and enhancing efficiency. Focus on systems with dynamic data collection and user-based adjustments for risk assessments.

- **For IT Providers:** Develop robust, scalable, and user-friendly AML solutions tailored to financial institutions' needs, especially in the Finnish market. Emphasize features for data integration, advanced analytics (including algorithms for pattern detection), and seamless reporting.

Enhance Internal AML Knowledge and Training:

- **For Banks:** Implement mandatory and continuous training programs for all bank personnel, extending beyond dedicated AML teams. Training should focus on the "why" behind AML regulations, evolving financial crime typologies, and each employee's role in AML defense, fostering a stronger internal AML culture and improving front-line data quality.

Advocate for Regulatory Clarity and Unification:

- **For Banks and Industry Associations:** Actively engage with FIN-FSA and other regulatory bodies to advocate for clearer, more precise, and unified AML guidance and regulations to reduce ambiguity, streamline compliance, and enable more effective and consistent AML processes.
- **For Regulators (e.g., FIN-FSA):** Work towards greater harmonization of AML standards, nationally and internationally. Clearer guidelines and a unified framework would simplify supervision and enable banks to allocate resources more efficiently towards risk mitigation.

Foster Greater Inter-Bank and Stakeholder Cooperation:

- **For Banks:** Explore secure and compliant mechanisms for sharing relevant AML information with other financial institutions, particularly regarding suspicious activities and emerging typologies, possibly through industry-led initiatives or secure platforms.
- **For Regulators and Financial Intelligence Units (FIUs):** Facilitate secure channels for information exchange between banks, regulators, and FIUs, while respecting privacy and bank secrecy rules. Greater collaboration is crucial for combating sophisticated, cross-border money laundering.

Strengthen Customer Due Diligence at Onboarding and Beyond:

- **For Banks:** Continue to emphasize robust customer identification and verification processes at the outset of any relationship. Implement systems that enforce complete and accurate data capture. Prioritize understanding ultimate beneficial owners (UBOs) of companies and the real economic rationale behind business activities, as these are critical areas for hidden money laundering.

Suggestions for Future Follow-up Research:

- **Quantitative Impact Assessment:** Conduct a quantitative study to measure actual cost savings and efficiency gains achieved by Finnish banks implementing advanced AML information systems or managed services.
- **Case Studies on Regulatory Unification:** Analyze the impact of recent or ongoing efforts towards regulatory harmonization in other jurisdictions on AML effectiveness and operational costs.
- **Deep Dive into Automation Challenges:** Explore specific challenges and success factors in implementing advanced algorithms for AML, focusing on false positive reduction and AI/ML integration with human oversight.
- **Comparative Analysis of Bank Sizes:** Research how AML challenges and solutions differ between large and small-to-medium-sized banks in Finland, and how managed services might cater to these varying needs.
- **Longitudinal Study on AML Evolution:** Conduct a multi-year study to track the evolving landscape of AML threats, regulatory responses, and technological adoption within the Finnish banking sector.

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IX. Appendices

Appendix 1: Survey Questions

- **Q1. Introduction:** This survey aims to gather your thoughts on the current state and future direction of anti-money laundering (AML) and customer due diligence (CDD). For the purpose of this survey, AML generally refers to efforts to prevent both money laundering and terrorist financing, unless specifically stated otherwise.
- **Q2. Your Organization:** What is the name of your organization/bank?
- **Q3. Your Title:** What is your current job title?
- **Q4. How are you involved with Anti-Money Laundering (AML) and Customer Due Diligence (CDD) in your role?** (Please select all that apply)
 - ☐ I'm directly involved in day-to-day AML/CDD operations.
 - ☐ I supervise AML/CDD activities.
 - ☐ I provide IT support for AML/CDD systems.
 - ☐ My role involves legal or compliance aspects related to AML/CDD.
 - ☐ I interact with customers in a way that involves AML/CDD processes.
 - ☐ Other (please describe):
- Q5. I believe that Anti-Money Laundering (AML) is an important function. (Likert Scale: Strongly disagree to Strongly agree)
- Q6. The recent media coverage about money laundering has been overly intense. (Likert Scale: Strongly disagree to Strongly agree)
- Q7. Recent news about money laundering has made my bank take money laundering more seriously. (Likert Scale: Strongly disagree to Strongly agree)
- Q8. I feel there's a conflict between our duty to perform customer due diligence and the principle of bank secrecy. (Likert Scale: Strongly disagree to Strongly agree)

- Q9. Bank secrecy rules limit our ability to effectively monitor customer due diligence and report money laundering. (Likert Scale: Strongly disagree to Strongly agree)
- Q10. It's generally straightforward for our bank to report instances of money laundering. (Likert Scale: Strongly disagree to Strongly agree)
- Q11. The guidelines we receive regarding the prevention of money laundering are clear and explicit. (Likert Scale: Strongly disagree to Strongly agree)
- Q12. The tasks associated with Anti-Money Laundering (AML) negatively impact our bank's business operations. (Likert Scale: Strongly disagree to Strongly agree)
- Q13. It's effective and beneficial to focus on transactions involving high-risk countries when trying to combat terrorist financing. (Likert Scale: Strongly disagree to Strongly agree)
- Q14. When fighting terrorist financing, what are the three most crucial pieces of customer due diligence information to focus on? (Please choose three)
 - ✚ Analyzing international payments, especially those to/from high-risk countries.
 - ✚ Monitoring sanction lists and other payment screening.
 - ✚ Thoroughly identifying and verifying customers when they first open an account.
 - ✚ Regularly reviewing and updating a customer's risk classification.
 - ✚ Noticing unusual or unexpected money transactions.
 - ✚ Paying close attention to the real beneficial owners of companies.
 - ✚ Other (please specify):
- Q15. When combating money laundering, what are the three most important types of customer due diligence information to consider? (Please choose three)
 - ✚ Analyzing suspicious and unusual transactions and payments (e.g., unexpected payments, international transfers, comparing actual vs. expected amounts).
 - ✚ Identifying and verifying customers thoroughly when new relationships are established.
 - ✚ Focusing on companies, especially their ultimate beneficial owners.
 - ✚ Applying a risk-based assessment approach.
 - ✚ Other (please specify):
- Q16. What are the three biggest challenges you face when monitoring for Anti-Money Laundering (AML)? (Please choose three)
 - ✚ The sheer volume of data we have to process.
 - ✚ The extremely fast speed at which transactions occur.
 - ✚ Distinguishing between genuinely suspicious transactions and innocent unusual activity.
 - ✚ Incomplete or missing customer data and other vital information.
 - ✚ Information systems that are difficult or inconvenient to use.
 - ✚ Other (please specify):
- Q17. What kinds of financial abuses or suspicious activities do you find are generally the easiest to spot? (Open-ended question)
- Q18. What types of financial abuses or money laundering schemes are the hardest to detect? (Open-ended question)
- Q19. Having a single system that manages all aspects of money laundering monitoring and reporting would significantly help in preventing money laundering. (Likert Scale: Strongly disagree to Strongly agree)
- Q20. By using more automated algorithms, we can both improve money laundering prevention and reduce overall costs at the same time. (Likert Scale: Strongly disagree to Strongly agree)
- Q21. There should be more training provided to employees regarding money laundering prevention and customer due diligence. (Likert Scale: Strongly disagree to Strongly agree)
- Q22. Greater cooperation between banks would make the Anti-Money Laundering (AML) process more efficient. (Likert Scale: Strongly disagree to Strongly agree)
- Q23. Implementing global regulations and establishing a global organization would make the anti-money laundering process more unified and efficient worldwide. (Likert Scale: Strongly disagree to Strongly agree)
- Q24. A global AML center would significantly improve the efficiency of the AML process. (Likert Scale: Strongly disagree to Strongly agree)
- Q25. How do you think the Anti-Money Laundering (AML) process can be improved using information systems in the future? (Open-ended question)
- Q26. What steps can banks take to improve their Anti-Money Laundering (AML) and Customer Due Diligence (CDD) processes in the future? (Open-ended question)
- Q27. Are there any specific areas or considerations in customer due diligence that, if addressed, would make money laundering prevention easier? (Open-ended question)