

UNIVERSITI TEKNOLOGI MARA

**THE EFFECTS OF INDIVIDUAL,
CONTEXTUAL AND
ENVIRONMENTAL FACTORS ON
JUDGMENT AND DECISION-
MAKING OF ANTI-MONEY
LAUNDERING COMPLIANCE
OFFICERS**

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Thesis submitted in fulfillment
of the requirements for the degree of
Doctor of Philosophy
(Financial Criminology)

Accounting Research Institute

September 2022

ABSTRACT

Banking institutions and money service businesses (MSBs) are the most vulnerable financial sector to money laundering. Bank Negara Malaysia (BNM) stated the findings of minor to major gaps in the banking institutions' anti-money laundering (AML) compliance programme and risk management activities, emphasizing the quality of suspicious transaction reports in National Risk Assessment (NRA). The compliance officer has the sole discretion to report suspicious transactions to BNM's Financial Intelligence and Enforcement Department (FIED). It denotes that compliance officer's sound judgment and decision-making are critical in the battle against money laundering. This study addresses the above gaps by examining the effects of the compliance officers' individual, contextual and environmental factors at banking institutions and MSBs. Moreover, with the existing scarcity of money laundering related behavioural studies, this study is justified for narrowing the research gaps. This study examines the three-component factors that could influence the compliance officers' judgment and decision-making in money laundering risk according to behavioural decision theory, Bonner's judgment and decision-making framework, and Diagnostic Cognitive Modelling (DiaCoM) framework. This study utilizes two prongs, a survey, and a between-subject quasi-experimental research design, to present a holistic view of money laundering risk judgment and decision-making. Given the circumstances surrounding money laundering risk, combining these two sub-studies provides robust findings. This study intended to find the impact of individual, contextual and environmental factors on the judgment and decision-making of compliance officers. The data were analysed using Partial Least Squares of Structural Equation Modelling on 101 and 124 cleaned data for Study One and Study Two. In Study One, results of the study suggest that individual characteristic (knowledge sharing) is vital in influencing the performance of money laundering risk judgment directly or indirectly. Study One shows that some correlations between knowledge sharing, and money laundering risk judgment are mediated by contextual characteristics (risk-based approach). However, results show that the environmental component (ethical environment) moderates the link between knowledge sharing and money laundering risk judgment. Study Two, which experimentally employs the diagnostic cognitive modeling framework (DiaCom) in the case studies, confirms no direct effect of individual factors (technical competency) on money laundering decision-making without prior assessment and judgment. Study Two also provides further evidence that shows the direct effects of contextual factors (customer risk profiling) and moderation effects of environmental factors (law enforcement) on the relationship between customer risk profiling and money laundering risk decision-making. Study Two concludes by imposing stricter law enforcement on reporting institutions, their compliance officers will make tougher decision-making on customers with low-risk profiles than when law enforcement is lenient. This study contributes to the current body of knowledge on money laundering risk judgment and decision-making by validating the theoretical foundation's underlying behavioural judgment and decision-making. The originality of the research appears from the Money Laundering Diagnostic Thinking (MoLDiT) Model developed to combine all the three elements of individual, contextual and environmental characteristics towards money laundering risk judgment and decision-making. However, the study has several limitations that should be covered by future research in terms of the population, research techniques, methodology, scope of research and theory.

ACKNOWLEDGEMENT

In the name of Allah, the Most Gracious and the Most Merciful.

All praises and blessings to Allah for the successful completion of this thesis. I am grateful to Allah for all the opportunities, hardships, and strength bestowed upon me to complete the thesis. I gained a great deal of knowledge and experience during this process, both academically and personally. My sincere gratitude to the holy Prophet Muhammad (Peace be upon him), whose life has served as a constant source of inspiration for me.

First and foremost, I would like to express my gratitude to my supervisor, Prof. Dr Zuraidah Mohd Sanusi, for her direction, patience, and most importantly, positive encouragement and a warm heart in helping me complete this thesis. Having her as my supervisor has been an absolute joy and honour. Not to forget my co-supervisors, Dr Yusarina Mat Isa and Dr Najihah Marha Yaacob, who are always willing to ease my difficulties and always support me to keep the grit and sustain the perseverance to complete this journey.

My heartfelt gratitude extends to all members of my family. Without their assistance, I would not be able to complete this thesis. To my beloved husband, Syafeq Moazari Sukeri, my precious children; Aufa Hannani, Akief Muhaimin, Aisyah Imaani and Alia Rumaysa, I could not thank enough for all the sacrifices, understanding, chaos and every hurdle that we have gone through together. My father, Dr Hj Jamil Bin Adimin, the person behind my first inspiration towards pursuing my studies until PhD, my mother, Hjh Saadah Bahrudin, parents-in law, Hj Sukeri Bin Miskon and Hjh Bedah Rasidi, and siblings, all the continuous prayers and supports mean a lot to keep pushing my limit to strive further until completion.

I'd like to express my gratitude to all my dear friends who have stood by me and supported me through thick and thin. I'd like to express my appreciation to my PhD management coach, Dr Khairul Nizam (Dr Rokat) and the whole team of 2M World as well as the whole bunch of Platinum Dr Rokat. May Allah bestow upon the entire Dr Rokat family and Platinum members. Thank you for everything. I would not be able to expedite my progress without being a platinum member. I'd like to thank the administrative staff at the Universiti Teknologi MARA, particularly Prof Jamaliah, Dr Eley, Dr Norhayati, Dr Intan Salwani, Ms Azizah Hamzah, Miss Farina, for their assistance and administrative tasks.

Last but not least, to Hj Amarul Hanif Bin Harun, Hj Harun and Hjh Rakiah, Directors of my current company I work with. They have my heartfelt gratitude for the flexible hours, the continuous support, and great understanding.

May God bless the individuals mentioned above with success and honour throughout their lives.

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