Challenges Faced by Licensed Finance Companies in Complying with Anti-Money Laundering and Counter Financing Terrorism: A Study on Balancing Global Standards with Local Realities in Sri Lanka

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Abstract

International business management must address major topics like money laundering and terrorist financing, as they can significantly damage a nation's economy. Therefore, this study investigates the challenges in combating money laundering (ML) and terrorist financing (TF) within the licensed finance sector in Sri Lanka. The research aims to examine Sri Lanka's legal statutes and regulations directly related to AML/CFT, analyse the challenges faced by finance companies in implementing these measures, and offer recommendations for enhancing these methods. Utilizing an inductive approach and a case study strategy, this qualitative research involved face-to-face interviews with 10 senior management members from various Licensed Finance Companies and the Financial Intelligence Unit, employing purposive sampling techniques. Key statutes reviewed include the Financial Transactions Reporting Act, alongside the roles of regulatory authorities. Findings reveal significant inefficiencies in Customer Due Diligence (CDD) processes, manual sanctions screening, and the quality of Suspicious Transaction Reports (STRs). Notably, while thorough investigations are conducted, the lack of feedback from the Financial Intelligence Unit (FIU) limits the effectiveness of STR submissions. Recommendations include the development of a centralized customer screening system managed by the FIU, public awareness campaigns, and mandatory compliance training for key personnel. The study highlights the need for further research to address branch-level challenges and to broaden the focus across the entire banking and finance sector. This research offers actionable insights to enhance regulatory compliance and improve financial crime prevention measures in Sri Lanka.

Keywords: Anti-Money Laundering, Counter Financing Terrorism, Customer Due Diligence, Sanction Screening, Transaction Monitoring, Suspicious Transactions Reports

1. Introduction

1.1 Background of the Study

The act of illegally disguising the source of funds acquired through criminal activities including drug trafficking, corruption, fraud, or gambling by transforming them into funds from a legitimate source is known as money laundering (ML) (Isa, Sanusi, Haniff & Barnes, 2015). Likewise terrorist financing (TF) entails two types of financial activities: generating money for propaganda and training and funding terrorist actions. Therefore, these are mostly "pre-crime" actions, and because of their low monetary worth, they are hard to identify. However, ML prevention is easier than identifying TF (Clunan, 2007).

The Financial Action Task Force (FATF) provides anti-money laundering (AML) and counter-terrorist financing (CFT) recommendations, which are based on 39 member countries' national frameworks. Accordingly, compliance is assessed through mutual evaluation reports (Teichmann, 2024). In order to comply with these international requirements, Gazette Extraordinary No. 1437/24 of 23/03/2006, the Financial Intelligence Unit (FIU) of the Central Bank was

established to be the FIU for the purpose of this Act (Annual Report, 2006). Furthermore, in keeping with worldwide principles and standards, the FIU's primary goal in Sri Lanka is to fight ML, financing of terrorism, and other related crimes (FIU, 2023).

Despite the concerted efforts of Sri Lanka's FIU to align the country's regulatory framework with the standards set by the FATF, many financial institutions continue to struggle with compliance. The persistent non-compliance of these institutions poses significant challenges to the country's international financial connections and export sector. Despite the imposition of tough regulations, institutions still fail to meet the standards set by the FIU, indicating underlying issues that hinder their ability to adhere to regulatory requirements.

1.2 Industry Overview

Finance Businesses are companies that have been granted permission to do finance business by the Central Bank of Sri Lanka under the Finance Business Act, No. 42 of 2011 (FBA). Currently, 34 financing companies are listed with CBSL (CBSL, 2024). There are four categories for licensed financial firms. Which are based on their assets. (K Seeds Investments, 2024).

1.3 Rationale

Sri Lanka has emerged as a significant hub for illicit financial activities, particularly ML and terrorist financing, with an estimated annual flow of illicit funds amounting to a staggering USD 3 billion (Sivaguru & Tilakasiri, 2023). Investigations have shed light on the undercover operations of shell companies and trusts, which have facilitated the movement of over $18 million into tax havens. Additionally, revelations from Swiss leaks have implicated clients associated with Sri Lanka in transactions totalling $58.3 million (Sivaguru & Tilakasiri, 2023). Such findings underscore the gravity of the situation, compounded by Sri Lanka's dismal standing in Transparency International's Corruption Perceptions Index, where it ranks 115th out of 180 countries (Farzan, 2024). This ranking highlights the urgent need for systemic

reforms. Moreover, the recent establishment of the Port City in Sri Lanka has raised apprehensions regarding potential avenues for ML, especially given the significant tax incentives offered within this enclave. Despite these concerns, Sri Lanka's justice minister has been quick to dismiss them, declaring that existing criminal laws and the FIU are sufficient safeguards against ML (Ethirajan, 2022). However, such assurances are met with scepticism, particularly in light of reports from Sri Lanka's FIU, which has rated the country's overall ML/TF risk as "medium." This assessment underscores the presence of significant threats and vulnerabilities within Sri Lanka's financial system (DailyFT, 2023). Moreover, Sri Lanka's central bank has identified high-risk informal money remitters, real estate agents, banking sector, and finance companies as high-risk in ML activity (Economy Next, 2023).

In Sri Lanka, the legal framework for combating money laundering and terrorist financing is mainly based on three legislations; the Prevention of Money Laundering Act (PMLA), No. 5 of 2006, Convention on the Suppression of Terrorist Financing Act, No. 25 of 2005 and the Financial Transactions Reporting Act (FTRA) No. 6 of 2006. These rules are consistent with delegated regulations and guidelines, which updates regularly to address global emerging issues (Jayasekara, Perera & Ajward, 2023). The existing legal framework for combating ML and TF in Sri Lanka's finance sector faces significant challenges and deficiencies in the implementation process. Despite legislative efforts, empirical evidence on the implementation and impact of these laws remains scarce. Furthermore, emerging technological advancements pose new challenges in detecting and preventing financial crimes. By conducting this research, the author seeks to provide valuable insights into the practical challenges faced by finance companies in adhering to AML and CFT regulations. Additionally, this study aims to offer recommendations for addressing these implementation gaps, thereby contributing to

the enhancement of Sri Lanka's efforts in combating financial crimes and ensuring the integrity of its finance sector.

Recent reports highlight significant non-compliance among financial institutions in Sri Lanka, particularly regarding the Financial Institutions (Customer Due Diligence) Rules, including failing to maintain updated UNSCR lists and screen customers. As per the National Money Laundering and Terrorist Financing Risk Assessment (2021/2022), deficiencies in criminal sanctions enforcement and suspicious transaction reporting were identified. Financial institutions also faced penalties for non-reporting of suspicious transactions, violating Section 9(1) of the FTRA. FATF Recommendations emphasize the importance of client due diligence and timely suspicious transaction reporting to combat money laundering and terrorist financing (FATF, 2023; NRA, 2022).

1.4 Research Aim

The research aim of this study is to identify the challenges faced by financial institutions in monitoring and preventing Money Laundering and Terrorist Financing in Sri Lanka.

1.5 Objectives

1. Examine Sri Lanka's legal framework comprehensively to identify the statutes and regulations directly related to combating Money Laundering and Terrorist Financing.

2. Investigate and analyse the challenges encountered by Finance Companies in Sri Lanka when implementing measures to combat money laundering and terrorist financing.

3. Provide recommendations to overcome the identified challenges.

1.6 Significance

By evaluating the effectiveness of the AML and CFT efforts, this study provides a valuable benchmark for these officers to assess the adequacy of their institution's compliance practices. Through a thorough analysis of the legal framework and regulatory measures, compliance officers can gain insights into the strengths and weaknesses of their institution's AML/CFT programs. Furthermore, by taking into account global viewpoints and best practices, this study provides better solutions that not only solve local difficulties but also correspond with worldwide standards.

The findings of this research will provide insights to the fundamental issues that influence the behaviour of financial institutions regarding adherence to regulations. Therefore, by identifying these factors and analysing their impact on AML CFT compliance efforts, this study can enrich the academic discourse on AML CFT compliance and offer valuable insights for future research in this field.

2. Methodology

2.1 Research Design

Inductive research allows the development of new theoretical frameworks based on empirical evidence (Bendassolli, 2013). Therefore, for this research the inductive approach is particularly valuable.

The researcher has used case study strategy to explore the challenges faced by finance companies in Sri Lanka. Furthermore, case study approach allows for a detailed and nuanced understanding of complex phenomena by examining a specific instance in depth (Koster & Fernandez, 2023).

In this study, the authors follow a qualitative method, which is characterized by an in-depth exploration of complex phenomena through non-numeric data (Hay, 2017).

This study employs both primary and secondary data collection methods and primary data is collected through face-to-face interviews using open ended questionnaires administered to stakeholders within Sri Lanka's finance companies, providing first hand insights into AML CFT framework and challenges (Rahi, 2017).

3.2 Population and Sampling

This study employs a non-probability sampling method, specifically purposive sampling. In this study, purposive sampling is crucial for targeting stakeholders within Sri Lanka's finance companies as they have direct experience with regulatory compliance framework.

The population for this study include all compliance officers as well as senior managers or department heads in all the finance companies in Sri Lanka. The author chose seven corporate managers, including four compliance officers and three senior managers. Additionally, the author included a retired compliance officer, an overseas compliance officer, and a director from FIU Sri Lanka.

3.3 Reliability and Validity

Maintaining reliability and validity is critical in a research study to maintain the consistency and correctness of findings (Noble & Smith, 2015). Thus, in this study, reliability was obtained by following standardized questionnaire administration procedures and establishing consistency in data gathering methodologies (Harris & Brown, 2019). Similarly, validity is assured by developing the questionnaire in accordance with the AML CFT framework and triangulating results with secondary data sources (Turner, Cardinal, & Burton, 2017).

3.4 Data Analysis

Castleberry and Nolen (2018) define thematic analysis as a qualitative data analysis technique that identifies, analyses, and reports patterns (themes) within data sets. In this study, thematic analysis will be utilized first to transcribe interview replies, followed by data analysis to identify flaws in the AML CFT Framework.

3. Analysis and Findings

3.1 Demographic data of the Interviewees

Table 1 outlines the diverse professional backgrounds of the participants who were interviewed.

Table 1. Participants' Background

CODE	BACKGROUND
001	Participant 001 is a Senior Assistant Director of the Financial Intelligence Unit Sri Lanka, with 14 years of experience. 001 is also a graduate from BSc Engineering, Masters in Financial Economies, Member of the Institute of Engineering Sri Lanka, and a Certified Assessor for Mutual Evaluation of the FATF.
003	Participant 003 is a Compliance Officer of a Finance Company, with 15 years of experience. 003 is also a graduate from BSc. (Hons) Town & Country Planning from University of Moratuwa, MBus. (Fin) from University of Kelaniya, Diploma in Bank Integrated Risk Management holder and a Life Member of Association of Accounting Technicians of Sri Lanka.
004	Participant 004 is a Compliance Officer of a Finance Company, with 35 years of experience. 004 is also a graduate from BSc (Col), MBA (PIM-SJP), FCMA (UK), CGMA, Dip M(UK) and Diploma in Compliance from IBSL Sri Lanka
005	Participant 005 is a Compliance Officer of a Finance Company, with 16 years of experience and a Chartered Accountant and completed the MBA from PIM.
006	Participant 006 is the Head of Branch Operations of a Finance Company, with more than 25 years of experience. 006 is also a graduate from Sri Jayawardhanapura University.
007	Participant 007 is an Assistant General Manager of a Finance Company, with 14 years of experience. 007 is also a graduate from BSc Public Management (Special) from University of Sri Jayawardanapura, an Asssociate member of The Institute of Chartered Professional Managers of Sri Lanka and Associate member of Institute of Management of Sri Lanka.

008	Participant 008 is a Compliance Officer of an Overseas Authority, with 13 years of experience. 008 is also a graduate from CIPM with CHRM, Diploma in Compliance at IBSL and CAMS Certified.
009	Participant 009 is a Head of Gold Loan Operations, with 19 years of experience. 009 is having a Post Graduate Diploma in Marketing, Advanced Diploma in Marketing Management Diploma in Marketing Management, MBA from Sri Jayawardhanapura University and Member of SLIM.

3.2 Financial Sanctions

Majority of the participants agreed that even though they have proper systems in place for sanctions screening there are still challenges that need to be addressed.

Participant 003 stated, *"It is true that our system is screening the customers against the sanction lists. However, the main challenge that we observe is updating these lists manually to our system. When we are doing that, human errors can be made."*

Furthermore, *Participant 009* stated, *"When the customer visits a contact point, the gold loan officers should send the request to the compliance division for clearance of the customer, who will then send an email confirmation, allowing the transaction to proceed manually and this process is really time consuming."*

In addition, *Participant 004* stated, *"It is true that we are providing training on sanction screening to all the staff. Even we do annual evaluations, however the problem is this area is not everyone's cup of tea. Sometimes even after many trainings, people still don't know the reason why they are requested to follow these protocols. This has a significant impact on sanction screening, as it is done by the front-line branch staff and they are moving frequently."*

Similarly, *Participant 005* says, *"This is an industry concern that the systems available now are very costly and doing sanction screening real time is a bit difficult."*

Likewise, *Participant 007* also believes that, *"a modified technological system must be available to handle screening of customers effectively, and full customer information is also required for perfect screening."*

The Regulator stated that *"developing a sanction screening system with reviewing good quality aliases, low quality aliases in the screening and adjusting thresholds is an easy task and using AI technology for this is cheap, effective, and can be done in a fraction of time and cost."*

Further he elaborated that *"this is not a task for a compliance officer, this needs to be done by the IT staff of the financial institution. All you have to do is to hire some good IT people to the company and give them the correct guidance."*

The Caribbean FATF (2024), has emphasized the importance of countries implementing targeted financial sanctions to align with United Nations Security Council resolutions. This is due to the consequences of terrorist attacks that are directly creating economic problems (Alvi, 2019). If those channels are not stopped, terrorists will have unrestricted access to finances for transactions, weapon purchases, bomb manufacture, and everyday expenses. That's why the United Nations Act, No. 45 of 1968 appointed as the Competent Authority to overlook the requirements related to sanctions (Competent Authority for Sri Lanka, 2014). The Financial Intelligence Unit discovered numerous instances of non-compliance among financial institutions concerning sanction screening (Annual Report, 2021). Even after deficiencies and gaps were identified by the World Bank, the NRA report indicates that "Availability and enforcement of Criminal Sanctions" needs to be enhanced (NRA, 2022).

Participant 001 stated, *"The international regulators have also criticized us for low penalty amounts where the other countries are charging millions and billions of dollars, Sri*

Lanka is only charging 1 million. Therefore, by the end of this year, the penalties will be substantially increased, causing some pain and reputational damage for companies who are not complying."

Participant 008 stated, *"The initial cost of starting a proper screening system and registering with it may be high, but in the long term, it can reduce hardships and make compliance officers' lives easier. Automated updates of details can also make the process more efficient."*

Furthermore, **Participant 001** stated that *"I have developed a screening application in four days as a hobby project, which turned out to be commercial grade level. The application is simple, easy, and takes little effort. It is free and I hope to give it to the Financial Institutions as well."*

Despite the aforementioned recommendations to import automated technologies for the purpose of sanctions screening, human data entry is still required at one point. The issue is that there are a lot of heavy typologies and terms in the compliance area. Therefore, branch officers are under pressure to meet their targets, even if the compliance team conducts several trainings. It is also true, as stated by **Participant 004,** that not everyone finds this topic to be equally digestible. Therefore, they occasionally manipulate these requirements in an effort to meet their targets. Additionally, obtaining sanction screening permission requires a lot of work and time in some companies. For instance, a consumer seeking rapid cash may visit the company for a Gold Loan; if the process takes too long, the customer would undoubtedly visit another financial institution. Because of this anxiety, branch level officers attempt to prioritize their sales over meeting requirements the majority of the time. Even though the compliance department works really hard, the entire business will be in danger if the front line made a mistake.

3.3 Customer Identification and Due Diligence

Customer due diligence (CDD) is a fundamental aspect of the AML procedures embedded within the FATF 40 Recommendations (Jun & Ai, 2009). The participants made the following comments about the CDD process.

Participant 003 stated that, *"According to the due diligence rules, it is mandatory to conduct CDD for customers and collect Know Your Customer (KYC) information. Capturing the required information helps to give the correct risk score to customers and builds their profile. Therefore, it is crucial to follow these regulations to provide excellent service and build a positive customer experience."*

Furthermore, **Participant 004** stated that, *"Employees receive particular compliance requirement training while they are on boarding, then after a few months and as they become familiar with the process, they receive a full-day training. Aside from that, we have a yearly certification pertaining to general compliance with these requirements."*

Aside from these positive comments, almost all the participants had a major problem with customer education.

Participant 006 stated that, *"When we ask branch staff to obtain documents related to CDD, even the address verification documents, some customers raise serious issues. Most of the customer are reluctant to provide salary slips and other documents. However, there are customers who do not like to give such documents and they look for other financial institutions. Therefore, it is more important for all the financial institutions to follow the guidelines."*

Participant 009 mentioned that, *"Customers' reluctance to divulge all necessary information, such as their employment address and positions, is an impediment. This is a problem with gold loans, especially for customers who visit institutions in order to get money right away and dislike filling out these lengthy KYC*

forms. It's also quite difficult to obtain documentation from Gold Loan clients."

According to the majority of the respondents, it is clear that one of the major problems that finance companies are facing is the lack of customer knowledge on these AML CFT regulations. Further, Aziz and Daud (2022) also highlight the challenges in implementing AML regulations in Malaysian Banks: the lack of expert staff and customer education. Likewise, Sultan and Mohamed (2023) further highlighted that the main duty of front desk staff in AML in Pakistan is to gather and validate data. The recent NRA report has identified several integrity failures, including inadequate training for compliance function employees, despite their direct customer contact within LFCs. Most of the time, bank employees gather data and enter it into a computer system without checking it, which results in inconsistent compliance. Therefore, these issues are not only limited to Sri Lanka. All the compliance officers and the operational level managers who were interviewed believe that proper customer education can lead towards better CDD and Enhanced Due Diligence (EDD) procedures in the finance companies. Notwithstanding, Financial Service Providers are mandated by the Financial Consumer Protection Regulations, No. 01 of 2023, to furnish financial customers with information pertaining to legal provisions about their financial products and services (Financial Consumer Protection Regulations, 2023). Therefore, educating customers is not only the duty of the regulator, but also lies with the finance companies as well.

Participant 005 brought another perspective saying, *"The regulator made it essential to perform EDD for high-risk customers under the rules. But they haven't made any explicit demands about that. For CDD, yes there are requirements. However, sometimes it's difficult for us to get the required documentation for EDD. Additionally, we only learn about the customer's risk once they are on-boarded. As a result, occasionally the branch does not follow up with customers to retrieve documents related to the EDDs. This is because, during the*

on-boarding stage, the marketing officer's or the relevant officer's get involved. However, when the consumer is on-boarded, it becomes challenging for us to have branch officers do the task."

Similarly, a few of the participants had the same issue with the exact requirements of the Financial Institutions CDD Rules, No. 1 of 2016 in relation to EDD. Due to these grey areas in the existing rules, the compliance officers are struggling to provide the required output.

Meanwhile, when the regulator was questioned in this regard, *Participant 001* stated, *"Typically, the businesses carry out the CDD measures. However, they are genuinely unaware of how this will turn out. Financial Institutes may benefit from the CDD process in a variety of ways. Once the customer's profile has been created, you may sell him relevant products that fit his profile. However, creating a profile is not only taking a photograph or customer's NIC copy. You gain benefits by doing a proper CDD on a consumer. As a result, the FIs must also comprehend the requirements of the rule."*

Participant 008 who works overseas stated, *"The country where I work uses digital KYC procedures and automated processors, ensuring clients update their information and upload necessary documents during on-boarding. However, obtaining EDD related documents can be a bit challenging. When comparing to Sri Lanka, it is much easier as most of the time all the customers are aware of the requirement. But in Sri Lanka consumers with greater influence may receive different treatment and may not undergo necessary screening."*

Kurum (2023) highlights that having KYC procedures were optimized using block chain and distributed ledgers, while artificial intelligence and machine learning are being utilized in solutions for AML compliance to enhance the efficiency of financial institutions. When the researcher inquired about the implementation of automated KYC systems and CDD processes within financial

institutions, the compliance officers highlighted the significant costs associated with adopting advanced technologies. Their responses underscored that while such systems could enhance efficiency and accuracy, the financial burden of transitioning to these technologies remains a major challenge for many institutions.

Participant 007 stated, *"System migration from a manual to an automated system is difficult due to limited information we had in our previous outdated system. During that time, the compliance requirements were not so complicated."*

As highlighted, the lack of customer KYC data on older systems poses challenges in automating customer profile creations, necessitating time and resources to cleanse old data and maintain ongoing CDD processes.

3.4 Reporting Suspicious Transactions

According to the Financial Transactions Reporting Act, No. 6 of 2006, FIs are required to report the suspicious activities of their customers (FTRA, 2006). Normally the FIs are using a transaction monitoring system to analyse customer transactions.

Participant 003 stated that, *"We currently analyse suspicious transactions using Excel-based customer transaction reports. This method is time-consuming and inefficient, as it lacks real-time alerts and operates on a post-mortem basis. This approach significantly delays the identification of potentially fraudulent activities, compromising our ability to respond promptly and effectively."*

A drawback of this method is that it allows potentially fraudulent activities to continue unchecked for longer periods, increasing the risk of financial losses and reputational damage to the institution. Moreover, delayed responses to suspicious transactions may lead to regulatory non-compliance and potential legal penalties, further exacerbating the financial and operational challenges faced by the institution (Financial Intelligence Unit, 2021; Financial Intelligence Unit, 2022).

Participant 004 revealed, *"We have an extensive monitoring system, which is similar to an international bank, provides real-time customer monitoring, risk warnings, risk ratings, and red flags. We have our own algorithms and set thresholds for on-boarding customers. When creating a CDD profile, it automatically creates the customer profile and generates alerts if any violations are detected."*

The majority of the respondents confirmed that they have real time customer transaction monitoring systems and within the day they are completing all the triggered alerts. However, the problem arises even after submitting the STRs on time to the FIU.

As per *Participant 001*, *"The STRs which are received by the FIU is not up to standard. According to our intelligence management, the quality is not good. It's not up to the expected level."*

Over reporting of STR, also known as "crying wolf" becomes a problem, when it fails to highlight the actual problems (Takats, 2009).

Participant 005 stated, "The investigation process is manual, with parameters set to identify unusual transactions. Transactions beyond these parameters are forwarded to product owners for clearance. A segregation of duty is in place, with one person for each product reviewing each transaction to determine, if it is suspicious before forwarding it to the Compliance Division. This ensures that transactions are cleared efficiently and accurately."

Participant 004 stated, *"The compliance assistant will conduct basic research on an alert, and if necessary, the alert will be investigated by the compliance officer. A separate team discussion will follow, and internal stakeholders will be contacted for more information. If the findings indicate suspicious activity, the STR will be sent to the FIU and Ministry of Defence."*

Overall, in spite of the various measures in place, the quality of the STRs are becoming low. Further, this has been highlighted in the

National Risk Assessment section, where the "Effectiveness of the Suspicious Activity Monitoring and Reporting" has been rated as 3, indicating areas of concern. The recommendation suggests a need to enhance the effectiveness of reporting STRs to the FIU (NRA, 2022).

Participant 004 and *Participant 005* complained about the difficulty in obtaining timely feedback from the FUI for the STRs submitted.

Participant 005 stated, *"Feedback is typically challenging to obtain, and we often do not receive any response at all."*

This emphasizes how crucial it is for the FIs to get timely feedback on the STRs they submit, since doing so will provide them the opportunity to reduce errors and improve efficiency.

4. Conclusion

This study highlights that while Sri Lanka's licensed finance companies are committed to adhering to global AML/CFT standards, significant challenges persist. These challenges include outdated sanctions processes, insufficient customer education, lack of uniformity in customer due diligence practices, and reliance on manual reporting tools like Excel, which hinder efficient fraud detection and reporting. The findings underline the need for better technological integration, standardized practices across the finance sector, and more robust communication with regulatory bodies like the FIU to enhance the quality of STRs. Addressing these gaps through targeted reforms and increased training can improve compliance effectiveness and mitigate associated risks.

5. Recommendations

5.1 Sanctions Screening

The Wolfsberg Group, a non-governmental association of thirteen global banks, was established in 1999 to develop frameworks and guidance for managing financial crime risks.

Financial institutions are required to maintain an effective sanctions screening procedure under the Wolfsberg Guidance on Sanctions Screening. Institutions are required to use technology to handle the growing complexity and guarantee regulatory compliance (Deloitte, 2020). Therefore, in order to enhance customer screening, it is recommended to implement a centralized customer screening system managed by the FIU of Sri Lanka. This system would be suitable for all financial institutions, ensuring uniformity in screening processes and facilitating real-time updates of local United Nations Security Council Consolidated List (UNSCR) list and UN sanction lists. This is acceptable as the centralized system would automatically update with new information from the FIU, providing a consistent and up-to-date database across the financial sector. Additionally, similar to obtaining Credit Information Bureau of Sri Lanka (CRIB) clearance, this clearance should be mandatory before any individual or entity can enter into a financial institution. Furthermore, the system could include an alert mechanism that notifies all financial institutions, if a listed individual attempts to enter the financial system, enhancing collective vigilance and preventing potential threats from slipping through the cracks. Therefore, this is feasible as this integrated approach would significantly bolster the country's defences against money laundering and terrorist financing by ensuring a cohesive, responsive, and efficient customer due diligence process across all financial entities. Moreover, Huang and Trangle (2020) suggests permissioned block chain as a groundbreaking innovation in Anti-money laundering (AML) by providing a centralized version of consensus-based "truth" accessible to all relevant parties, eliminating duplicative work and back-and-forth processes.

5.2 Customer Identification and Due Diligence

The interviews identified a significant deficiency in customer education and a grey area in specific law requirements. In order to address these type of situations, Aziz & Daud (2023) suggested that all the FIs, regulators and

local media should collaborate to raise public awareness and education on financial crime to ensure successful implementation of AML. Similarly, Vineer (2020) states that financial institutions must educate the general public to explain the reasons for requesting personal and sensitive information from them. Therefore, it is important to start by addressing the most important issues, to work with other FIs and regulators, to run customer awareness campaigns explaining to consumers why financial institutions are requesting these documents and what types of documentation are appropriate to bring to the branch when making a new entry into the financial system. This is acceptable because it is being done to benefit all financial institutions and, if customers cooperate, FIs may streamline the CDD process. This will be feasible, since the majority of FIs that are having problems, are on the verge of penalties, and the regulator is preparing to raise the penalties to considerably higher amounts. Furthermore, in order to give a weight for this requirement, if the customer is reluctant there should be a way to give the notification to all the other FIs as well and therefore as mentioned earlier all the FIs will be able to maintain uniformity. If that customer is not willing to provide documents to one financial institution, he should not be accepted by any other FIs as well.

5.3 Reporting Suspicious Transactions

Based on the interviews, it is apparent that despite the regulator's concerns about the quality of Suspicious Transaction Reports (STRs), many financial institutions are conducting thorough investigations before submitting them. Therefore, to improve this process, it is recommended that the regulator provide detailed feedback on each STR submitted by financial institutions. The Hong Kong Joint Financial Intelligence Unit (2023) enhances STR awareness by providing feedback on suspicious transaction reporting issues through quantitative and qualitative analysis. Likewise, this feedback would help institutions understand the FIU perspective, enabling them to make more informed decisions about future STR submissions.

The final decision to submit an STR rests with the Compliance Officer, who must be continually updated on current ML and TF trends. In Sri Lanka, there is a lack of proper evaluation for compliance officers. To address this, a yearly certification program and annual training sessions on emerging trends and best practices in AML/CFT should be implemented. This will ensure compliance officers are well-equipped to identify and report suspicious activities effectively, enhancing the overall integrity and efficacy of the financial sector's compliance framework. Additionally, anyone aspiring to become a Key Responsible Person (KRP) within an organization must undergo comprehensive compliance training, ensuring all key personnel are knowledgeable about compliance requirements and capable of upholding the organization's integrity and adherence to regulatory standards. Mangelsdorf and Denkler (2013), stated that accredited certification is very beneficial to the firms, because the managers will be up-to-date.

Acknowledgements

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