

**EFFECT OF ANTI-MONEY LAUNDERING RISK MANAGEMENT
ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN
KENYA**

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DECLARATION

I confirm that this is my original work and has not been submitted for presentation at the University of Nairobi or any other institution of higher learning.

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DEDICATION

I dedicate this project to my family, lecturers, classmates and friends who supported me throughout this journey.

TABLE OF CONTENTS

DECLARATION	ii
ACKNOWLEDGEMENT	iii
DEDICATION	iv
TABLE OF CONTENTS	v
LIST OF TABLES.....	viii
LIST OF FIGURES.....	ix
LIST OF ABBREVIATIONS AND ACRONYMS.....	x
ABSTRACT	xi
CHAPTER ONE.....	1
INTRODUCTION	1
1.1 Background of the Study.....	1
1.1.1 Anti-Money Laundering Risk Management	3
1.1.2 Financial Performance	4
1.1.3 Anti-Money Laundering Risk Management and Financial Performance	5
1.1.4 Commercial Banks in Kenya	6
1.2 Research Problem	7
1.3 Research Objective	9
1.4 Value of the Study	9
CHAPTER TWO.....	11
LITERATURE REVIEW	11
2.1 Introduction	11
2.2 Theoretical Review	11
2.2.1 The ‘crying wolf’ theory.....	11
2.2.2 Agency Theory	12
2.2.3 The Fraud Triangle Theory	14
2.3 Determinants of financial performance of commercial Banks.....	14
2.3.1 Anti-Money Laundering Risk Management	14
2.3.2 Cost of Operation	15
2.3.3 Inflation.....	16
2.3.4 Size of the Bank	17

2.4 Empirical Literature	18
2.5 Conceptual Framework	23
2.6 Summary of the Literature Review	24
CHAPTER THREE.....	26
RESEARCH METHODOLOGY	26
3.1 Introduction	26
3.2 Research Design	26
3.3 Population of the Study.....	26
3.4 Data Collection.....	27
3.5 Data Analysis	27
3.5.1 Model Specification.....	27
3.5.2 Test of Significance	28
3.5.3 Diagnostic Tests	28
CHAPTER FOUR	29
DATA ANALYSIS, RESULTS AND DISCUSSIONS	29
4.1 Introduction	29
4.2 Descriptive Statistics.....	29
4.2.1 Skewness and Kurtosis	29
4.2.2 Means and Standard Deviations	30
4.2.3 Trend Analysis	31
4.3 Correlation Analysis	34
4.3.1 Diagnostic Test	34
4.4 Regression Analysis.....	37
4.5 Discussion of the Findings	39
CHAPTER FIVE	41
SUMMARY, CONCLUSION AND RECOMMENDATIONS.....	41
5.1 Introduction	41
5.2 Summary of the Findings	41
5.3 Conclusion.....	42
5.4 Recommendations for Policy and Practice	43

5.5 Limitations of the Study.....	44
5.6 Suggestions for Further Study.....	44
REFERENCES.....	46
APPENDICES	50
APPENDIX 1: DATA COLLECTION SHEET	50
APPENDIX II: LIST OF COMMERCIAL BANKS IN KENYA	50

LIST OF TABLES

Table 4.1: Skewness and Kurtosis.....	30
Table 4.2: Means and Standard Deviations	30
Table 4. 3: Multicollinearity Test.....	34
Table 4. 4: Durbin-Watson Test.....	35
Table 4.5: Correlation Matrix	36
Table 4. 6: Model Summary	37
Table 4. 7: ANOVA	37
Table 4.8: Regression Coefficients	38

LIST OF FIGURES

Figure 2.1: Conceptual Framework.....	24
Figure 4.1: Cost of Implementing AML.....	31
Figure 4.2: Trends in Lending Rates	31
Figure 4.3: Trends in Inflation	32
Figure 4.4: Trends in Return on Assets	33
Figure 4.5: Number of Suspicious Transaction.....	33

LIST OF ABBREVIATIONS AND ACRONYMS

AML	Anti-Money Laundering
CBK	Central Bank of Kenya
CFT	Combating the Financing of Terrorism
CPI	Consumer Price Index
FATF	Financial Action Task Force
FRC	Financial Reporting Centre
GDP	Gross Domestic Product
IMF	International Monetary Fund
ML	Money laundering
POCAMLA	Proceeds of Crime and Anti-Laundering Act
ROA	Return On Assets
ROE	Return On Equity
ROI	Return on investment
SPSS	Statistical Package for social Sciences
TF	Terrorism Financing

ABSTRACT

Money laundering activities causes instabilities on the structure of financial institutions with the major effects being on legitimate businesses as their motive is not to maximize returns but to 'clean' the illegitimate wealth. Kenya as a country has put in significant efforts in addressing the phenomenon of money laundering through legislation to protect the integrity and reputation of its banking sector from the effects of criminal activities. The Country has had several amendments since the year 2009 to help improve the management of anti-money laundering risk. The objective of this study was to determine the effects of anti-money laundering risk management on financial performance of commercial banks in Kenya. This research adopted a descriptive design. The population of this study included all licensed commercial banks in Kenya as at December 2016. Data was collected for a period of twelve years spanning 2005 to 2016. In order to estimate the relationship between the dependent and independent variables, the study applied a multiple regression analysis. To ensure that the data collected is free from biasness, the study conducted a Mutlicollinearity tests. The study established a direct relationship between number of suspicious transactions and financial performance of commercial banks in Kenya ($r=0.150$, $p=0.042<0.05$). These findings however contradict regression analysis where an inverse relationship was established between number of suspicious transactions and financial performance of commercial banks in Kenya. There was an inverse relationship between AML implementation cost and financial performance of commercial banks ($r=-0.305$; $p=0.035$). The findings of the study indicated a strong positive relationship between interest rate and financial performance of commercial banks ($r=0.510$, $p=0.090$). This showed that an increase in interest rates enhances financial performance of commercial banks. On inflation, correlation analysis indicated a negative relationship between inflation and financial performance of commercial banks ($r=-0.177$, $p=0.583$). The study concludes that increase in number of suspicious transactions can either increase or decrease financial performance of commercial banks. There was an inverse relationship between AML implementation cost and financial performance of commercial banks indicating that as AML cost increase, financial performance declines. There is a positive relationship between interest rate and financial performance of commercial banks; an indication that increases in interest rates improves financial performance of commercial banks. The study recommends that management team of all commercial banks in Kenya should massively invest in technology for detecting and identifying suspicious transactions as that shall enhance their financial performance. The regulators need to financially support implementations of systems that manage risks in commercial banks operating Kenya. There should be a clear risk reporting framework that guides these financial institutions. The central bank of Kenya together with other regulatory bodies like the Capital Market Authority CMA should cooperate to establish proper monetary and fiscal policies to regulate the level of inflation and interest rates in the economy. Further research should be done on micro-finance institutions, money remittance providers as well forex bureaus due to their significant role in the financial sector so as to holistically and effectively combat Money laundering

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Money acquired by engaging in unlawful criminal activities is normally cleaned by individuals concerned so that the money appears to have been genuinely acquired through lawful means in a process called money laundering (Beare, 2003). The individuals concerned engage in financial transactions with the aim of concealing both the source and destination of such wealth and then converting them into assets that seem to be legitimate so that the money seems to have been lawfully acquired (Hopton, 2009). Governments around the world have developed various policies aimed at dealing with this habit so that they discourage their citizens from engaging in criminal activities for the sake of economic value. These activities which aim at preventing the occurrence of unlawful activities are commonly referred to as anti- money laundering.

According to Aluko and Bagheri (2012), criminals evade audit trail by transferring their illegitimate money across jurisdictions. By doing this, these criminals bring disruptions to the microeconomic status as their aim is not to maximize profits in their investment venture but to avoid being detected by authorities. They end up putting their money in ventures that may not even promise returns but only cleaning their illegitimate wealth. They therefore cause disruptions in the production and efficiency of genuine production units.

This study anchors on the three theories: Theory of “crying wolf”, The Agency Theory and Fraud Triangle Theory. The “Crying Wolf” Theory hinges on excessive reporting by commercial banks on suspicious transactions (Reuter and Truman, 2004). It argues that due to the huge penalties and fines imposed by Anti-Money laundering agencies for failure to disclose a suspicious transaction, forces reporting institutions to declare even figures which are not within the parameters hence eroding the value of the reports (Lilley, 2000). This model helps bring out the agency-principal relationship between regulating government agencies and banks which are charged with the responsibility of reporting any transaction they suspect could be criminal. The Agency theory explains the relationship between the government which regulates money laundering and economic crimes and the commercial banks which act as agents for government by reporting on suspicious activities in their operations (Fama and Jensen, 1983).

It has been argued that individuals engaged in money laundering activities always seek to maximize their returns as they keep their risk exposures low and might in the process collude with commercial banks to achieve their aims; this is likely to create a conflict between the banks and the regulator. The agency theory will therefore mitigate any likely conflict between the government and the financial institutions. The Fraud Triangle Theory identifies pressure as one of the key factors leading individuals to want to commit fraud. Three types of pressure have been identified as: employment stress, personal and external pressure. The personal and corporate forces act as motivators for individuals to commit fraud (Vona, 2008). These exist in the form of internal weaknesses (Kelly and

Hartley, 2010). This theory is relevant for the study because it explains the motivation for individuals to engage in fraudulent activities.

Kenya has been on the forefront in fighting against financial crime in the East African region. However, the efforts have been hampered by the rapid developments in information and technology which have provided a variety of avenues where criminals can use to “clean” their dirty money. The first efforts were implemented in 2009 when the country enacted the Proceeds of Crime and Anti-Laundering Act 2009 (POCAMLA 2009). This led to the formation of the Financial Reporting Centre (FRC) as the regulator in combating money laundering, terrorism financing and identification of monies which have been received from money laundering crimes.

In the year 2016, the country enacted a new Bribery Act after which the Proceeds of Crime and Anti-Money Laundering (Amendment) Act 2017 (POCAMLA 2017) was signed in 2017 which lays out the fines to individuals and corporates found engaging in money laundering at Kshs. 5 million and Kshs. 25 million respectively. This shows the various efforts that the country has made towards combating money laundering. This study therefore sought to investigate how anti-money laundering risk management affects performance of commercial banks in Kenya financially.

1.1.1 Anti-Money Laundering Risk Management

Money laundering (ML) has been defined differently by various scholars. According to Masciandaro (2007), ML is made up of illegal economic activities conducted with the

aim of transforming liquidity through conversion of illegally acquired wealth into ‘clean’ wealth. It is a process through which illicit money or goods generated through criminal means is concealed to hide the link connecting the funds and the source of the illegal activities. It basically transforms an illegal purchasing power into real purchasing power that is then used in investments and consumption (Hopton, 2009).

In order to limit the extent to which money gotten from criminal activities is disguised and cleaned to look like ‘clean’ money; governments have taken various anti-money laundering regulations to mitigate the extent to which these criminal activities occur (Aluko, 2012). Commercial banks therefore have devised means of managing those risks associated with money laundering in order to guard their reputation and regulatory compliance (Lilley, 2006).

This involves identification and the categorization of AML risks on the basis of geographical location of transactions, the products involved as well as customer types and their line of business (Hopton, 2006). Once the risks are identified, the organization’s ability to deal with the risks are analyzed and appropriate risk based AML programs are formulated through configuration of the banks’ internal resources to the nature of risks involved. This is done through formulation of policies and control mechanisms to detect and deter money laundering.

1.1.2 Financial Performance

Financial performance measures extent which an organization optimally utilizes its resources during a given period to generate value for stakeholders. It provides a

provisional report on the health status of an organization in terms of financing its operations into the unforeseen future (Donaldson & Preston, 1995). It is a standard measure which facilitates comparison of the performance of the organizations over a period of time or compare with other firms in the industry. This is mainly facilitated through use of ratios which standardize the performance. The most commonly applied ratios include: return on equity (ROE), return on assets (ROA), and return on investment (ROI) among others.

Return on Assets has been widely applied by other scholars and researchers in measuring financial outcome. It is expressed as a ratio of the proportion of net income after all expenses to the book value of all assets of an organization at a given point in time. The net income is also expressed as a percentage of total assets controlled by an organization at a point in time.

1.1.3 Anti-Money Laundering Risk Management and Financial Performance

Money laundering affects the macroeconomic parameters of an economy and especially the operating framework of commercial banks since they are involved in the intermediation between deficit and surplus households (Naheem, 2015). Therefore operating within the laid down framework is important for banks if they are to be on the right side of the law. In addition, money laundering not only does it affect the macroeconomic environment but also affects the stability of banks and reduces their ability to control the intermediation process in an efficient manner. This will in turn

affect their financial performance and even lead to reputation risk (Frankel & Laby, 2015).

Effective management of ML risk ensures that the reputation of the bank remains high and thus customers will be confident enough to continue transacting with the bank as opposed to when the bank is identified and cited to be working with criminal individuals engaged in 'cleaning' money gotten through illegal means. This therefore affects the future business opportunities of a bank which if not well managed could affect the reputational risk of the bank (FATF, 2006).

1.1.4 Commercial Banks in Kenya

The banking sector in Kenya is governed by a number of legislations for example the Company Act besides the Acts and Guidelines passed by the Central Bank of Kenya CBK. The industry comprises of a number of commercial banks which have been placed under statutory management over the past seventeen years following suspicions of being used by money launderers. This has spoilt the reputation of the banks involved forcing them to cease operations (Deepening, 2015; & Central Bank of Kenya, 2013).

Commercial banks are required to be aware of the money laundering aspects and ensure that they adhere to laid down guidelines on identifying and reporting suspicious transactions and accounts (Ross & Hannan, 2007). Commercial banks are required to familiarize themselves with the provisions of the law on ML and ensure that they put in place adequate measure to manage the ML risk. They also need to keep pace with the

amendments that the Government is implementing on ML through its different agencies (Ross & Hannan, 2007).

1.2 Research Problem

Statistics at the International Monetary Fund (IMF) estimates that money laundering has grown over time to about 2-5% of the world's GDP. However, because of the criminal nature of the activities, limited data is available to ascertain the exact statistics. As at 1996 figure of the world economy, this represented \$ 600 billion to \$ 1.6 trillion. Money laundering activities causes instabilities on the structure of financial institutions with the major effects being on legitimate businesses as their motive is not to maximize returns but to 'clean' the illegitimate wealth. Because of the global nature of ML, it causes fluctuations in the prices of foreign currencies against the local currency and undermines the banking system in the country.

Kenya as a country has put in significant efforts in addressing the phenomenon of money laundering through legislation to protect the integrity and reputation of its banking sector from the effects of criminal activities. The Country has had several amendments since the year 2009 to help improve the management of anti-money laundering risk. However, compliance has not been easy as the costs involved are also high at a time when the level of profitability in the industry is on a decline following introduction of interest rate capping (Alexander, 2016).

A number of scholars have examined how anti-money laundering risk management affects financial performance of banks. Nii Okai, (2015) examined the relationship between anti-money laundering and risk management among banks operating in Ghana and established that no significant relationship existed between enterprise risk management and performance outputs recorded by commercial banks. Aluko (2012) studied how money laundering affected financial stability of developing countries where it was established that individuals engaging in the criminal activity of money laundering have found developing countries as sweet haven due to lax regulations and mechanisms of enforcement.

Locally, Sainah (2015) examined how anti-money laundering risk assessment affected the performance results of commercial banks in Kenya where it was established that a weak relationship existed between AML risk assessment and performance as measured by ROA. In another study, Mwithi and Kamau (2015) assessed how performance of commercial banks was affected by the implementation of AML regulations in Kenya. The findings indicated that the profitability reduced because of increased operational costs in the implementation process.

The studies assessed above have done a good work in building the literature on money laundering and its effect on performance of the financial sector at large. However, the studies face deficiencies in context and time because they were either done in different economies with different macroeconomic setting or were done in Kenya but face time lapse as many amendments have been done to the laws governing money laundering in

Kenya up to early 2017. This therefore left a researchable gap which this study sought to fill by answering the following research question: How does anti-money laundering risk management affect financial performance of commercial banks in Kenya?

1.3 Research Objective

To determine the effects of anti-money laundering risk management on financial performance of commercial banks in Kenya.

1.4 Value of the Study

The results of this study would be significant to a number of stakeholders including: government of Kenya through the Ministry of Finance, future researchers and scholars, managers in commercial banks and customers at large. For the Government of Kenya through the Ministry of Finance, the findings of this study would inform them of the effect of different AML risk management strategies have had on financial outcomes recorded by commercial banks. Through these findings, they would be in a position to assess the effectiveness of the AML guidelines and policies in tackling the menace of money laundering. They would then formulate more policies to deal with loopholes that may arise.

The findings of the study would also be valuable to future scholars and researchers by extending the empirical literature on AML and financial outcome of commercial banks. This would act as a source of reference for their studies besides identifying areas where further research needs to be carried out. This would help grow the general literature on anti-money laundering risk exposure and financial performance of banks.

The findings of this study would also be valuable to managers in commercial banks by informing them of the importance of ensuring strict adherence to the provisions and guidelines of AML Act so that they can keep their institutions stable. The findings would inform the managers on what they need to do so as to ensure they adhere to set regulations and improve their overall financial output.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Chapter two presents literature review to help identify what other earlier scholars have studied so as to inform the undertaking of the current study. It identifies the various theories on which the study anchors on, determinants of financial performance, empirical literature, conceptual framework and summary of the literature reviewed.

2.2 Theoretical Review

This section delves into various schools of thought on which this study anchors. The specific theories elucidated here include: the ‘crying wolf’ theory, the agency theory and the fraud triangle theory. They are discussed in details below:

2.2.1 The ‘crying wolf’ theory

This theory was developed with the aim of criticizing excessive reporting, called “crying wolf” because of its ability to dilute the information value of reports. The “Crying Wolf” Theory argues that because of the huge penalties and fines imposed by Anti-Money laundering agencies for failure to disclose a suspicious transaction, forces reporting institutions to declare even figures which are not within the parameters hence eroding the value of the reports (Lilley, 2000). The theory argues that excessive reporting is not healthy for the value of the information contained in the reports. Governments delegate the function of identifying suspicious transactions to commercial banks who then pass on

information on any transaction that exceeds certain prescribed amount as regards the source and purpose of the money.

Government agencies then analyze the reports generated by commercial banks to identify their investigation targets. In order to ensure that banks comply in submitting reports, heavy fines have been prescribed in AML laws. These laws are so punitive that banks freely volunteer to provide information even on genuine transactions that are not suspicious for the investigative agencies to decide on the way forward (Unger, 2013). This therefore means that more than necessary information is availed to investigative agencies which may make it difficult to pinpoint with clarity the real suspicious transactions. Hence the origin of ‘crying wolf’ theory. This theory helps in explaining the challenges associated with too much reporting which gives bulk information that may be difficult to digest for law enforcers.

2.2.2 Agency Theory

This theory was developed by Ross (1973) and Mitnick (1976) albeit independently in the 1960s. Ross is accredited with the development of the economic theory of agency whereas Mitnick is credited with the development of the institutional theory of agency (Jensen and Meckling, 1976). Ross (1973) viewed agency to be a consequence of compensation whereas Mitnick introduced the institutional form of agency. Ross argued that it is difficult for the principal to get the agent to work to the best level as he would have wished (Fama and Jensen, 1983). The agency theory helps explain the relationship that exists when one party enters into an agreement with another party so that one party

acts on behalf of another. The theory views a firm as a nexus of contracts between the resource holders and those entrusted in the management of the resources.

This theory is relevant because it explains the existing relationship between the government which is responsible for controlling the occurrence of money laundering in the country and commercial banks and other financial institutions obliged to report on the occurrence of suspicious activities related to money laundering (Fama and Jensen, 1983). The financial institutions are required to identify suspicious transactions and alert the government so that appropriate action can be taken against the perpetrators.

Agency theory is mainly concerned with the management of conflicts that are likely to arise following the agency contraction relationship. For the case at hand, conflicts are likely to exist between financial institutions which have been entrusted by the Government to identify suspicious transactions and the government (Jensen and Meckling, 1976). It is possible that financial institutions could collude with money launderers and sneak into the country or clean money which has been gotten in an illegal manner. The agency theory helps explain ways that such conflicts between the agent and their principals can be dealt with harmoniously.

This theory is relevant for the study because it helps explain the agency-principal that exists between the Central Bank which has entrusted commercial banks with the function of identifying suspicious transactions and relaying information about them to the Central Bank. Therefore, commercial banks act as agents of the Central Bank in identification of suspicious transaction which then relevant authority can use to carryout investigation.

2.2.3 The Fraud Triangle Theory

This theory was developed by Cressey in the year (1987) explaining that there exists a reason as to why individuals indulge in any given activity. The highly advanced technological environment has introduced new dynamics in fraud. Individuals committing fraud are always searching on more efficient and sophisticated methods that they can use to commit fraud (Giriūnas & Mackevičius, 2014). They investigate the company's internal and external environment control systems, among other aspects to ensure that they are not caught.

The theory identifies pressure as one of the key factors leading individuals to want to commit fraud. According to Lister (2007) pressure is a key factor for individuals to commit fraud. Three types of pressure have been identified as: employment stress, personal and external pressure. The personal and corporate forces act as motivators for individuals to commit fraud (Vona, 2008). The individuals also see an opportunity through inefficient controls that allow easy access to privileged information. These exist in the form of internal weaknesses (Kelly and Hartley, 2010). This theory is relevant for the study because it explains the motivation for individuals to engage in fraudulent activities. It helps explain how individual organizations can go about preventing the acts of fraud.

2.3 Determinants of financial performance of commercial Banks

2.3.1 Anti-Money Laundering Risk Management

One of the macro economic variables is anti-money laundering measures which is a regulation imposed by the Central Bank to all financial institutions in the Country, The

implementation of anti-money laundering costs has no direct source of income to be offset against. This cost if not well monitored could be high thus eat into the profits of banks. However, commercial banks have little options to compliance with money laundering provisions because failure to comply may have dire consequences of their license being revoked (Force, (2016).

According to Kelly and Hartley (2010) existence of a strong AML compliance regime together with a good reputation can be used as an attraction base for customers which increases the profitability of banks. However, failure of commercial banks to implement appropriate AML may be detrimental in that it can negatively impact the reputation of the Bank and lead to closure. Customers fear banking in banks that engage in ML.

2.3.2 Cost of Operation

The costs incurred by an organization in the creation of value for the customers always play an important role in the financial performance. The costs determine the prices that the goods and services can be sold at to attain set profitability margins (Deleplace and Nell, 2016). The level of operational efficiency has a direct influence on the long term solvency of firms because it determines how well the organization is able to alter its prices without incurring a loss.

According to Sufian (2007), an organization's level of operational efficiency needs to be monitored by management teams in order to earn healthy and sustainable financial performances. Banks need to be as efficient as possible when doing their financial

intermediation role so that they improve their profitability. Ridderstaat and Croes (2017) established a direct link between operational practices and performance of an organization financially i.e. profitability and growth.

2.3.3 Inflation

Inflation is a representation of general increase in consumer prices. In circumstances surrounded by general increases in price of goods and services, individual income is reduced as individuals will be required to spend more if they are to access the same amount of goods and services they have been accessing at the existing prices. This was well illustrated by Fama (1981) in their seminal work where it was established that there exists a negative correlation between inflation and anticipated activity in a stock market. It is argued that high inflation rates send signals of an economic downturn which prompts investors to start selling off their stocks.

According to Sharma and Mahendru (2010), there exists two way causation between share prices and inflation. Whenever inflation raises, the general price of commodities in an economy increase. Inflation has a bearing on the risk factor as it increases the amount of money required for individuals to maintain their current level of consumption. Therefore, the amount of savings which is later used in investments through purchase of stocks falls hence the fall in demand for shares and a drop in share prices (Bhattacharya and Mukherjee, 2002).

2.3.4 Size of the Bank

The size of the Bank also plays an important role in financial performance of banks. Size is measured in several ways including total assets controlled, customer base, and turnover. According to Ongore and Kusa (2013), a positive relationship exists between bank size and financial performance. It is argued that commercial banks with a large asset size have the capability to expand their operations geographically into locations with less competition for increased profitability as compared to those with few limited assets. This expansion leads to increased customer base and increased customer deposits hence more money for extending as credit.

In addition, banks having more assets can comfortably make huge investments in latest state of technology which leads to increased efficiency as well as its customer base. This also fosters investments in technological innovations for improved overall financial performance. Another key determinant of financial performance of commercial banks is the capital adequacy and liquidity levels. Banks with higher capital base have been found to post better financial results compared to those with a limited capital base (Ang, Papanikolaou & Westerfield, 2014). Measures of capital adequacy include: loans to assets, provision for losses as a percentage of total loans, natural logarithm of total assets, tax as a percentage of operating profits before tax, non-interest income to total assets, overhead expenses as a percentage of total assets and overall revenue to number of employees and shareholders' equity to total assets. Liquidity influences the ability of commercial banks to generate income through creation of loans. More liquid banks have higher chances on making higher profits as compared to those with liquidity challenges.

2.4 Empirical Literature

A number of scholars have examined anti-money laundering risk management on financial performance of financial institutions across the world. Nunes, Singh, Tam and Kwan (2014) studied money laundering through the rational choice theory in China. The study sought to bring out the application of rational choice theory in explaining the events in money laundering. The main aim of the study was to draw some understanding on the stooges and the motives of those people who collude with money launderers and assess how effective the various forms of punishment meted on those who are caught. The study used in-depth interviews and documentary reviews of local court cases to find solutions to the research problem. From the findings, it was established that those who colluded were mainly driven by the financial rewards that accompanies the act. This was uniform at the individual and institutional level.

Hayble-Gomes (2016) examined the various effects that a deficient anti-money laundering program has on a multinational bank. The main focus of the study was on the strategies adopted by compliance officer in improving the AML program implementation among multinational banks in the northeastern United States. The study used primary data collected using interviews on AML compliance officers drawn from the banks forming the sampling frame. The results point out that adopting advanced technology, training employees on identification and reporting of any suspicious transactions, and having well-functioning management oversights improved the effectiveness of AML program.

Yepes (2011) examined the level of compliance with the AML/CFT International Standard across different countries with the aim of charting the way forward in AML. The study covered the period 2004 to 2011. The study hinged on cultural, institutional and social economic and financial factors that affected the level of compliance. The results indicated that some countries had initiated a dynamic process that was improving the compliance components. The findings indicated that overall compliance was low which had diverse effects on the level of financial transparency resulting from poor implementation of standards especially those ones relating to customer identification. Further findings indicated that prevailing measurements of compliance failed to consider an analysis of ML and financing terrorism risks. This in effect undermined the credibility and relevancy of policy measures and recommendations on AML.

Kyriakos-Saad, Vasquez, El Khoury and El Murr (2016) studied AML and combating the financing of terrorism activities using a case study of Islamic financial institutions. The study was conceived from the fact that the lack of common understanding of ML and terrorism financing risks in Islamic finance. Although some risks were similar to the conventional finance risks, the complexity of Islamic finance products, the manner in which the client-relationship is held in Islamic banks differently introduced a different angle that the many supervision of Islamic finance may not be privy to. The study explored the differences between Islamic and conventional finance and how these differences informed the development of AML and Combating the Financing of Terrorism (CFT). The findings indicate that an assessment be conducted on the effectiveness of AML/CFT regimes with the aim of understanding whether there exists

some deficiencies in the current recommendations set out in the FATF standards so that amendments can be done to mitigate any ML/TF risks present in Islamic financing.

Panthaki, Sokolic, Papademetriou and Sunderji (2009) examined anti-money laundering through a systems theoretical approach using a case study in a Greek Financial Institution through self-reference, AML, its systemic constitution and technological consequences. The study assesses the role that technology has come to play in the system of AML. Aluko (2012) studied how money laundering had affected economic, financial stability and political development of developing countries. The study appreciates the global nature of ML and how it has negatively affected financial systems in different parts of the world. The act has had far reaching implications to national and international economies that several national and international measures have been developed to combat the vice.

Ogbodo and Mieseigha (2013) studied how money laundering activities had affected the economy of Nigeria. They examined how ML had frustrated legitimate businesses and the way it has corrupted the financial and social systems. The study adopted an accidental sampling method on sampled respondents. A questionnaire was used to collect primary data. The findings indicated that ML undermines the integrity of financial institutions and markets. ML also causes loss of the national economic policy of a nation as resources are not put to optimal use. The scarce resources will be invested sub-optimally for the sake of cleaning the wealth gotten illegally. Money laundering was found to highly undermine legitimate businesses especially those in private sector because the money launderers set up businesses not for making profits but cleaning their ill-gotten wealth.

Umar, Zawawi, Khamidi and Idrus (2013) conducted an assessment with the aim of establishing the level of adherence to the AML regulations among banking institutions in Tanzania. This study made use of exploratory research design. The study applied both primary and secondary data. Primary data targeted 30 employees while secondary data was drawn from published financial statements of banks in Tanzania. The findings indicated that banks did not encounter ML frequently; all banks had their ML departments located at the head office, banks had automatic systemized signaling for any amount that exceeded certain figures whenever captured by the system. The major sources of illegal money in the country came from Drug trafficking, corruption, bribery, illegal arms dealings, tax evasion.

Locally, Murithi (2013) examined the effect that AML regulation implementation had on financial outcomes recorded by commercial banks in Kenya. The study used a descriptive research design. The findings indicated that implementation of AML increased the operating cost of commercial banks thereby eating into the profitability. Commercial banks had to engage and train their human resources on identification and reporting structures of suspicious transactions. However, the level of ML had reduced following the implementation of AML procedures. The implementation of ML procedures helped reduce the level of capital flight from the country as individuals could not steal public resources and hide their loot overseas.

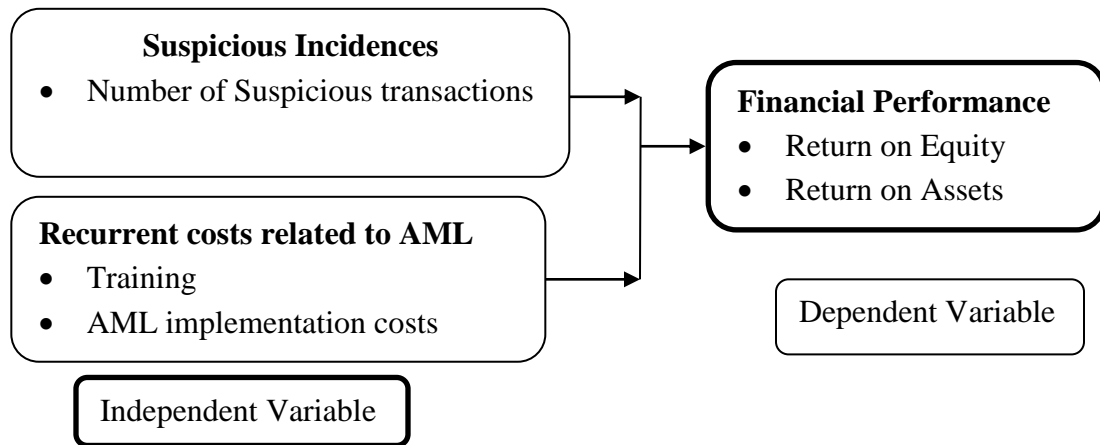
Michugu (2014) used the case of Chase bank to study the impact that AML regulations had on financial performance of commercial banks in Kenya. The main focus of the study was on the impact that AML had on banks, identification of costs associated with the implementation phase of AML regulations and identification of benefits of complying with the provisions of AML on bank performance. The study applied a descriptive research design on a target population of employees of the Bank identified through stratified sampling. The findings indicate that AML regulations had increased operational costs of Chase Bank, reduced the frequency and severity of internal and external fraud, a boost on the level of confidence among customers and investors. Reporting costs also increased the number of reports done to the Central Bank of Kenya and the Financial Reporting Centre (FRC). The benefits included: improved training and expertise among staff on fraud detection and prevention, enhancement of due diligence through centralized customer account opening and monitoring, among others.

Sainah (2015) examined how anti-money laundering risk assessment affected the performance results of commercial banks in Kenya. The study applied a descriptive study design using all the 43 licensed and operating banks in Kenya as at December 2014. The findings indicated that a weak relationship existed between AML risk assessment and performance as measured by ROA. Mwithi and Kamau (2015) sought to identify the strategies adopted by commercial banks in Kenya to combat fraud. The study acknowledges the increase in losses experienced by commercial banks following increased cases of fraud. The study focused on the importance of banks knowing their customers, crime and anti-money laundering, development in technology and

establishment of adequate internal controls to combating fraud. The findings show that the existing legal framework set by the regulator which is the Central Bank of Kenya and FRC on verification of client personal information helped in combating fraud to a great extent. On internal control, banks were found to be responsible for controlling accounts conducts and relationship.

2.5 Conceptual Framework

A conceptual framework is a pictorial relationship between the dependent and independent variables. It presents the relationship between the dependent and independent variables in a study in a pictorial form (Mugenda & Mugenda, 2003). The independent variables of this study include suspicious incidences of transactions likely to be acts of “cleaning dirt” money. Another independent variable relates to the recurrent costs associated with the implementation of AML. This could take the form of training and AML implementation costs. The dependent variable in the study is financial performance of banks which will be measured by Return on Equity (ROE) and Return on Assets (ROA). The conceptual framework is clearly drawn in the figure 2.1 below:



Source: (Researcher, 2017)

Figure 2.1: Conceptual Framework

2.6 Summary of the Literature Review

The empirical literature has explored a variety of studies on AML and performance of banks. On a global level, Nunes, Singh, Tam and Kwan (2014) studied money laundering through the rational choice theory in China. Hayble-Gomes (2016) examined the various effects that a deficient anti-money laundering program has on a multinational bank. Yepes (2011) examined the level of compliance with the AML/CFT International Standard across different countries with the aim of chatting forward in AML.

Demetis (2014) examined anti-money laundering through a systems theoretical approach using a case study in a Greek Financial Institution through self-reference, AML, its systemic constitution and technological consequences. Ogbodo and Mieseigha (2013) studied how money laundering activities had affected the economy of Nigeria. Abdullahi

(2013) conducted an assessment with the aim of establishing the level of adherence to the AML regulations among banking institutions in Tanzania. These studies were conducted in different environmental settings which limit the application of their findings to the current study settings.

Locally, Murithi (2013) examined the effect that AML regulation implementation had on financial outcomes recorded by commercial banks in Kenya. This study concentrated on AML implementation and not the risk management which is a continuous process. Michugu (2014) used the case of Chase bank to study the impact that AML regulations had on financial performance of commercial banks in Kenya. This study was conducted in the year 2014 before further regulations came into force in the year 2016 hence introducing new information. Mwithi and Kamau (2015) sought to identify the strategies adopted by commercial banks in Kenya to combat fraud. This study concentrated on all frauds and not ML hence the scope was large. Sainah (2015) sought to establish the link between AML risk assessment and financial performance of commercial banks. This study concentrated on one aspect of AML risk management and has been overtaken by changes to the AML regulations. The local studies though relevant, their focus is on a past period prior to implementation of reforms on the AML provision in the country hence the current setting may have changed thus limiting the application of their findings.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the methods that applied by the researcher in carrying out the study. It specifically outlines the following sections: research design, population of the study, data collections and data analysis.

3.2 Research Design

This research adopted a descriptive design. This design has been deemed appropriate since it deals with issues that help build a profile on a given phenomenon under study. It mainly deals with matters that describe the what, when, where, and how of a phenomenon (Cooper and Schindler, 2006). The study aims at establishing the effects of anti-money laundering risk management on financial performance of commercial banks in Kenya.

3.3 Population of the Study

Population refers to an entire set of elements, individuals or institutions that have similar observable characteristics which are of interest to a researcher. The population of this study included all licensed commercial banks in Kenya as at December 2016 (Appendix II). The commercial banks have been entrusted by the Central Bank of Kenya in identification and reporting of suspicious transactions on a regular basis.

3.4 Data Collection

This study shall make use of secondary data from reports submissions to the FRC, CBK as well as data from commercial banks in Kenya. Data was collected for a period of twelve years spanning 2005 to 2016. More data was collected from AML compliance managers' management reports on ML. The study collected annual statistical data.

3.5 Data Analysis

Data analysis is the process of cleaning data collecting from the field and arranging it in a manner that is clear to the study objectives. The data collected was coded and analyzed using both descriptive statistics and inferential statistics using Statistical Package for social Sciences (SPSS Version 23.0). Analyzed data was presented in the form of figures and tables for easy understanding.

3.5.1 Model Specification

In order to estimate the relationship between the dependent and independent variables, the study applied a multiple regression analysis. The model took the following form:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

Where Y= Organization Performance (Return on Assets)

X_1 = Number of Suspicious transactions

X_2 = AML Implementation Costs

X_3 = Interest Rate

X_4 = Inflation

3.5.2 Test of Significance

The study also tested the significance of the model in explaining the relationship between AML and financial performance of commercial banks in Kenya using Analysis of Variance where F- tests was compare the F-calculated with F-critical. In case the F-calculated is greater than F- Critical, was concluded that the overall model was significant in explaining the relationship. The study is tested at 95% confidence level and 5% significant level.

3.5.3 Diagnostic Tests

To ensure that the data collected is free from biasness and one variable data is not related to another variable data, the study conducted a Mutlicollinearity tests. The study ensured that no dummy variable is included which could bring the challenge of Mutlicollinearity (Maddala & Lahiri, 2009). The study also conducted an autocorrelation test to determine if there exists some degree of similarity between the time series data that was collected and the lagged version of the same data over successive time intervals. This is because the study used time series data over the study period.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

The analysis, interpretation and discussion of the research findings is presented in this chapter. The purpose of the study was to determine the effects of anti-money laundering risk management on financial performance of commercial banks in Kenya. The researcher collected data on Organization Performance measured by (Return on Assets); Number of Suspicious transactions; AML Implementation Costs; Interest Rate and Inflation over a period of 2005-2016. The collected data was coded into SPSS software and the analysis was done using descriptive and inferential statistics. The analyzed data was presented using Tables and graphs.

4.2 Descriptive Statistics

The researcher used means, standard deviations, Kurtosis and Skewness to describe the relationship between anti-money laundering risk management and financial performance of commercial banks in Kenya. The findings are indicated in Table 4.1 and Table 4.2.

4.2.1 Skewness and Kurtosis

These measures were used to test for normality of the data set. The findings are indicated in Table 4.1.

Table 4.1: Skewness and Kurtosis

	N	Skewness		Kurtosis	
		Statistic	Std. Error	Statistic	Std. Error
Number Of Suspicious Transactions	12	.291	.637	-1.187	1.232
AML Implementation Cost	12	.127	.637	-1.865	1.232
Interest Rate	12	.859	.637	.596	1.232
Inflation	12	.859	.637	-.948	1.232
ROA	12	.295	.637	-1.185	1.232

Source: (Research Findings, 2017)

From the findings, number of suspicious transactions had Skewness of 0.291 and Kurtosis of -1.187; AML implementation cost had Skewness of 0.127 and Kurtosis of -1.865; interest rate had Skewness of 0.859 and Kurtosis of 0.596, inflation had Skewness of 0.859 and Kurtosis of -0.948 while ROA had 0.295 as Skewness and -1.185 as Kurtosis.

4.2.2 Means and Standard Deviations

Means were used as measures of central tendency while standard deviations helped to indentify the spread that is, dispersion of the observations in the data set. The findings are illustrated in Table 4.2.

Table 4.2: Means and Standard Deviations

	N	Mean	Std. Deviation
Number Of Suspicious Transactions	12	1.576	.803
AML Implementation Cost	12	1.080	.758
Interest Rate	12	15.349	1.949
Inflation	12	8.531	3.487
ROA	12	3.541	.771

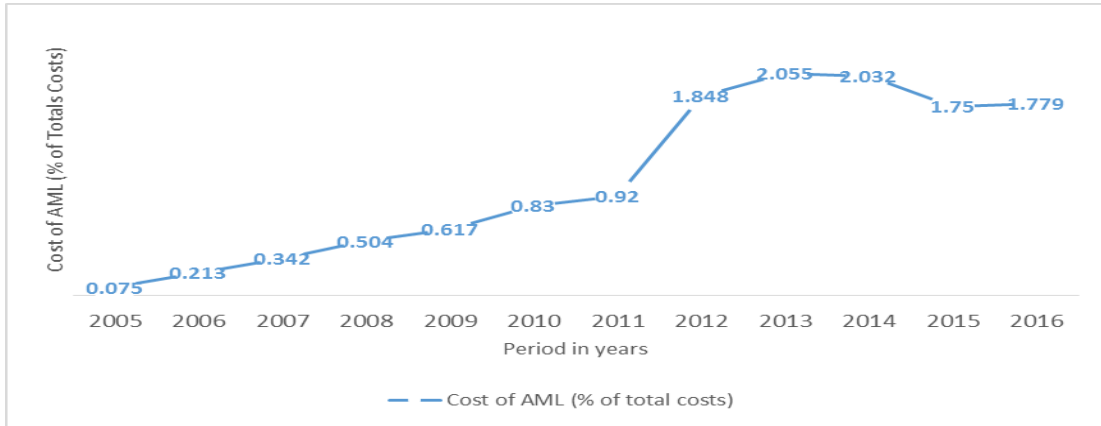
Source: (Research Findings, 2017)

From descriptive statistics above, number of suspicious transactions had mean of 1.576 and standard deviation of 0.803, AML implementation cost had 1.080 and 0.758, interest

rate had 15.349 and 1.949, inflation had 8.531 and 3.487 while ROA had 3.541 and 0.771 as means and standard deviation respectively.

4.2.3 Trend Analysis

Figure 4.1: Cost of Implementing AML



Source: (Research Findings, 2017)

From the findings in Figure 4.1, the cost of implementing AML rose steadily in the period after introduction of the regulation in 2011 to 2013 after which it stabilized in the years 2015 to 2016.

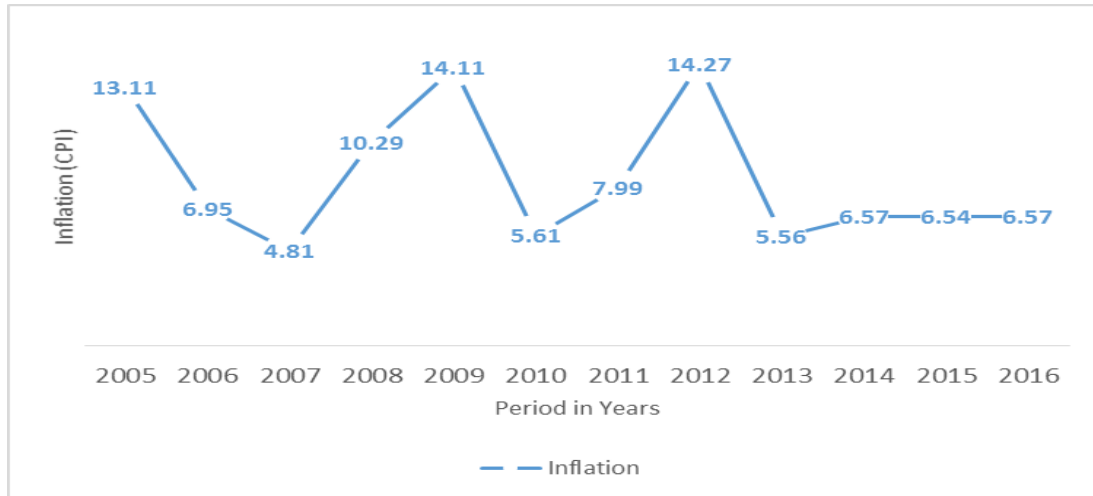
Figure 4.2: Trends in Lending Rates



Source: (Research Findings, 2017)

From the findings in Figure 4.2, the findings show that the lending rates remained stable in the period before implementation of AML. One year after implementation of AML, the lending rates rose to an all time high of 19.64% before reducing to around 16% in the years 2015 to 2015.

Figure 4.3: Trends in Inflation

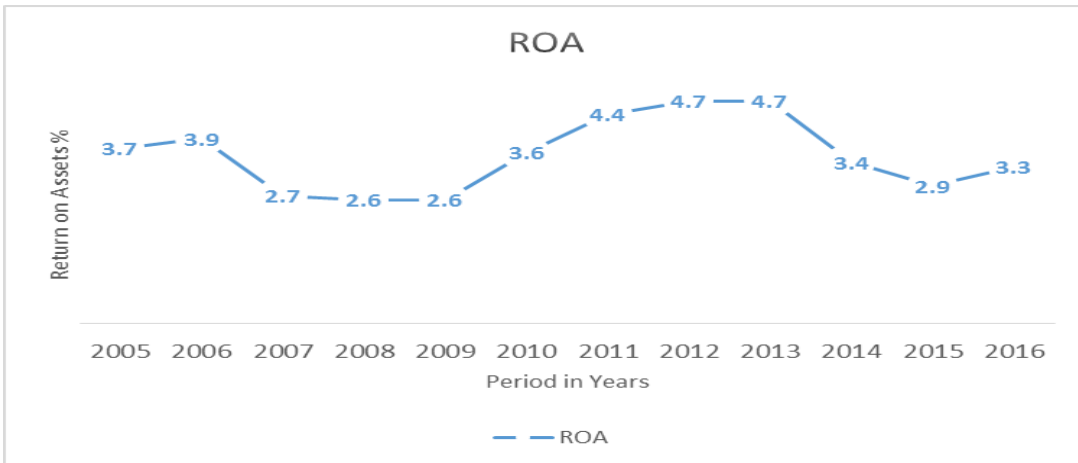


Source: (Research Findings, 2017)

Inflation fluctuated highly in the period before introduction of AML. However, the highest level of inflation was realized in the year 2012 after which it reduced and stabilized at around 6% from the year 2014.

Trends in Return on Assets

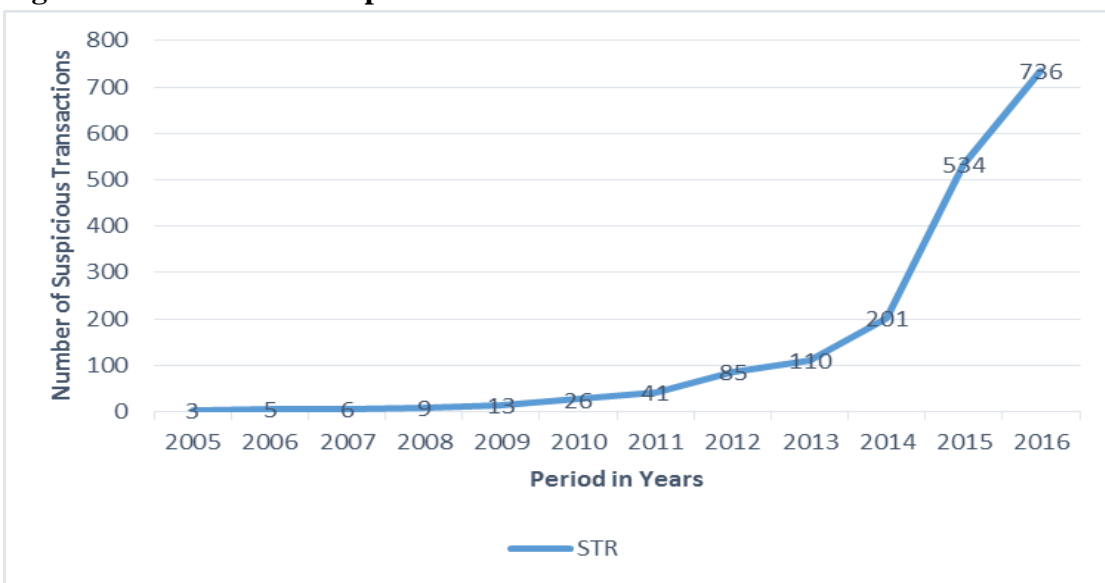
Figure 4.4: Trends in Return on Assets



Source: (Research Findings, 2017)

Return on Assets indicated rose steadily after implementation of AML to a high of 4.7 then slowed down to a low of 2.9%

Figure 4.5: Number of Suspicious Transaction



Source: (Research Findings, 2017)

The number of suspicious transaction kept raising all through the study period. However, there was a steady increase in the period immediately after implementation of AML.

4.3 Correlation Analysis

4.3.1 Diagnostic Test

Before carrying correlation analysis, the researcher conducted multicollinearity and autocorrelation tests. Multicollinearity test was detected by Variance Inflation Factor VIF while Autocorrelation was detected by Durbin-Watson tests.

Multicollinearity Test

The finding of the VIF as a measure of multicollinearity is indicated in Table 4.3. VIF values greater than 10 and 1/VIF values less than 0.10, imply that Multicollinearity is present (Mukras,1993).

Table 4.3: Multicollinearity Test

	Collinearity Statistics	
	Tolerance	VIF
Number Of Suspicious Transactions	.057	1.551
AML Implementation Cost	.043	3.050
Interest Rate	.402	2.486
Inflation	.162	6.164

Source: (Research Findings, 2017)

From the findings, number of suspicious transactions had VIF of 1.551, AML implementation cost has 3.050, and interest rate had 2.486 while inflation had 6.164. As all the VIF values were between 1-10, this shows that the dataset did not suffer from multicollinearity symptoms.

Durbin-Watson Test

Autocorrelation refers to the correlation between random error terms of the subsequent time periods. It was detected using Durbin-Watson Test. The Durbin-Watson statistic is always between 0 and 4. A value of 2 means that there is no autocorrelation in the sample

Table 4. 4: Durbin-Watson Test

Model	Durbin-Watson
1	2.664

Source: (Research Findings, 2017)

From the findings, the value of Durbin-Watson was 2.664 which lie between 1-4. This indicates that autocorrelation was not characteristic of the dataset.

The researcher carried out Pearson correlation analysis to establish the strength and nature of direction of the relationship between anti-money laundering risk management and financial performance of commercial banks in Kenya. In essence, strength of the relation can either be weak, moderate or strong. Direction of the movement of the relationship between the variables can either be positive or negative. The findings are indicated in Table 4.5.

Table 4.5: Correlation Matrix

		ROA	Number Of Suspicious Transactions	AML Implementation Cost	Interest Rate	Inflation
ROA	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	12	12			
Number Of Suspicious Transactions	Pearson Correlation	.150	1			
	Sig. (2-tailed)	.042				
	N	12	12			
AML Implementation Cost	Pearson Correlation	-.305	-.971	1		
	Sig. (2-tailed)	.035	.000			
	N	12	12	12		
Interest Rate	Pearson Correlation	.510	.739	-.767	1	
	Sig. (2-tailed)	.090	.006	.004		
	N	12	12	12	12	
Inflation	Pearson Correlation	-.177	-.890	.913	-.738	1
	Sig. (2-tailed)	.583	.000	.000	.006	
	N	12	12	12	12	12

Source: (Research Findings, 2017)

From the findings, there was a direct relationship between number of suspicious transactions and financial performance of commercial banks in Kenya ($r=0.150$, $p=0.042<0.05$). The study established an inverse relationship between AML implementation cost and financial performance of commercial banks ($r=-0.305$; $p=0.035$). There was a strong positive relationship between interest rate and financial performance of commercial banks ($r=0.510$, $p=0.090$). There was a negative relationship between inflation and financial performance of commercial banks ($r=-0.177$, $p=0.583$).

4.4 Regression Analysis

Regression analysis was conducted to assess the effect of anti-money laundering risk management on financial performance of commercial banks in Kenya. The findings of the Model Summary, ANOVA and Regression Coefficients are indicated in subsequent sections.

Table 4. 6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.848	.720	.560	.51195

Source: (Research Findings, 2017)

The Model Summary above indicates the coefficient of correlation R of 0.848 showing that anti-money laundering risk management has a far reaching effect on financial performance of commercial banks in Kenya. The value of coefficient of determination R square was 0.720, showing that 72% change in financial performance of commercial banks in Kenya is explained by the independent variables of the study.

Table 4. 7: ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	4.715	4	1.179	4.497	.041 ^b
Residual	1.835	7	.262		
Total	6.549	11			

Source: (Research Findings, 2017)

The ANOVA findings of the processed data at 5% level of significance indicates an F calculated of 4.497 while F critical was 4.12. As F calculated is greater than F critical, this shows that the overall regression model significantly helped in predicting the effect of anti-money laundering risk management on financial performance of commercial banks in Kenya

Table 4.8: Regression Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	4.707	3.237		1.454	.189
Number Of Suspicious Transactions	-2.351	.804	-2.450	-2.923	.022
AML Implementation Cost	-2.858	.977	-2.811	-2.926	.022
Interest Rate	.277	.125	.700	2.221	.002
Inflation	.161	.110	.727	1.464	.187

Source: (Research Findings, 2017)

From regression results, the established equation becomes:

$$Y = 4.707 - 2.351X_1 - 2.285X_2 + 0.277X_3$$

Where Y= Organization Performance (Return on Assets); X_1 = Number of Suspicious transactions; X_2 = AML Implementation Costs and X_3 = Interest Rate

Therefore, all variables of the study held constant, financial performance of commercial banks in Kenya would be at 4.707. A unit decrease in number of suspicious transactions would increase financial performance of commercial banks in Kenya by 2.351. A unit decrease in decrease in AML implementation costs would result into 2.285 increases in financial performance of commercial banks. A unit increase in interest rate would lead to 0.277 increases in financial performance of commercial banks in Kenya.

In regard of significance at 5% level of significance, number of suspicious transactions had a significant influence on financial performance of commercial banks in Kenya $p=0.022 < 0.05$. AML implementation costs significantly affected financial performance

of commercial banks $p=0.022<0.05$. Interest rate had a significant effect on financial performance of commercial banks in Kenya $p=0.002$.

4.5 Discussion of the Findings

From correlation analysis, there was a direct relationship between number of suspicious transactions and financial performance of commercial banks in Kenya ($r=0.150$, $p=0.042<0.05$). Regression analysis indicated that number of suspicious transactions had a significant influence on financial performance of commercial banks in Kenya $p=0.022<0.05$. According to Ogbodo and Mieseigha (2013) money laundering highly undermine legitimate businesses especially those in private sector because the money launderers set up businesses not for making profits but cleaning their ill-gotten wealth.

The study established an inverse relationship between AML implementation cost and financial performance of commercial banks ($r=-0.305$; $p=0.035$). From regression analysis, AML implementation costs significantly affected financial performance of commercial banks $p=0.022<0.05$. This finding is in line with Aluko (2012) who studied how money laundering had affected economic, financial stability and political development of developing countries and appreciated the global nature of ML and how it has negatively affected financial systems in different parts of the world.

The findings of the study indicated that a strong positive relationship between interest rate and financial performance of commercial banks ($r=0.510$, $p=0.090$). From regression analysis, interest rate had a significant effect on financial performance of commercial banks in Kenya $p=0.002$. Interest rate as a macroeconomic variable is highly

associated with inflation, such that an increase in inflation increases the real interest rate of loans charged by commercial banks as compared to nominal interest rates. This affects financial performance of commercial banks. This argument is supported by the seminal work of Fama (1981) where it was established that there exists a negative correlation between inflation and anticipated activity in a stock market.

The study established an inverse relationship between inflation and financial performance of commercial banks ($r=-0.177$, $p=0.583$). In regard of significance at 5% level of significance, inflation had insignificant influence on financial performance of commercial banks $p=0.187>0.05$. In practice, one would expect inflation to have a significant influence on financial performance. Generally, an increase in inflationary pressure increases prices of goods and this reduces the purchasing behavior of consumers which reduce sales revenues of the organization and therefore financial performance. According to Sharma and Mahendru (2010), when inflation rises, the general price of commodities in an economy increase. It is this rise on price of goods that reduces the purchasing power of consumers.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The researcher summarizes the findings of the analyzed data in this chapter. The summarized findings are used for generating conclusions. The key findings of the study are used for making necessary recommendations for policy makers. The chapter further contains the limitations of the study besides suggestions for further studies.

5.2 Summary of the Findings

The study established a direct relationship between number of suspicious transactions and financial performance of commercial banks in Kenya ($r=0.150$, $p=0.042<0.05$). This show as the number of suspicious transactions increase, financial performance of commercial banks in Kenya is also enhanced. These findings however contradict regression analysis where an inverse relationship was established between number of suspicious transactions and financial performance of commercial banks in Kenya. In view of significance at 5%, number of suspicious transactions had a significant influence on financial performance of commercial banks in Kenya $p=0.022<0.05$.

There was an inverse relationship between AML implementation cost and financial performance of commercial banks ($r=-0.305$; $p=0.035$). This correlation analysis was in agreement with regression analysis that similarly established an inverse relationship between AML implementation cost and financial performance of commercial banks. At

5% level of significance, the study revealed that the AML implementation costs significantly affected financial performance of commercial banks $p=0.022<0.05$.

The findings of the study indicated a strong positive relationship between interest rate and financial performance of commercial banks ($r=0.510$, $p=0.090$). This showed that an increase in interest rates enhances financial performance of commercial banks. In practice, this finding only holds when the interest rate in reference is on borrowings as compared to deposits. At 5% level of significance, interest rate had a significant effect on financial performance of commercial banks in Kenya $p=0.002$.

On inflation, correlation analysis indicated a negative relationship between inflation and financial performance of commercial banks ($r=-0.177$, $p=0.583$). This indicates presence of an inverse but insignificant influence of inflation on financial performance of commercial banks in Kenya. This correlation results were confirmed by regression analysis where $p=0.187>0.05$.

5.3 Conclusion

The study concludes that increase number of suspicious transactions can either increase or decrease financial performance of commercial banks. However, suspicious transactions can only be detected when the intention or rather reasons as to why people engage in such crimes are clearly identified. This argument is supported by the Fraud Triangle Theory by Cressey in the year (1987).

There is an inverse relationship between AML implementation cost and financial performance of commercial banks showing that a decrease in AML implementation cost strengthens financial performance of commercial banks. AML implementation costs are like normal costs of the business which when compared with operating margin and revenues may result into losses to a financial institution.

There is a positive relationship between interest rate and financial performance of commercial banks; an indication that increases in interest rates improves financial performance of commercial banks. Commercial banks charge interest on loans they give to customers and the deposits they receive from clients. Whenever the lending interest rate increase, the institution stands to gain and therefore improved financial performance.

There was an inverse relationship between inflation and financial performance of commercial banks. The relationship was however insignificant. Practically, an increase in inflation results into reduction in financial performance as the general prices of goods would have increased reducing purchasing power of consumers and therefore sales revenue.

5.4 Recommendations for Policy and Practice

The study recommends that management team of all commercial banks in Kenya should massively invest in technology for detecting and identifying suspicious transactions as that shall enhance their financial performance.

The regulators need to financially support implementations of AML that manage risks in commercial banks operating in Kenya. There should be a clear risk reporting framework that guides these financial institutions.

The central bank of Kenya together with other regulatory bodies like the Capital Market Authority CMA should cooperate to establish proper monetary and fiscal policies to regulate the level of inflation and interest rates in the economy.

5.5 Limitations of the Study

Most of the data analyzed in this study was secondary in nature collected from various reports and publications. Collection of secondary data was challenging as some years had completely missing information which was collected from international records as opposed to local sources.

The researcher overcame this by using only available data; variables that had no sufficient data were dropped. It was not practically impossible to collect data on all the 44 commercial banks for the entire period of time due to financial and time constraints. To overcome this, the researcher adopted annual data on the variables of the study.

5.6 Suggestions for Further Study

The current study was conducted covering all commercial banks; future studies should target listed commercial banks, foreign commercial banks or even microfinance institutions. The main source of data collection in the current study was data collection

sheet, substitutions of these data collection methods can be done in future studies. The current study established that anti-money laundering risk management only contribute to 72% of financial performance of commercial banks in Kenya; future studies should cover the remaining factors that affect financial performance of commercial banks in Kenya. Further studies may be conducted among Money transfer providers and forex bureaus because of their key involvement in international money transfer. This will help deal with other providers in the wider financial sector.

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APPENDICES

APPENDIX 1: DATA COLLECTION SHEET

Year	Return on Assets	Number of Suspicious transactions	Interest Rate (Lending Rate)	Inflation (CPI)	Costs of Implementing AML
2005					
2006					
2007					
2008					
2009					
2010					
2011					
2012					
2013					
2014					
2015					
2016					

APPENDIX II: LIST OF COMMERCIAL BANKS IN KENYA

1. African Banking Corporation Ltd.
2. Bank of Africa Kenya Ltd.
3. Bank of Baroda (K) Ltd.
4. Bank of India
5. Barclays Bank of Kenya Ltd.
6. Stanbic Bank Ltd.
7. Charter house bank Ltd –Under Statutory Management
8. Chase Bank (K) Ltd.
9. Citibank N.A. Kenya
10. Commercial Bank of Africa Ltd.
11. Consolidated Bank of Kenya Ltd
12. Co-operative Bank of Kenya Ltd.
13. Credit Bank Ltd.
14. Development Bank of Kenya Ltd.
15. Diamond Trust Bank of Kenya Ltd.
16. Ecobank Kenya Ltd.
17. Equatorial Commercial Bank Ltd.
18. Equity Bank Ltd.
19. Family Bank Ltd
20. Fidelity Commercial Bank Ltd.
21. Fina Bank Ltd.
22. First Community Bank Ltd
23. Giro Commercial Bank Ltd
24. Guardian Bank Ltd
25. Gulf African Bank Ltd
26. Habib Bank A.G. Zurich
27. Habib Bank Ltd.
28. Imperial Bank Ltd
29. I & M Bank Ltd
30. Jamii Bora Bank Ltd
31. KCB Kenya Ltd.
32. Middle East Bank Kenya Ltd
33. National Bank of Kenya Ltd
34. NIC Bank Ltd
35. M-Oriental Bank Ltd
36. Paramount Universal Bank Ltd
37. Prime Bank Ltd
38. Standard Chartered Bank of Kenya Ltd

39. Sidian Bank Limited
40. Transnational Bank Ltd.
41. UBA Kenya Bank Ltd
42. Victoria Commercial Bank Ltd

Source: (Central Bank of Kenya, 2017)