UNIVERSITI TEKNOLOGI MARA

ANTI-MONEY LAUNDERING REGULATIONS IN FINANCIAL INSTITUTIONS OF PAKISTAN: A STUDY OF CUSTOMER DUE DILIGENCE

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ABSTRACT

After 9/11, there has been an increase in money laundering/terrorist financing (ML/TF) crimes across the globe. As a result, the Financial Action Task Force (FATF) Recommendations were introduced to enable jurisdictions to control these criminal activities domestically and internationally. The FATF Recommendations were established as a tool for identifying, monitoring, combating and controlling ML activities. In compliance with Recommendations 10, each jurisdiction requires establishing a robust mechanism for customer due diligence (CDD) before offering financial services to clients. However, Financial Institutes (FIs) performance is not satisfactory on the CDD front, evident by the regulator's massive penalties on FIs. On the same grounds, Pakistani FIs with an international presence faced penalties by foreign regulators and closed their branches. This study examines the effectiveness of the existing anti-money laundering (AML) regime, including compliance with the FATF Recommendations, legislations and practices developed by concerned national authorities and adopted by FIs. In addition, this study aims to investigate the challenges faced by FIs in compliance with Recommendation 10 within the Pakistani financial architecture. Discussing these aims is essential as limited previous research exclusively examines the adherence of Pakistan and its FIs to the International Standards. This study employed a qualitative research technique, and the data was collected through semi-structured interviews with 25 respondents. These include the compliance officers from FIs (Banking and Non-banking), their regulators, and premier law enforcement agency. To assess the challenges faced in developing AML legislation, financial regulation concerning AML (especially concerning CDD), and challenges in the robust implementation of ML measures. The study's findings show that robust implementation without customization of international recommendations is not practical. It resulted in distrust among Pakistan and the international community and caused Pakistan's time and again placement on the Grey List of the FATF. Further, the study found Macro-level challenges of CDD beyond the control of FIs like the undocumented economy, unregistered business concerns, dubious role of regulators, and lack of political commitment in the development of required AML legislation. The technical challenges include the cost of IT infrastructure, name screening, tracing of mailing address, unrealistic business targets, the ownership structure, cumbersome process of CDD, lack of practical training, difficulties in the verification of provided information and establishing banking relations with clients are the significant hurdles in robust implementation of CDD measures. The study provides practical suggestions that could significantly and positively contribute to developing an overall robust AML regime and implementing preventive measures in FIs of Pakistan.

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