

# The extent to which banks operating in Iraq respond to the anti-money laundering and terrorist financing laws and instructions issued by the Central Bank of Iraq

Dr. Essam Al-Husseini<sup>1</sup>, Dr. Hamdan O. Mansoor<sup>2</sup>, and Ahmed A. Al-Imarah<sup>3</sup>

<sup>1</sup>Esraa College University, Baghdad, Iraq

<sup>2</sup>University of Fallujah, Iraq

<sup>3</sup>University of Kufa, Iraq

Received: 20<sup>th</sup> October 2021

Revised: 15<sup>th</sup> November 2021

Accepted: 27<sup>th</sup> December 2021

---

## 1. The theoretical outline

### 1.1 Introduction

This research is a scientific contribution to reduce the phenomenon of money laundering in Iraq, by studying and measuring the extent of the commitment of banks operating in Iraq to the instructions of the Central Bank of Iraq regarding combating this phenomenon as well as financing terrorism. We will not dwell on the definitions, stages, procedures, methods and dimensions of money laundering, as these are general titles and there is a book for the researcher and other authors who discussed this, and we will focus on what this phenomenon and what it has in the Iraqi environment, this is the field of research.

### 1.2 The definition

The term money laundering means transferring money from illegal sources into regular money, and this is done by introducing “dirty” money into several operations and then making it clean (it is sometimes called “money laundering”). (Oxford 2020)

### 1.3 1-3- Money Laundering in Iraq, a Close Look

- Money laundering was not known and commonplace in Iraq until the beginning of the 2000s, due to the power and centralization of the state and the lack of private (private) banks of significant influence on the economy.

## The extent to which banks operating in Iraq respond to the anti-money laundering and terrorist financing laws and instructions issued by the Central Bank of Iraq

- As for after the year 2003 (and you don't know what happened after it ... !!), Iraq has become a fertile breeding ground for the import of terrorism and an open arena for various crimes that "necessarily" need accompanying the crime of money laundering.
- As for the factors that led to this, they can be summarized as follows: (Al Husseini 2020):
  - The fall of the most powerful dictatorship in the world and the demise of the most powerful central state, and its replacement with democratization and the most fragile state.
  - (2) Iraq's possession of neighboring countries that hate it and desire for it.
  - The arrival of incompetent people to important decision-making positions. All this led to the activity of all forms of crimes in Iraq, and accompanied it by the emergence and growth of money laundering as a crime in support of other crimes.

As for the sources of laundered or needing funds, they can be summarized as follows:

1. Theft of banks and banks after the occupation of Iraq, which formed an early receptacle for the crime of laundering.
2. Money from the theft and smuggling of valuable antiquities, smuggling machinery, machinery, equipment and factories abroad, as well as smuggling oil and its derivatives.
3. Commercial fraud (in all its forms), including forged and forged documentary credits ... and others.
4. Embezzlement, theft, murder, kidnapping, ransom money, etc.
5. Funds allocated for reconstruction, which have been turned into bogus projects and false services.
6. Profits from contraband trade: weapons, drugs, alcohol, sex, gambling ... and others.
7. Bribery, administrative corruption, and profiteering from public office, which turned into frequent daily practices, until the term bribed employee was replaced by the term "beneficiary employee".

### 1.4 Iraq's legal efforts in response to this

- ❖ Resolution No. 15 of the year 19 was the oldest of the legislations in the specialized Iraqi law that dealt with the issue of illegal money in Iraq, as the first paragraph of it stipulated: "Filthy money shall be confiscated, including cash and immovable property whose ownership has devolved illegally to persons and transferred it to others with the intention of evading the rule of law".
- ❖ Iraq has also joined the United Nations Convention 18 (the Vienna Convention to Combat Illicit Traffic in Narcotic Drugs and Psychotropic Substances, in accordance with Law No. 23 / of 1966.
- ❖ Interest in this phenomenon increased clearly after the year 2009, when many matters emerged that necessitated interest in combating it. Therefore, Anti-Money Laundering Law No. 9 of 2004 was issued during the era of the Coalition Provisional Authority, which criminalizes money laundering.
- ❖ Then the Anti-Money Laundering and Terrorism Financing Law No. 39 of 2015 was issued, which is considered one of the most sophisticated and sophisticated laws in this field. It came to address the deficiencies of previous laws and instructions. (Iraqi dorar 2020).

## 1.5 Central bank efforts

The Central Bank is the highest authority responsible for the monetary policy of the country, and it has all the powers that would direct and lead Iraqi banks (governmental and private), as well as foreign banks operating in Iraq, and that its decisions are binding on them, and among its achievements in this field:

### 1.5.1 A Guide to Regulatory Action Requirements (Compliance Guide)

At the beginning of the year 2020, the Central Bank issued a guide to the regulatory work requirements (cbi 2020) in which it dealt with compliance activities related to money laundering and terrorist financing. This guide is considered a platform or roadmap for applications to combat laundering crimes and terrorist financing. The guide is located in twelve chapters with different articles that included all the details of the topic under discussion, starting with the definitions and ending with the penalties and final provisions. This guide is considered a road map and a platform for banks to combat money laundering and terrorist financing.

### 1.5.2 Anti-Money Laundering and Terrorism Financing Law No. 39 of 2015

Among the results of the efforts of the Central Bank of Iraq is the issuance of Law 39 of 2015, which is one of the most developed laws in this field, and it came in a well-studied and integrated form that would address the deficiencies of previous laws and instructions. Among the important articles included in the law are:

- ✓ Establishing a “Council for Combating Money Laundering and Financing Terrorism” in the Central Bank, headed by the Governor of the Central Bank, and with high-level representation by the ministries and competent authorities. Provided that the Council undertakes the following tasks: To formulate policies and programs for combating money laundering, financing of terrorism and financing proliferation of weapons of mass destruction, as well as proposing relevant draft laws, regulations and instructions.
- ✓ Establishing an Office for Combating Money Laundering and Terrorism Financing (headquartered in the Central Bank), at the level of a public department, and its tasks include: Receive reports or information about suspicious operations, then analyze them, then transfer them to the public prosecution to take legal measures in their regard, prepare and submit an annual report to the Council, and exchange information related to combating money laundering and terrorist financing with the relevant authorities in the state and public sector departments and coordinate with them in that matter .
- ✓ The "Control Council" is responsible for drawing up the higher policy, and the "Control Office" is responsible for implementing those policies, and both are under the wing of the Central Bank. Thus, the Central Bank has arrested all the compliance joints for combating money laundering and financing terrorism in Iraqi banks.

## 1.6 Why should banks comply?

Banks are considered one of the most important circles in which money circulates so they move away from their illegal sources, and then they are attached to legitimate sources after a series of transfers between

## **The extent to which banks operating in Iraq respond to the anti-money laundering and terrorist financing laws and instructions issued by the Central Bank of Iraq**

accounts or transfers ..., the use of banks increased in passing the laundering operations with the increase in the use of modern technological methods, means of communication and networks.

Therefore, for all the above, it is imperative that banks comply with anti-money laundering rules, so that banks do not lose their credibility and the confidence that society places on them, and to maintain their rightful position as safe incubators of funds, in other words, banks should remain homes to serve investors and not a place to facilitate the work of criminals.

### **1.7 The research problem**

- Money laundering is a transnational economic crime that has a negative impact on the economy and society as a whole. The international community has spared no effort in setting standards and recommendations that limit this, such as Basel decisions and FATF recommendations, and Iraq - like other countries - has enacted the necessary laws to prevent and deter this crime.
- And upon our study of the laws laid down by Iraq and the instructions laid down by the Central Bank in the form of an integrated work guide, we can conclude: The laws and instructions do not suffer from deficiencies or deficiencies. Nevertheless, the phenomenon of money laundering exists, and terrorism - which necessarily needs financing - also exists. Therefore the researcher summarized the research problem with the following two questions:
  1. How do banks operating in Iraq respond to the instructions to combat money laundering and terrorist financing operations issued by the Central Bank of Iraq?
  2. How effective are the instructions to combat money laundering and terrorist financing operations issued by the Central Bank of Iraq to limit these operations in banks operating in Iraq?

### **1.8 The importance of the research**

The phenomenon of money laundering has recently worsened, as the average volume of money laundered around the world (UN, 2020), the rate for the past five years (2015-2019) reached \$ 2,500 billion, so there is no doubt that the description of money laundering has shifted from describing it with the term "Crime" to be described as "the blight of the times".

As for Iraq, according to official statistics issued by the Iraqi Council of Ministers in 2019, the amount of money whose fate (stolen) is unknown in the last ten years has reached 450 billion dollars! It is logical that money laundering activities accompany this corruption.

This alone gives special importance to this research, which tries - after discussing the implications and reality of money laundering in Iraq - tries to measure the extent of Iraqi banks' compliance with laws and instructions combating money laundering and terrorist financing in Iraq.

### **1.9 Research objective**

This research aims to the following:

1. Take a closer look at the phenomenon of money laundering in Iraq, the instructions of the Central Bank and the laws that prevent (or limit) this phenomenon.
2. Measuring the response of banks operating in Iraq to the instructions to combat money laundering and terrorist financing operations issued by the Central Bank of Iraq.
3. Measuring the effectiveness of these instructions in combating money laundering and terrorist financing operations in banks operating in Iraq.

#### 1.10 Research hypotheses

To answer the two questions that were asked in the research problem, the hypotheses can be formulated in the negative form as follows:

- **The first hypothesis (H01):** The banks operating in Iraq have no response to apply the anti-money laundering and terrorist financing instructions issued by the Central Bank of Iraq.
- **The second hypothesis (H02):** The instructions for combating money laundering and terrorist financing issued by the Central Bank of Iraq to combat money laundering and terrorist financing operations in the banks operating in Iraq are not effective.

#### 1.11 Previous studies

The studies dealing with money laundering and terrorist financing varied globally, and were few at the national level. The following is a review of the most relevant studies.

The study (Abu Olaim and Rahman, 2016) aimed to demonstrate the impact of the Jordanian anti-money laundering law and its instructions on the Jordanian banking system in light of the new developments surrounding Jordan, such as the revolutionary waves known as the Arab Spring, and the accompanying emergence of new means of money transfer affecting the efficiency and speed of bank transfers and the risks it may bear for money laundering and terrorist financing. The research concluded that the Arab Spring, especially the Syrian revolution, increased crime rates and money laundering activities in Jordan, which increased the risks. The research also showed that international cooperation and coordination between countries in the field of combating money laundering is not at the required level, and this is what encouraged money laundering groups to exploit the situation, to do money laundering.

The study (Khrawish, 2014) aimed to study the effect of money laundering operations on the volume of investment in Jordanian financial institutions. The research found that there is a large and negative relationship between money laundering and investment financing, and on the other hand, there is an important and positive relationship between combating money laundering (systems and regulations, control and auditing, training, transfer of funds and investment financing in Jordanian financial institutions, based on a sample of 50 Jordanian financial institutions.

The study (Said and, other 2013) dealt with a set of issues related to the compliance of Malaysian commercial banks approved with instructions to combat money laundering and terrorist financing operations and to assess the current status of the measures taken by these banks. The research, based on 39 compliance officers in the commercial banks surveyed, found that Malaysian commercial banks take their responsibilities in combating money laundering and terrorist financing very seriously. However, the

## **The extent to which banks operating in Iraq respond to the anti-money laundering and terrorist financing laws and instructions issued by the Central Bank of Iraq**

research revealed that there is a big difference between the level of measures and instructions regulating anti-money laundering and financing the terrorism and the actual level of implementation of this instruction by the banks. The research focused on the importance of providing support by senior management to employees and experts and providing the technological infrastructure to ensure the successful implementation of preventive measures to combat money laundering.

The study (Oqab, 2012) aimed to clarify the role of the audit committee in combating money laundering operations through the tasks entrusted to it by evaluating the internal control systems to combat money laundering and terrorist financing operations and to establish the appropriate mechanism to ensure the bank's commitment to the application of anti-money laundering instructions. Through a questionnaire distributed to a sample of (13) Jordanian banks, the results of the research showed that the audit committee contributes to a high degree in combating money laundering operations through its activities in evaluating the internal control system, and the research recommended: The supervisory authorities must oblige banks to prepare a special report on the availability of internal control controls to combat money laundering operations.

A study (Ayodeji and Mahmood, 2012) demonstrated the negative impact of money laundering operations on the volume of financial investment, economic growth and financial stability in different countries, the study also found a positive relationship between corruption and money laundering in most countries. The study recommended the necessity of international cooperation and work together to reduce the negative impacts related to investment financing.

The study (Wang and Musonda, 2011) aimed to evaluate the role of commercial banks in combating money laundering and financing of terrorism in the People's Republic of China during the period 2006-2010 based on the questionnaires and oral interviews directed to these banks, it was found that the evaluation procedures by the People's Bank of China (Central Bank) are not at an effective level, and in many cases they are not evaluated from the ground up. The Chinese Central Bank is satisfied with relying on the results of the review of external auditors, internal policies and procedures, and compliance officers to combat money laundering and terrorist financing operations in the bank.

The study (Natalya 2009) aimed to test the extent of Russian banks and financial institutions' compliance with anti-money laundering and terrorist financing legislation issued by the Russian Financial Institutions Regulatory Authority, based on the available data, and the in-depth of the analytical study of legislation regulating financial institutions (banks), as well as interviews with practitioners and monitoring banking practices. The study showed that Russian financial institutions do not comply with anti-money laundering rules. The research revealed the lack of desire in many cases or the inability of financial institutions to comply with the rules governing money laundering operations and adhere to them.

Likewise, the study (Magnuasson, 2009) was based on interviewing a sample of bank employees in Sweden, and the study showed that there are major deficiencies in the Swedish legal systems that limit money laundering operations, such as that banks do not have the right to freeze funds in suspicious transactions, in addition, the legal sources of the supervisory authorities overseeing the conduct of banking work are insufficient and do not enable them to extend their control over the course of banking operations and take

appropriate legal measures, which indicates legislative inefficiency and their ability to prevent money laundering operations.

The study (Al Ajiz, 2008) aimed to identify the procedures applied in banks operating in the Gaza Strip to control and combat money laundering operations, by studying client verification procedures, internal control, and equipment to combat money laundering operations that include administrative units, and compliance with laws, and the international legislation, training and qualification of employees, where the research community consists of the higher administrations of the branches and departments of the banks operating in the Gaza Strip, which number (14) banks and (34) branches. The research concluded that there is a commitment by banks to refuse to open an account for the customer or to enter into any banking transaction in the event that they do not meet the procedures to identify him, and that banks apply preventive measures to combat money laundering in a good manner, and also concluded that there is a decrease in the amounts allocated in the financial statements for the banks and set aside for employee training and education programs to combat money laundering operations. As for the impact of money laundering and terrorist financing operations on the volume of investment in financial institutions, many studies have agreed on the negative impact of money laundering operations on both the size of the financing investment.

The closest study to the topic of the research is a study (Al mashhadani & Yaoor R., 2012) the role of the internal control system in combating the phenomenon of money laundering by applying it to a sample of private banks in Iraq, by measuring the extent of banks' commitment to follow the instructions issued by the Central Bank of Iraq and the recommendations of the International Financial Action Committee (FATF) and the decisions of the Basle Committee (Basel). The results of the research showed that banks adhere to the procedures included in the recommendations of the International Financial Action Committee, as well as the decisions of the Basel Committee, to a high degree, but the level of their commitment to risk management procedures was weak, especially in the field of classifying customers and identifying the risks related to them, and that the results of adherence to the rules of (Know Your Customer) were good, with some weaknesses represented in the procedures for managing the current accounts of charitable organizations.

What distinguishes this research is the examination of the extent of the response of banks operating in Iraq to the application of the instructions for combating money laundering and terrorist financing operations issued by the Central Bank of Iraq, assessing the effectiveness of these instructions from a practical reality and from the point of view of practitioners and specialists in this regard, and stating their point of view related to these instructions. The other advantage is the time interval (eight years) between it and the nearest Iraqi study related to the same topic - the study above - and the great changes that occurred in the world of civil structures in Iraq during this period.

In addition, to identify the impact of the current security and political conditions that is surrounding the fight against money laundering, and terrorist financing operations in the operating banks in Iraq.

**The extent to which banks operating in Iraq respond to the anti-money laundering and terrorist financing laws and instructions issued by the Central Bank of Iraq**

**2. The practical aspect**

It contains the research methodology and procedures and aims to achieve the objectives of the research and test its hypotheses, as the descriptive and analytical approach was followed, relying on references and (relevant) sources, and by collecting information through the questionnaire, the questionnaire was distributed to branch managers, compliance officials and current account managers who are directly concerned with implementing anti-money laundering and terrorist financing instructions issued by the Central Bank of Iraq.

**2.1. Research community and sample**

The research consists of all the 70 banks operating in Iraq (the 2017 census), distributed as follows: 7 government banks, 24 national commercial banks, 20 private, Islamic banks, and 19 foreign commercial banks operating in Iraq. 63 banks were selected as a random sample, which represents 90% of the study pool, and three questionnaires were distributed in each bank, for each of the compliance officer, the branch manager and the current account manager. Thus, the number of distributed questionnaires was 189, 181 questionnaires were retrieved, and seven were neglected due to the lack of clarity of the answers, thus bringing the number of successful questionnaires to 174 questionnaires that were analyzed. (Table 1 shows the population and the sample of the research).

**2.2. Methods of data collection**

The researcher relied on collecting data related to money laundering and terrorist financing operations, the Central Bank's instructions, and the procedures used by banks to combat these operations, and he relied on a specially designed questionnaire to collect information that is difficult for the researcher to obtain from library sources such as research and studies published in periodicals and scientific journals related to the research topic. The questionnaire was designed based on the theoretical framework, in addition to the Central Bank of Iraq instructions related to combating money laundering and terrorist financing. The questionnaire consisted of two main parts, as follows:

**Table 1: The names of the commercial and Islamic banks operating in Iraq and licensed by the Central Bank of Iraq until March of 2017**

Governmental banks		Private Banks			
1	Rafidain bank	25	Basra International Investment*	50	AL-JANOUB ISLAMIC BANK
2	Rasheed bank	26	Economy for investment and finance	51	ALRAWAHEL ISLAMIC investment and bank
3	Industrial bank of iraq #	27	warka bank for investment & finance	52	AL-Arabiya ISLAMIC bank
4	Agricultural cooperation bank#	28	North bank for financial and investment	53	IRAQ NOOR ISLAMIC BANK
5	Real Estate bank #	29	Union bank of iraq	54	Zain Iraq Islamic Investment and Finance Bank
6	Trade bank of iraq #	30	United bank for investment	55	Islamic International Bank



7	AL NAHRAIN ISLAMIC BANK #	31	Dar Essalaam investment bank	56	Al-Nada Islamic Investment and Finance Bank
Private Banks		32	InterconteentlLebnan	57	Islamic Stationery Bank for Finance and Investment
8	Bank of Baghdad	33	Beirut bank Arabic Cente	58	Islamic Holding Bank for Finance and Investment
9	Commercial bank of Iraq	34	Vakif Ban	59	Islamic International Trust Bank
10	Iraq immodest bank of investment	35	Turkiy Is Bankas 1 A.S	60	Rajeh Islamic Investment and Finance Bank
11	Investment bank of Iraq	36	AUDI BANK	61	Rajeh Islamic Investment and
12	International development bank investment and finance	37	BANQUE LIBANO-FRANCAISE	62	Finance Bank
13	Mosul bank for development and investment	38	Standard Charterer	63	CZIRAAT Bank ASI A.S BAGHDAD BRANCH
14	Babylon bank	39	Blom Ban	64	Byblos bank
15	National bank of iraq	40	Fransbank #	65	Credit libanais
16	Credit bank of iraq	41	Dijlah and furat bank	66	MEA
17	Sumer commercial bank	42	Elaf Islamic bank	67	Bank Melli Iran
18	Gulf commercial bank	43	Iraqi Islamic for investment and Development	68	Parsian bank
19	ASHUR international bank for investment	44	Kurdistan international bank for investment and Development	69	Foreign banks
20	Mansour bank for investment	45	National Islamic bank	70	ABU DHABI Iclamic ban
21	Iraq trans bank	46	Islamic Regional cooperation bank for development and investment	71	ASIA BANK
22	Emerald bank	47	AL Bilad Islamic bank for investment and finance	72	AL-BARAKA TURKATILIMBANKASI A.S
23	Huda bank	48	Cihan bank for Islamic investment and financi		
24	Erbil bank	49	Islamic World bank for finance &Invest		

**The first part:** aims to identify the characteristics of the banks operating in Iraq (type of ownership and activity), in addition to identifying the demographic characteristics of the respondents to the questionnaire questions such as educational level, scientific specialization, and the number of years of experience in the field of banking, especially in the field of monitoring money laundering operations. Where the first part included (9) questions, and phrases from (1-10) were assigned to it in the questionnaire.

## **The extent to which banks operating in Iraq respond to the anti-money laundering and terrorist financing laws and instructions issued by the Central Bank of Iraq**

**The second part:** aims to measure the research hypotheses. This part consists of (20) paragraphs distributed on two axes, as follows:

**The first topic:** It aims to measure the response of banks operating in Iraq to implement the anti-money laundering and terrorist financing instructions issued by the Central Bank of Iraq. This part consisted of (10) paragraphs, and phrases from (11-20) were assigned to it in the questionnaire.

**The second topic:** It aims to measure the effectiveness of anti-money laundering and terrorist financing instructions in banks operating in Iraq. This part consisted of (10) paragraphs, and phrases from 21 to 30 were assigned to it in the questionnaire.

The five-point Likert scale (Strongly Agree, Agree, Neutral, Disagree, Strongly Disagree) was also relied on, and it was distributed to the research community consisting of employees (Branch Manager, Compliance Officer, Current Account Manager) in the banks operating that directly connected by applying the anti-money laundering and terrorist financing instructions issued by the Central Bank of Iraq.

### **2.3. Methods of data analysis**

For the purposes of achieving the research objectives and testing their hypotheses, the data collected from the questionnaires were unloaded and the information collected was tabulated from the viewpoint of the relevant parties. After verifying its reliability, (189) questionnaires were distributed, (181) questionnaires retrieved, and then 174 questionnaires were analyzed (after excluding the invalid ones), these data were analyzed using the "SPSS" statistical analysis software to produce understandable and comparable numerical results. This depends on the statistical methods used in analyzing the data, such as measures of central tendency and measures of dispersion such as arithmetic averages, standard deviations, percentages and frequencies, and the "One Sample t Test" for one sample.

### **2.4 Validity and reliability of the research tool (questionnaire form)**

- ✓ To ensure the reliability of the questionnaire and its ability to achieve the desired goals, it was presented to some faculty members in the Accounting Department / Isra College and the Administration Department / Nahrain University in Baghdad and some practitioners with experience in the field of combating money laundering and terrorist financing, to arbitrate the questionnaire with regard to the way the questions are presented and arranged, in addition to focusing on the clarity of the words and their intended meanings. Accordingly, the researcher made amendments to the paragraphs of the questionnaire based on the observations and amendments recommended by the arbitrators until the questionnaire was drafted in its final form.
- ✓ To measure the reliability of the research tool (Reliability), that is, the internal consistency of the questionnaire questions, Alpha Coefficient Cronbach was used, which measures the percentage of variance of answers and the strength of cohesion between them, this parameter gives the average internal association between the questions measured by the questionnaire. The internal consistency factor of the resolution was calculated using Cronbach's Alpha coefficient for each dimension of the resolution. It was found that the Alpha Cronbach coefficient for the dimensions of anti-money laundering and terrorist financing instructions in banks operating in Iraq combined is (0.856),

which is considered an acceptable percentage, which means that the results of the questionnaire can be approved and that they are reliable in achieving the research objectives.

Table 2 shows Cronbach alpha coefficients for the research dimensions individually and in combination.

**Table 2: Alpha Cronbach coefficients for research dimensions**

Dimensions	Cronbach alpha coefficients	No. of items
The response of banks operating in Iraq to the instructions to combat money laundering and terrorist financing	915	10
The effectiveness of anti-money laundering and terrorist financing instructions in banks operating in Iraq	798	10
Dimensions combined	856	20

## 2.5 Data analysis and hypothesis testing

To analyze the results of the questionnaire, the hypothetical arithmetic mean of (3) was relied on, and it was adopted as a criterion for judging the degree of approval by giving the relative weight of the average answers of the individuals answering the questions of the questionnaire. To test the hypotheses, it was ascertained whether the data follow the normal test distribution, which is a necessary test to test hypotheses, as most of the parameter tests require that the data distribution be normal.

As mentioned previously, the questionnaire consisted of two main parts. The first aims to identify the characteristics of banks operating in Iraq and the demographic characteristics of the respondents to the questionnaire questions. The second part aims to identify the extent of the response of banks operating in Iraq to the instructions to combat money laundering and terrorist financing, and the effectiveness of these instructions. The data analysis and the results of the hypotheses will be presented according to the order of the parts of the questionnaire.

## 2.6 Descriptive analysis of the demographic characteristics of banks operating in Iraq (research sample)

The research complex consists of all 70 banks operating in Iraq (census of 2017), distributed as follows: 6 government banks, 21 national commercial banks, 18 private Islamic banks, and 18 foreign commercial banks operating in Iraq.

63 banks were selected as a random sample, which represents 90% of the study pool. Three questionnaires were distributed in each bank, for each of the compliance officer, the branch manager, and the current account manager. Thus, the number of distributed questionnaires was 189, 181 questionnaires were retrieved, and seven were neglected due to the lack of clarity of the answers, thus bringing the number of successful questionnaires to 174 questionnaires that were analyzed. (Table 1 shows the population and the sample of the research).

The extent to which banks operating in Iraq respond to the anti-money laundering and terrorist financing laws and instructions issued by the Central Bank of Iraq

2.7 Descriptive analysis of the demographic characteristics of the individuals answering the research questions

Table 3 shows the distribution of the research sample according to academic qualification, as the respondents on the questionnaire were divided into four categories, which are diplomas, bachelors, masters and doctorates. Where the research community was limited to employees and managers of compliance departments in banks operating in Iraq, and it became clear that less than (13%) of the respondents have a scientific qualification, "Diploma" and that what percentage (75%) of the respondents have an academic qualification as "Bachelor", this percentage is the highest among the sample groups, and (11%) of the respondents have a scientific qualification as "master", and less than (1%) of the respondents have a scientific qualification as "Doctorate". We noticed that the banks (the research sample) do not hold important professional certificates, such as the Certified Public Accountant Certificate and the Internal Auditor Certificate.

Table 3 shows the distribution of the research sample according to the number of years of experience, as they were distributed into a number of the following categories (from 1-3 years, 4-5 years, 6-10 years, more than 10 years). It is evident from Table 4 that the respondents 'experience is remarkably short, as (14%) of the respondents have more than (10) years of experience. It is evident from Table 4 that the respondents 'experience is remarkably short, as (14%) of the respondents have more than (10) years of experience. And that (21%) of the respondents have (5-10) years of experience, (33%) of the respondents have (1-3) years experience, (32%) of the respondents have (4-5) years of experience, in other words 65% of the respondents have experience ranging between one and five years, and 33% of them are higher than that. In general, this is little experience for such tasks in banks.

Finally, Table 3 shows the distribution of the research sample according to specialization, as the respondents on the questionnaire were divided into four main categories, which are (accounting, financial and banking sciences, business administration, and others, as it turned out that (23%) of the respondents specialized in accounting, (20%) of the respondents specialized in finance and banking, and (30%) of the respondents specialized in business administration, and (27%) of the respondents specialize in various other disciplines such as law and political science, and this may be a bad indicator that the percentage of those outside the specialization (accounting, administrative and banking) constitute a quarter of the respondents and work in Iraqi banks in locations that influence money laundering operations.

**Table 3: Distribution of research personnel in the field of combating money laundering and terrorist financing operations**

No.	Variables	Categories	Repetition	Percent %
1	Educational Degree	Diploma	23	13
		bachelor	130	75
		Master	20	11
		Doctorate	1	1
		<b>Total</b>	<b>174</b>	<b>100.0</b>

2	Years of Experience	1-3 years	57	33
		4-5 years	55	32
		6-10 years	37	21
		10 years and more	25	14
		<b>Total</b>	<b>174</b>	<b>100.0</b>
3	Specialization	<b>Accounting</b>	<b>40</b>	<b>23</b>
		<b>Finance and Banking</b>	<b>35</b>	<b>20</b>
		<b>Business Management</b>	<b>52</b>	<b>30</b>
		<b>Other</b>	<b>47</b>	<b>27</b>
		<b>Total</b>	<b>174</b>	<b>100.0</b>

**Table 4: Arithmetic averages, standard deviations, level of importance and rank of the paragraphs related to measuring the response of banks operating in Iraq to the application of anti-money laundering and terrorist financing instructions issued by the Central Bank of Iraq, arranged in descending order**

Number	Item	Mean	St. Deviation	Level of importance	Rank
11	Is there a specialized policies and procedures for combating money laundering and terrorist financing	3.65	286	High	1
12	Is there a believe that the bank gives a degree of importance to verify the identity of the customer and obtain identification papers for the identity of customers when starting the relationship with them	3.03	378	High	2
17	When new clients fail to submit the supporting documents to the bank after opening the account, are their accounts closed?	2.88	395	High	3
10	The bank is aware of the importance of combating money laundering and terrorist financing	2.02	384	High	4
20	The bank informs the Anti-Money Laundering and Terrorism Financing Unit of the operations that are suspected of money laundering and terrorist financing	1.99	421	High	5
14	The bank checks the source of a client's wealth	1.82	521	High	6
16	The bank performs special due diligence	1.78	508	High	7

**The extent to which banks operating in Iraq respond to the anti-money laundering and terrorist financing laws and instructions issued by the Central Bank of Iraq**

	on unusual customer transactions				
13	The organization gives a degree of importance to updating customer data every two years or when the need arises	1.78	594	High	8
19	The bank has an automated system to monitor customers' movements and their suitability with the size of their economic activity	1.62	732	High	9
18	The bank inquires on the international listings of clients before opening their accounts	1.54	1.066	High	10
15	When the bank is unable to exert due care towards some customers, should the account be opened or banking transactions executed for them	1.21	1.296	Low	11
<b>The response of banks operating in Iraq to implement the anti-money laundering and terrorist financing instructions issued by the Central Bank of Iraq</b>		2.22	0.60	High	

### 2.8 Results of hypothesis testing

To test the research hypotheses, the researcher extracted the arithmetic means and standard deviations of the individuals' answers, for each paragraph of the questionnaire according to the field to which the paragraph belongs. The individuals' answers were divided according to the arithmetic averages into the following categories, in accordance with the five-point Likert scale on which the research questionnaire was based on the following equation:

$$Range\ for\ category = \frac{(Upperbound - Lowerbound)}{No.\ of\ classes} = \frac{5 - 1}{3} = 1.33$$

Accordingly, the level is high if the arithmetic mean is from (3.67) to (5)

The level is average if the arithmetic mean is from (2.34) to (3.66)

The level is low if the arithmetic mean is from (1) to (2.33)

#### 2.8.1 First hypothesis test

HO: There is no response at the banks operating in Iraq to apply the anti-money laundering and terrorist financing instructions issued by the Central Bank of Iraq. Within the second part of the questionnaire, ten questions (starting in sequence 11) indicate the extent to which banks operating in Iraq respond to the Instructions to combat money laundering and terrorist financing issued by the Central Bank of Iraq as follows:

11. When new clients fail to submit supporting documents to banks after opening the account, their accounts will be closed.
12. There is an automated system in banks that monitor customers' movements in proportion to the size of their economic activity.
13. Banks give a degree of importance to updating customer data every two years or when needed.
14. Banks check the source of their clients' wealth.
15. Banks perform special due diligence on unusual transactions for clients.
16. Banks inform the Anti-Money Laundering and Terrorist Financing Unit of the operations that are suspected of money laundering and terrorist financing.
17. Banks are aware of the importance of combating money laundering and terrorist financing.
18. Banks give a degree of importance to verifying an identity.
19. Banks make inquiries on international lists of clients before opening their accounts.
20. Banks have specialized policies and procedures in place to combat money laundering and terrorism.

#### 8.1.1. Arithmetic means and standard deviation

Table 4 shows the arithmetic averages, standard deviations, the level of importance and the rank of the above paragraphs)) and based on the results presented in the table, we note the following:

- ❖ The arithmetic averages are low - in general - for almost all paragraphs, as the average of the arithmetic averages for all paragraphs was 2.22, this indicates the weak commitment of banks to the instructions of the Central Bank and their failure to implement the requirements of combating money laundering. The standard deviation of 0.6 indicates the existence of agreement and harmony among the respondents regarding the paragraphs in general.
- ❖ And the lowest average was with Paragraph No. 11 ((When the bank is unable to exert due care towards some customers, will the account be opened or bank transactions executed for them)) this means that banks may open accounts or enter into transactions with unidentified persons.
- ❖ Some paragraphs such as (Paragraph 11, 12 and 17) recorded almost high averages, and this means that banks take into account money laundering requirements - within these paragraphs - well, which are ((You have specialized policies and procedures for combating money laundering and terrorist financing)) and a paragraph ((You believe that the bank gives a degree of importance to verify the identity of the customer and obtain the identification papers for the identity of customers when starting the relationship between them)) and the paragraph ((When the new clients do not submit the supporting documents to the bank after opening the account, will their accounts be closed)), and this means the limitation of the paragraphs that the banks take into account.

#### 2.8.1.2. T-test

To test the first hypothesis, a "t-test" was used for one sample using a reference value representing the average scores of Likert scale of (3). Table 5 shows the results of testing this hypothesis. Based on the results presented in the previous table, we can see that the computed "t" value of (0.68) is less than the tabular "t" value of (1.96), that is, ((There is no response by banks operating in Iraq to adequately apply the anti-money laundering and terrorist financing instructions issued by the Central Bank of Iraq)) in enough.

The extent to which banks operating in Iraq respond to the anti-money laundering and terrorist financing laws and instructions issued by the Central Bank of Iraq

2.8.2. The second hypothesis test

((There is no effectiveness of the instructions to combat money laundering and terrorist financing issued by the Central Bank of Iraq to combat money laundering and terrorist financing operations in banks operating in Iraq)).

Table 5: The results of the first hypothesis test using t test for a single sample

Dimension	The calculated t value	The tabular t value	Degrees of freedom	Statistical significance	The result of the hypothesis
The response of banks operating in Iraq to implement the anti-money laundering and terrorist financing instructions issued by the Central Bank of Iraq	0.68	1.96	156	0.000	Reject

2.8.2.1. Arithmetic means and standard deviation

The second part of the questionnaire included ten questions (starting in sequence 21), indicating the effectiveness of the instructions issued by the Central Bank of Iraq to combat money laundering and terrorist financing operations in banks operating in Iraq, as follows:

21. The bank has an anti-money laundering and terrorist financing guide that contains suspicion indicators and methods of money laundering and terrorist financing.
22. The bank circulates money laundering and terrorist financing policy to all bank employees.
23. The bank is preparing training courses for employees whose work is related to combating money laundering and terrorist financing.
24. The bank informs the senior management and executive management of methods of combating money laundering and terrorist financing and the latest developments in it.
25. Cases suspected of being related to money laundering and terrorist financing operations are reported by bank employees to the Compliance Department.
26. All unusual movements made by clients are studied prior to implementation.
27. The bank closes the accounts of high-risk customers when it is not possible to take special care towards these accounts.
28. The bank, the source of the transfer, is relied upon to perform the due diligence.
29. The bank rejects the incoming transfers due to lack of transfer data (SOFT) and without referring to the customer.
30. The bank reduces the level of its dealings with customers for whom it submits notifications to the Anti-Money Laundering Unit.



Table 6 shows the arithmetic averages, standard deviations, the level of importance and the rank of the above paragraphs)) and based on the results presented in the table, we note the following:

- The average rate is 3.01, and this is an "average" ratio that can be interpreted as being effective in the instructions of the central bank, but it is limited effectiveness, not strong, this invites us to follow the high-average and low-averaged paragraphs to deepen the analysis.
- It was observed that paragraphs 21, 22, 23 and 24 have high arithmetic averages, and this leads us to say that banks adhere to "written" (paper) matters, as they have written policies to combat money laundering. These policies are circulated to its employees, as well as taking care of training courses, and reporting suspected cases (this is what the previous paragraphs indicate).
- It was observed that the rest of the paragraphs have low arithmetic averages, and this means that there is no positive impact of the instructions of the Central Bank regarding paragraphs 25 up to 30. All of these paragraphs relate to taking actual measures towards compliance, such as rejecting incoming transfers with incomplete information, closing a high-risk account, and others ...
- The above two observations are common among the banks surveyed, as evidenced by the high correlation coefficient for the two paragraphs.

**Table 6: Arithmetic averages, standard deviations, level of importance and rank of the paragraphs related to measuring the effectiveness of combating money laundering and terrorist financing in banks operating in Iraq, in descending order**

No.	Aspect	Mean	St. deviation	Level of importance	Rank
21	The bank has A guide to combating money laundering and terrorist financing that contains suspicion indicators, money laundering methods and terrorist financing	4.68	334	High	1
22	The bank circulates money laundering and terrorist financing policy to all bank employees	4.58	343	High	2
24	The bank informs the senior management and executive management of methods of combating money laundering and terrorist financing and the latest developments in it	4.27	470	High	3
23	The bank is preparing training courses for employees whose work is related to combating money laundering and terrorist financing	3.66	614	High	4
25	Cases suspected of being linked to money laundering and terrorist financing operations are reported by bank employees to the Compliance Department	2.44	574	High	5
26	All unusual movements made by clients are studied prior to implementation	2.34	903	High	7
27	The bank closes the accounts of high-risk clients	2.01	1.113	High	8

**The extent to which banks operating in Iraq respond to the anti-money laundering and terrorist financing laws and instructions issued by the Central Bank of Iraq**

	when it is not possible to take special care towards these accounts				
30	The bank reduces the level of its dealings with customers for whom it submits notifications to the Anti-Money Laundering Unit	1.88	1.202	Median	9
29	The bank rejects the incoming transfers due to lack of transfer data (SOFT) and without referring to the customer	1.36	1.191	Median	10
28	The bank, the source of the transfer, is relied upon to perform due diligence	1.22	1.222	Median	14
<b>An event to combat money laundering and terrorist financing in banks operating in Iraq</b>		2.88	1.02	High	---

**2.8.2.2. T-test**

To test the second hypothesis, a "t" test was used for one sample using a reference value representing the average scores of Likert scale of (3). Table 7 shows the results of testing this hypothesis. Based on the results presented in Table 7, it becomes clear that the calculated value of "t", which amounts to (1.12), is smaller than the tabular value of "t", which is 1.96; the level of significance ( $\alpha$ ) is less than (0.05), which means confirming and accepting the negation hypothesis. That is, the instructions for combating money laundering and terrorist financing issued by the Central Bank of Iraq to combat money laundering and terrorist financing operations in the banks operating in Iraq are not effective.

**Table 7: The results of the first hypothesis test using t test for a single sample**

Dimension	The calculated t value	The tabular t value	Degrees of freedom	Statistical significance	The result of the hypothesis
The effectiveness of combating money laundering and terrorist financing in banks operating in Iraq	1.12	1.96	156	0.000	Reject

**2.9 Findings and research recommendations**

Based on the analysis of research data and testing of its hypotheses, the researcher concluded the following results:

- ✓ The lack of an adequate response by the banks operating in Iraq in implementing the instructions of combating money laundering and terrorist financing issued by the Central Bank of Iraq, for example, not exerting sufficient due diligence towards clients when starting and during the relationship with clients, and not being embarrassed about the continuation of the relationship

with them. Likewise, banks do not have automatic systems to monitor customers' movements in proportion to the size of their economic activity, and that banks do not give a degree of sufficient importance to update customer data every two years or when the need arises.

- ✓ Despite the existence of specialized policies and procedures for combating money laundering within the bank, and these policies are circulated to employees, and there are allocations for training courses ...However, there is a "medium level" effect of the central bank's instructions, and that effect cannot be described as extreme (or effective).
- ✓ The conclusion can be summarized in other terms: The researcher did not spot a deficiency in the laws and instructions related to combating money laundering and terrorist financing in Iraq, and the deficiency lies in the seriousness of the banks operating in Iraq to implement and comply with those instructions.
- ✓ The lack of seriousness of the commitment may be due to the "lack of desire" or "the inability" of the financial institutions to comply with the rules governing money laundering operations and adhere to them.

Therefore, the researcher recommends the following:

- ✓ Banks operating in Iraq should refrain from paper-based "mock" compliance, and commit to seriously implementing the relevant laws and instructions.
- ✓ The central bank should install a methodology for examining and evaluating how the compliance guide is applied by banks, and establish an appropriate system of fines and penalties.

## References

- 1 Al-Husseini, Essam and Nema, Nagham (Compliance and Money Laundering), Nahrein University, Iraq 2020.
- 2 <https://www.unodc.org/unodc/en/money-laundering/introduction.html?ref=menuaside>
- 3 <https://www.unodc.org/unodc/en/money-laundering/introduction.html?ref=menuaside>
- 4 [http://iraqld.hjc.iq/identity\\_search.aspx](http://iraqld.hjc.iq/identity_search.aspx)
- 5 [www.cbi.in](http://www.cbi.in)
- 6 [www.bis.org](http://www.bis.org)
- 7 [www.fatf-gafi.org](http://www.fatf-gafi.org)
- 8 [www.transparency.org](http://www.transparency.org)
- 9 Abu Olaim, A, Rahman, A. 2016. "The Impact of Jordanian Anti - money Laundering Laws Banks" . Journal of Money Laundering Control, 19(1): 70 - 78 .
- 10 Khrawish, H. 2014. "The Impact of Anti - Money Laundering on Investment Funding Evidence from Jordanian Financial Institutions". International Journal of Economics and Finance , 6 ( 3 ) : 227-238 .
- 11 Said, J., Ghani, E., Omar N, & Yusuf, S. 2013. "Money Laundering Prevention Measures among Commercial Banks in Malaysia". International Journal of Business and Social Science, 4 (5): 227-235.
- 12 Oqab, R. 2012 . "The Role of the Audit Committee in Raising the Efficiency of the Internal Control System to Combat Money Laundering in Jordanian Banks". International Research Journal of Finance and Economics, Euro Journals Publishing, 88: 1450-2887.

**The extent to which banks operating in Iraq respond to the anti-money laundering and terrorist financing laws and instructions issued by the Central Bank of Iraq**

- 13 Ayodeji, A, &Mahmood, B. 2012. "The Impact of Money Laundering on Economic and Financial Stability and on Political Development in Ddeveloping Countries: The Case of Nigeria". *Journal of Money Laundering Control*, 15 (4): 442-457.
- 14 Wang, S, &Musonda, G. 2011. "The Role of Commercial Banks in Combating Money Laundering". *Journal of Money Laundering Control* 14 (4): 324 - 333.
- 15 Natalya, S. 2009. "Challenges that Russian banks face implementing the AML regulations". *Journal of Money Laundering Control*, 12 (1) : 19-32.
- 16 Magnusson, D. 2009. "Costs of Implementing the Anti Money Laundering Regulations in Sweden", *Journal of Money Laundering Control*, 12 (2): 101-112.
- 17 Al-Ajiz, Rana. (2008), "The Role of Banks in The Supervision of Money Laundering Operations - Applied Study on Palestinian Banks in the Gaza Strip", A Published Master's Thesis, Faculty of Commerce, Islamic University, Gaza, Palestine.
- 18 Bashrai, Al-Yawar, Mohammed (2012), "The role of the internal control system in combating the phenomenon of money laundering by applying to a sample of private banks in Iraq", *Journal of Management and Economics*, University of Baghdad, Iraq, issue (93).