

Bridging the Compliance Gap: A Literature Review on Money Laundering Challenges and the Role of Frontline Officers in Malaysian Commercial Banks

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Abstract: *Money laundering remains a pressing concern in the financial sector, especially within commercial banks. Despite the presence of detailed regulatory frameworks such as the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 and the Financial Services Act 2013, many financial institutions still face considerable penalties for failing to comply. This paper offers a thorough review of the existing research on money laundering in Malaysia, focusing on key cases, regulatory measures and the challenges faced by institutions. A notable gap exists between following policies and the actual awareness of frontline bank officers, who act as the first point of contact with customers. Although Malaysia has made progress in strengthening its anti-money laundering system, research remains limited regarding how prepared and effective these officers are. The paper emphasizes the need for targeted training, improved internal controls and clearer instructions from regulators to help detect and report suspicious transactions more effectively. To protect the integrity of Malaysia's financial system and sustain public trust, it concludes with suggestions for enhancing the role of frontline personnel.*

Keywords: Money laundering, Commercial banks, Frontliner Officers, Malaysia

1. Introduction

When former Prime Minister Datuk Seri Najib Razak underwent prosecution for involvement in illegal financial activities linked to one of Malaysia's sovereign funds, public focus shifted strongly toward the issue of money laundering in the country. After a prolonged legal process, the courts sentenced Najib Razak to 12 years in prison. Authorities also imposed a fine of Malaysian Ringgit (MYR) 210 million for diverting MYR42 million from SRC International funds (New Straits Times, 2020). Of the total sentence, offences connected to money laundering accounted for a 10-year prison term. In response, Bank Negara Malaysia (BNM) penalized AMMB Holdings Berhad (AmBank) for failing to report suspicious transactions related to Najib Razak's accounts. These accounts' activities remained unreported from their opening until closure. For violating Section 234 of the Financial Services Act 2013 and Section 245 of the Islamic Financial Services Act 2013, which apply to both AmBank and AmBank Islamic, the bank received a fine of MYR53.7 million.

Subsequently, the Ministry of Finance announced that AmBank agreed to a global settlement of MYR2.83 billion. This settlement addressed all claims and legal actions connected to the money laundering scandal. In a separate case that drew national attention, Syed Saddiq Syed Abdul Rahman—the youngest Member of Parliament and former Youth and Sports Minister—faced charges related to money laundering. Accused of assisting a colleague who held MYR1 million belonging to their political party, he was charged under Section 406 of the Penal Code for criminal breach of trust. The alleged misconduct reportedly occurred at CIMB Bank Berhad (CIMB).

Moreover, Syed Saddiq faced accusations of diverting MYR120,000 from the party’s bank account by instructing his colleague to dispose of those funds. Two counts of money laundering involved him further; he reportedly transferred MYR50,000 twice into his personal unit trust account. Like Najib Razak, Syed Saddiq endured a lengthy judicial process. The High Court finally found him guilty on all charges, sentencing him to seven years in prison and two strokes of the cane. Following these high-profile convictions, commercial banks in Malaysia faced public demands to act firmly against money laundering and financial wrongdoing. Despite this, several later cases have surfaced, resulting in substantial fines levied on financial institutions.

Table 1: Enforcement Actions taken by BNM against Regulatees and Licensees.

Date	Bank/Regulatees	Nature of Offence	Action Taken
14 January 2019	J.P Morgan Chase Bank Berhad	Failure to comply with single counterparty exposure limit.	Administrative Monetary Penalty of MYR2,700,000.
22 February 2019	CIMB Islamic Bank Berhad	Failure to comply with standard issued by the Bank.	Administrative Monetary Penalty of MYR1,700,000.
22 February 2019	CIMB Bank Berhad	Failure to comply with standard issued by the Bank.	Administrative Monetary Penalty of MYR3,400,000.
1 March 2019	Wawasan Ilham (M) Sdn Bhd	Failure to conduct customer due diligence.	Administrative Monetary Penalty of MYR12,600.
12 April 2022	Mandiri International Remittance Sdn Bhd	Failure to identify and verify the beneficial owners for the remittance transactions.	Administrative Monetary Penalty of MYR134,400.
7 October 2022	Takaful Ikhlas Family Berhad	Failure to conduct sanction screening.	Administrative Monetary Penalty of MYR612,000.
14 November 2022	MCIS Insurance Berhad	Failure to conduct sanctions screening prior to onboarding of new customer.	Administrative Monetary Penalty of MYR132,000.
29 December 2022	MPI Generali Insurans Berhad	Failure to conduct sanctions screening prior to onboarding of new customer.	Administrative Monetary Penalty of MYR260,000.
18 May 2023	TNG Digital Sdn Bhd	Failure to conduct sanctions screening on the names of its customers.	Administrative Monetary Penalty of MYR600,000.
29 January 2024	Habib Jewels Sdn Bhd	Failure to promptly submit suspicious transaction reports.	Compound of MYR96,250.
28 August 2024	BSB Darussalam Sdn Bhd	Failure to conduct customer due diligence.	Administrative Monetary Penalty of MYR30,600.
28 August 2024	Worldwide Superstar Money Changer Sdn Bhd	Failure to conduct customer due diligence.	Administrative Monetary Penalty of MYR51,000.
3 September 2024	Bank Pertanian Malaysia Berhad	Failure to conduct timely sanctions screening on its customer and beneficial owner.	Administrative Monetary Penalty of MYR660,000.

18 November 2024	Ambank (M) Berhad	Failure to comply with the direction to financial institution.	Compound of MYR875,000
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Source: Bank Negara Malaysia

Table 1 presents a list of financial institutions, both regulated and licensed, that courts have convicted and BNM has fined over the last seven years. The list excludes cases still under investigation or currently before the courts. Despite several notable prosecutions and ongoing regulatory reviews, these examples indicate continuing lapses by financial institutions in following the regulations. In particular, violations of the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 (AMLATFPUAA 2001) and the Financial Services Act 2013 (FSA 2013) remain common. As a result, these institutions have faced substantial fines and penalties. Ultimately, shareholders of these institutions absorb the financial losses.

On this basis, the paper aims to review the current literature on money laundering in Malaysia, focusing mainly on the roles financial institutions play in handling regulatory challenges. The study aims to raise awareness among policymakers and regulatory agencies, especially BNM, by highlighting repeated compliance failures and operational weaknesses. The objective involves identifying practical approaches to strengthen institutional practices, reduce the risks of non-compliance and ease financial penalties that affect shareholder value. Specifically, the research focuses on how commercial banks can improve frontline compliance, enhance readiness and better align their operations with changing regulatory requirements.

2. Literature Review

Concealing the origins of illegally obtained funds to make them appear lawful forms the core of money laundering. This process usually unfolds in several stages. At first, offenders introduce illicit money into the financial system. Then, they move these funds to obscure their source. Finally, the money enters the economy through legitimate channels, as shown in Figure 1.

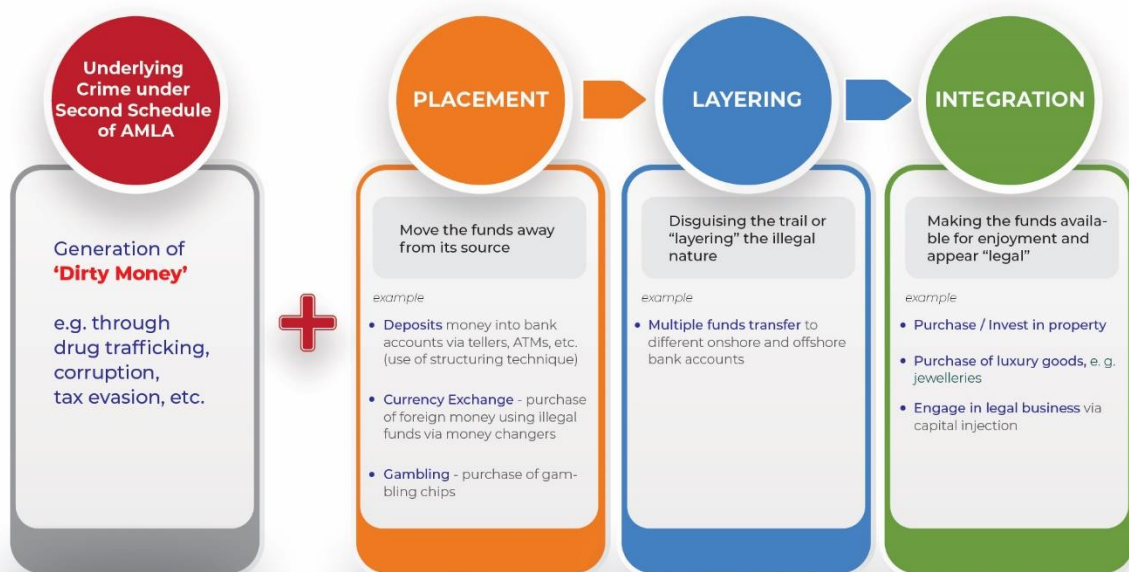


Figure 1: Process of Money Laundering

Different motives, funding sources and operational methods distinguish terrorism financing and proliferation financing from money laundering (Freeman, 2016). Understanding these distinctions is essential for developing effective countermeasures within the financial sector. Mainly, money laundering seeks to hide illegal origins and reintroduce the proceeds as lawful assets. In contrast, terrorism financing arises from ideological goals supporting actions meant to spread fear or weaken legitimate governments. Meanwhile, proliferation financing focuses on acquiring and distributing weapons of mass destruction and their components, often involving international networks (Levi, 2010).

The sources of funding vary greatly among these crimes. Money laundering relies solely on illicit funds derived from criminal activities. Terrorism financing, however, draws from both legal and illegal origins, including donations, business revenues, sponsorships as well as criminal gains. This mixture of lawful and unlawful sources complicates efforts to detect it. Similarly, proliferation financing involves both legitimate and illicit channels, sometimes using financial service providers, which further hinders monitoring and control attempts (Wirtz, 2009). Preferences also differ regarding the financial channels used. Money launderers commonly target formal financial systems, although some exploit informal networks like the Hawala system (De Goede, 2003; Razavy, 2005). This system uses trust-based money transfers that avoid traditional banks. Historically, terrorist financiers depended on informal systems such as Hawala.

However, they are shifting toward formal financial platforms, particularly internet-based tools, for recruiting members, fundraising and transferring funds. This shift complicates efforts to detect and intervene. Distinct differences also appear when examining the outcomes of these financial flows. Criminals recover cleansed funds through money laundering. In contrast, terrorism financing supports terrorist groups and their operations. Proliferation financing mainly uses formal financial systems to arrange the purchase and international transport of weapons of mass destruction or their parts, often involving complex operations across several countries. Although their concepts and operations differ, money laundering, terrorism financing and proliferation financing all use both formal and informal financial systems to move money. This overlap creates considerable challenges for financial institutions and regulators aiming to detect and stop these crimes. The complex and often linked methods used to hide the origin, purpose and destination of funds require a thorough and coordinated response from the global financial community.

Under Malaysia's national laws, money laundering is a serious offence. Institutions and individuals bear responsibility for remaining vigilant, reporting suspicious transactions and ensuring regulatory compliance to help block illicit activities. Since the US Pentagon identified Malaysia as a transit country for terrorist funds becoming legitimate, Shanmugam et al. (2003) and Shanmugam (2004) reported cases involving Hawala and money laundering within the country. They recommend enhancing international cooperation, establishing proper systems for handling suspicious reports, encouraging a compliance culture among financial institutions, strictly enforcing bank-licensing rules and investing in new technology. International trade poses specific money laundering risks in Malaysia, as Thanasegaran and Shanmugam (2007) noted. Criminals use techniques like mispricing, multiple invoicing, false descriptions and irregular shipments. However, Malaysia's lack of data and transparency limits deeper investigation into these practices. The researchers call for increased awareness among Malaysian authorities, better identification of trade-based money laundering and stronger international collaboration. Malaysia has taken proactive steps to address money laundering and terrorism financing, including passing the AML Act 2001, creating the Financial

Intelligence Unit at BNM and establishing the Southeast Asia Regional Centre for Counter-Terrorism, as emphasized by Shanmugam and Thanasegaran (2008). Cooperation with international agencies and enforcing reporting requirements among professionals such as accountants and lawyers remain essential.

The researchers further emphasize Malaysia's need to keep improving its efforts, especially against emerging threats like cyber-enabled laundering. Investing in enhanced monitoring systems and AML training within financial institutions is critical to adapting to changing risks. Analyzing money laundering cases investigated by BNM, Muhammad and Ahmad (2012) found that illegal deposit-taking accounted for most cases, with company directors as the main group charged. However, only about half of these investigations resulted in court charges. They suggest that BNM explore other predicate offences and apply the concept of "irresistible inference" to strengthen prosecution efforts. Focusing on suspicious transaction reporting by banks, Rahman (2013) identified its considerable impact on Malaysian banking operations. The study recommends building strong coordination among legislators, regulators as well as the banking sector to minimize challenges and ensure effective implementation of the regime. Highlighting regulatory effectiveness, Huang et al. (2013) argue that authorities must improve AML and related regulations to boost competitiveness and reputation. They point out that enforcement and reporting agencies play a critical role before any increase in regulatory levels. Since money laundering affects national performance, this remains essential. For instance, Nugraha (2013) observed that money laundering cases notably influenced the establishment of Financial Intelligence Units and the inflow of foreign direct investment in ASEAN countries. Therefore, strengthening AML effectiveness should prioritize legal enforcement alongside Malaysia's economic reputation and investor attraction. Recognizing the need for strong anti-money laundering enforcement to protect financial integrity and support regional competitiveness remains important for Malaysia. In line with this, BNM requires comprehensive AML training for all regulated entities and financial institutions' staff. This measure aims to raise awareness, enhance detection skills and prepare frontline personnel to identify and prevent money laundering within the financial system effectively.

3. Role of Compliance

In protecting reporting institutions from improper use of their financial systems—such as money laundering, terrorism financing or proliferation financing—the role of the AML compliance officer remains essential (Bello, 2017). Acting as the institution's main contact for AML, Countering the Financing of Terrorism (CFT) and Targeted Financial Sanctions (TFS), the compliance officer must hold adequate standing, authority and seniority within the organization. Only with such status can they participate actively in and influence decisions related to AML, CFT and TFS. The compliance officer, required to be fit and proper, represents probity, personal integrity, reputation, competence as well as capability, allowing effective execution of AML, CFT and TFS responsibilities (Freeman, 2007).

Keeping up with emerging trends in money laundering, terrorist financing, proliferation financing and changes in AML, CFT as well as TFS measures calls for sufficient knowledge and expertise from this officer. Balancing compliance obligations with business operations also falls within the compliance officer's remit. Maintaining profitability while meeting regulatory requirements reflects their role's complexity (Pacella, 2019). They must report suspicious transactions to the Financial Intelligence and Enforcement Division (FIED). Reporting Institutions are required to nominate their compliance officer for approval by FIED and BNM. Once approved, the officer must stay actively engaged by regularly visiting branches and head

office departments, liaising with regulators and resolving compliance issues. A compliance officer with a strong academic background and relevant experience can better resist pressures from criminal activity, thereby strengthening institutional policies and systems to reduce AML, CFT and TFS risks (Ozioko, 2024).

Moreover, fulfilling regulatory expectations helps avoid penalties that could harm the Reporting Institution's profitability and growth. Within a financial institution, the compliance officer takes on a central role in combating money laundering, as required by AMLATFPUAA 2001 or FSA 2013. Their main tasks include developing and applying AML policies, monitoring transactions for suspicious actions, training staff on AML procedures and reporting suspicious activities to authorities (Zolkafllil et al., 2019; Oztas et al., 2024). Acting as an internal safeguard, this role supports regulatory compliance and protects the financial system's integrity. Despite the compliance officer's importance, limited studies have specifically examined their oversight of AML efforts. A survey by Pok et al. (2014) among Malaysian compliance officers explored their awareness of AML risks and duties. It showed that banks mainly adopted AMLATFPUAA 2001 or FSA 2013 to avoid penalties, improve brand reputation and enhance customer views. However, many officers regarded AML regulations as ineffective for deterring and detecting money laundering, expressing similar doubts about terrorism financing.

The study also highlighted differences between Islamic and conventional banks. Officers in Islamic banks emphasized customer due diligence as the main benefit, while those in conventional banks pointed to fraud reduction as the primary advantage. In Italy, a detailed study by Gara et al. (2019) examined how AML inspections influenced banks' reporting of suspicious transactions. Using extensive data from the Bank of Italy and the Financial Intelligence Unit (UIF) along with a difference-in-differences method, the authors found that inspections, especially those followed by regulatory actions, increased both the number and quality of suspicious transaction reports. Addressing concerns about excessive low-quality reporting, these results suggest that regulatory scrutiny improves compliance in both quantity and standard. Similarly, Alomari (2020) investigated how the compliance unit mediates between e-government initiatives and AML efforts at the Central Bank of Jordan. Surveying 142 randomly selected employees using AMOS, the study identified a significant mediating role for the compliance unit and a direct positive impact of e-government on AML outcomes. The authors recommended structured compliance plans to encourage employee commitment to AML principles across all levels of the organization. Further analysis by Gara and Pauselli (2020) assessed bank compliance in submitting Suspicious Transaction Reports (STRs) through an econometric model using data from Italian banks across provincial districts. Including variables representing banking activity, local money laundering risk and economic conditions, their model identified banks likely under-reporting, helping to focus regulatory inspections. Although the study recognized the risk of over-reporting due to fear of sanctions, it found no clear evidence that this led to excessive low-quality reports.

In the United Kingdom, Ball et al. (2020) explored organizational tensions caused by mandatory data sharing between financial institutions and public authorities under AML regulations. Their work showed that government data demands significantly influenced banks' business priorities, client relationships and internal processes. Compliance requirements reshaped organizational structures, creating conflicts between commercial goals and regulatory duties. Highlighting the need to study information flows, the authors proposed a multi-level approach for deeper understanding of regulatory effects.

In the context of China, Minchao et al. (2022) surveyed 608 AML employees from commercial banks to identify internal factors affecting AML task performance. Applying goal-setting theory and structural equation modeling, the study revealed that clear and challenging goals improved employee performance. Feedback emerged as a key mediator, stressing the need to integrate it into internal control systems. The authors concluded that setting clear, demanding AML goals alongside effective communication enhances compliance and reduces employee stress.

In the context of Malaysia, Zakaria et al. (2022) and Zahari et al. (2022) offered insights into AML and counter-terrorism financing (CTF) efforts from different institutional perspectives. Zakaria et al. (2022) examined banking officers' views on AML compliance, stressing regulatory comprehensiveness, training as well as awareness. Drawing on feedback from 56 banks, they found positive links between these factors and perceived compliance, suggesting stronger regulatory frameworks and improved officer skills. In contrast, Zahari et al. (2022) used focus groups with enforcement officers to investigate financial methods used by terrorism-related groups. The study revealed various innovative evasion techniques, confirming prior research on these groups' adaptability. They recommended further studies involving other stakeholders, such as the judiciary, to deepen understanding of Malaysia's CTF challenges.

4. A Critical Gap between Compliance and Frontline Officers

With the increasing number of money laundering cases reported, financial institutions, particularly commercial banks, face immense pressure to enhance their compliance framework. Regulatory fines for non-compliance significantly affect commercial banks' profitability and erode shareholders' confidence (Esther et al., 2021). The threat posed by money laundering to financial institutions is multifaceted, as it exposes them to regulatory penalties, damages their reputation, and undermines trust in the financial system.

Previous research highlights that Malaysia has made commendable steps in enhancing international cooperation, establishing mechanisms for managing suspicious transaction reports, developing a culture of compliance among financial institutions, enforcing stringent bank licensing procedures, and investing in advanced technology. However, a critical gap remains where money launderers may exploit frontline officers in commercial banks. Often stationed at customer-facing counters, these officers may lack the necessary knowledge or understanding of money laundering and financial crimes. This reveals a crucial need to examine their level of awareness and comprehension of AML measures, particularly those directly interacting with customers rather than senior management, who may be detached from daily operations.

Back to the case of Najib Razak and Syed Saddiq Syed Abdul Rahman, the court summoned a number of the bank's frontline officers to testify as witnesses during the trial. This highlights the essential roles that frontline officers serve within the financial system, as they frequently operate as the very first point of contact with customers and occupy a pivotal role in recognising potentially dubious transactions. However, the continued occurrence of money laundering and financial crimes suggests that the role of frontline officers requires further review and reinforcement. Strengthening their awareness, training, and accountability is vital to enhancing the effectiveness of anti-money laundering efforts in financial institutions.

This study identifies a significant need to assess how frontline officers in commercial banks perceive their ability to detect money laundering typologies and comply with anti-money laundering regulations in Malaysia. Financial institutions are central in preventing financial crimes, acting as the primary defence against illicit transactions. For these institutions to be effective, frontline officers must possess adequate knowledge and skills to identify suspicious activities and conduct appropriate risk assessments during customer onboarding.

5. Three Lines of Defence

As money laundering methods continue to grow in sophistication, financial institutions face increasing pressure to remain ahead of these evolving threats. Criminals are exploiting weaknesses in banking systems and regulatory frameworks. This highlights the urgent need for banks to enhance internal controls, improve employee training, and invest in technologies that facilitate detecting and reporting suspicious transactions. These developments have introduced ongoing challenges, especially for commercial banks primarily serving as the initial access point for illicit financial activities.

In addressing these challenges, BNM and government authorities must continuously update their compliance frameworks to match the updates of emerging risks. One strategic approach is applying the Three Lines of Defense model, which was introduced by the Institute of Internal Auditors in 2013. This model provides a practical framework for aligning risk management responsibilities across the various operational levels of an organization. It explicitly defines the functions of business operations, compliance oversight, and internal audit, enabling financial institutions to coordinate and sustain effective risk management practices (Davies & Zhivitskaya, 2018; Hu & Denizkurdu, 2020).

In the context of anti-money laundering enforcement, frontline officers represent the first line of defense within the banking system. These officers include tellers, customer service representatives, operations officers, credit officers, assistant branch managers, and branch managers (Hatzakis et al., 2010). Positioned at the customer-facing level, they are the first to observe potentially suspicious behaviour and are crucial in the early detection and reporting of money laundering activities. Meanwhile, the second line of defense includes compliance officers and departments at various institution levels. Their role is to provide oversight, develop policy guidelines, and ensure that the regulatory requirements are being followed throughout the organization. Finally, the third line of defense is made up of internal audit units, which are responsible for offering independent assurance on the effectiveness of risk management systems and internal controls.

Although all three lines play an essential role in protecting financial institutions, the first line, represented by frontline officers, is especially important. If these employees are inadequately trained, lack experience, or fail to recognize the typologies of money laundering, financial institutions become vulnerable to exploitation. Therefore, strengthening the capacity and awareness of front-line staff is a crucial priority in safeguarding the financial system against illegal activities. Frontline employees must be equipped with up-to-date knowledge and skills to monitor and report suspicious transactions to regulatory bodies. Their understanding of anti-money laundering regulations and typologies is vital to preserving the integrity of Malaysia's financial system and preventing financial crimes from undermining economic stability.

6. Conclusion

The rising number of documented money laundering cases in Malaysia, whether ongoing trials or concluded convictions, shares a common element in that they all occurred within commercial banking institutions. This trend is not surprising, as commercial banks become the preferred channel for laundering illicit funds through various financial instruments such as savings accounts and investment accounts. As these crimes become more frequent and their typologies more complex, regulatory scrutiny has increased. The financial penalties imposed on commercial banks and other reporting institutions have reached significant amounts, adversely affected their profitability and diminishing shareholder confidence. Many such incidents could have been detected or mitigated earlier through vigilant actions by front-line staff.

With the dynamic and constantly evolving nature of money laundering methods, this study emphasizes the importance of evaluating how well-equipped frontline officers are in recognizing suspicious activities and complying with AML procedures. A better understanding of their preparedness can guide future research in formulating actionable recommendations to strengthen training, enhance risk assessments, and refine institutional frameworks within the banking sector.

Although considerable global and domestic progress has been in developing anti-money laundering regimes, the banking sector continues to serve as a significant gateway for the movement of illicit funds. In Malaysia, BNM and other regulatory authorities have introduced various policies and practices to improve institutional compliance. However, a significant gap persists between regulatory requirements and their implementation, especially at the operational level, where human behavior plays a decisive role.

Frontline banking employees such as customer service officers, relationship managers, and onboarding specialists represent the initial layer of protection within a bank's anti-money laundering strategy. These individuals are responsible for customer interactions, verifying documentation, and executing due diligence procedures. Their ability to identify early warning signs of suspicious activity is critical to protecting the financial system's integrity. However, their capacity to perform these tasks is compromised without adequate training and awareness. Despite their pivotal position, academic literature has not sufficiently addressed the role, challenges, and perspectives of frontline officers in combating money laundering. Much of the existing research focuses on institutional compliance and technological advancements, often neglecting the human dimension of anti-money laundering enforcement. This is a significant oversight, as even the most sophisticated systems rely heavily on the knowledge and awareness of the people operating them.

In conclusion, the effectiveness of Malaysia's AML efforts depends not only on regulatory frameworks and technological tools but also on the competence and preparedness of frontline officers. Strengthening their role through targeted training, practical guidance, and ongoing support is essential for enhancing the financial system's resilience and preventing the infiltration of illicit funds.

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