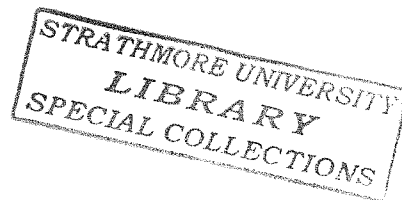


**Determinants of Know Your Customer (KYC) Compliance Among
Commercial Banks In Kenya**

By

Linah M. Ottichilo (55959)



**A thesis submitted to the School of Management and Commerce in partial
fulfillment for the award of Master of Commerce degree at Strathmore
University**



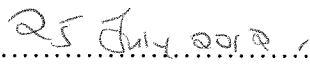
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DECLARATION

This is to certify that this research thesis is my original work and has not been presented for a degree award in any university or institution of higher learning. Information from other sources has been duly acknowledged.

Student's name: Linah M. Ottichilo

Student's signature:

Date:

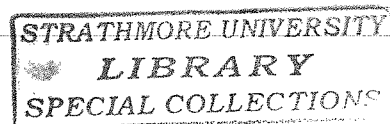
Approval

This research thesis has been submitted with my approval as the University Supervisor.

Supervisor's name: Dr. Robert Arasa

Supervisor's signature:

Date:



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I thank God for his provision.

I thank my family for their support and constant reminders that encouraged me to complete the thesis.

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ABSTRACT

Studies conducted have focused on analyzing the effectiveness of Know Your Customer (KYC) programs in combating money laundering and other fraud related risks in financial transactions involving customers. The studies showed that if KYC programs were implemented effectively, the risks associated with money laundering and fraud could be significantly mitigated. In Kenya, implementation of KYC requirements became a statutory requirement for financial institutions after the Proceeds of Crime and Anti-money Laundering Act was passed in 2009. Little has been done to assess what factors determine compliance with the KYC requirements stipulated in the regulation. The main focus of this study was to fill this gap by examining the factors that determine KYC compliance by commercial banks in Kenya. The study carried out a survey of commercial banks in Kenya with regards to KYC compliance. The commercial banks and a mortgage finance company totaling 44 formed the sample of the study with the top and middle supervisors responsible for implementing KYC forming the target respondents. Comparative analyses based on the data collected from 30 commercial banks which responded as well as interviews with practitioners were analyzed using regression analysis to determine the relationship between KYC compliance and the identified variables. The study's findings reveal that staff competency and bank size are the key determinants of KYC compliance. Customer verification procedures and Information Communication Technology infrastructure was found to have a minimal effect on compliance. Further research is recommended to be carried out to establish how the use of ICT can assist in complying with the KYC requirements.

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ABBREVIATIONS

ACAMS – Association of Certified Anti-Money Laundering Specialists

AML – Anti-Money Laundering

BCBS – Basel Committee on Banking Supervision

CBK – Central Bank of Kenya

ICT or IT – Information Communication Technology

OLS – Ordinary Least Squares

KCB – Kenya Commercial Bank

KIB – Kenya Institute of Bankers

KBA – Kenya Bankers Association

KPMG - Klynveld Peat Marwick Goerdeler

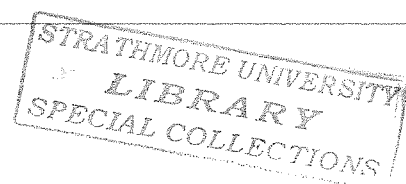
KYC – Know Your Customer

PEPs – Politically Exposed Persons

PG – Prudential Guidelines

DEFINITIONS

Anti-Money laundering (AML): The actions taken to stop funneling of cash or other funds generated from illegal activities through legitimate financial institutions and businesses, to conceal the source of the funds (International Federation of Accountants (IFAC), 2004).



CHAPTER ONE: INTRODUCTION

1.1 Background to the Study

This chapter introduces the subject of the study, which seeks to find out the determinants of Know Your Customer (KYC) compliance among commercial banks in Kenya. The chapter specifically focuses on the concept and practice of KYC and KYC compliance in commercial banks in Kenya.

1.1.1 The Practice of KYC

The Kenyan banking sector plays a very crucial role in economic development of the country by adding value through facilitating settlement of the exchange of goods and services as a monetary intermediary. In this dynamic environment, organizations have to constantly adapt their activities and internal configuration to reflect the new external realities; failure of which leaves the organization in jeopardy (Aosa, 1998). Banks need to benchmark against the world's best practices in addition to just complying with Central Bank of Kenya (CBK) requirements (Mwende, 2007).

In an effort to provide the much needed confidence, stability and discipline among market players in addition to maintaining industry credibility, which is the major hallmark of any sound financial system, the CBK plays a key functional role of licensing and supervising all authorized commercial banks with the approval of the Minister for Finance among other duties (CBK Act Cap 491). This has a complimentary role on the operations of the Banking Act (Cap 488) that further governs the modus operandi of all licensed commercial banks and financial institutions in Kenya. The purpose of regulation in banking is to safeguard public savings, instill stability in financial systems and prevent abuse of the financial system (Peter, 2005).

Know Your Customer (KYC) is the due diligence that financial institutions must perform to identify their customers and establish applicable information relevant to doing financial business with them. KYC is typically a strategy implemented to conform to a customer identification program mandated under the regulations/legislations set up by governments

around the world to respond to the threat of money laundering (International Federation of Accountants (IFAC), 2004). The Kenya government responded to the money laundering threat by passing the Proceeds of Crime and Anti-money Laundering Act (2009).

The regulatory environment is getting tougher as well with seemingly unending flow of new rules. In the 2007 bank supervision report, the Central Bank of Kenya (CBK) indicated that commercial banks in Kenya had shown a high level of commitment in the last few years to adhere to increasingly stiffer regulatory requirements including anti-money laundering initiatives. KYC guidelines are becoming increasingly important worldwide to prevent identity theft fraud, money laundering and terrorist funding. Hopton (2009) propounded that KYC covers from “cradle to the grave”; it means knowing the customer throughout the relationship and keeping this knowledge updated over the entire period. This underscores the fact that KYC is not a one-time activity but a continuous process.

Lilley (2003) describes KYC as the first line of defense to a bank against criminals. In banking, the KYC model is a structured framework through which any prospective bank customer goes through before establishing a contract with the bank and is continuously monitored throughout the relationship. The rules are reviewed from time to time in line with industry dynamics. These reviews among others are meant to provide an environment conducive for a healthy financial system in line with the best banking practices worldwide (Muller, Kalin & Goldsworth2007).

Sound KYC procedures are critical elements in the effective management of banking risks. The requirements go beyond simple account opening and record-keeping. Banks are expected to formulate a customer acceptance policy and a tiered customer identification program that involves more extensive due diligence for higher risk accounts (Builov, 2007).

1.1.2 KYC in Commercial Banks in Kenya

A modern market economy depends on an effective and efficient payment system whose key elements are provided through infrastructure of the banking system (Blomestein & Summers, 1994).

Around the world banks have set up anti-money laundering frameworks with KYC being a key component of the frameworks. The common element of most anti-money laundering frameworks is the requirement to conduct customer due diligence which is an aspect of KYC. This consists of identifying the customer and verifying their identity; identifying the beneficial owners of the customer and assessing on a risk-sensitive basis whether or not to verify those beneficial owners; and obtaining information on the purpose and intended nature of the business relationship (Builov, 2007).

The Kenyan banking industry currently consists of 43 commercial banks and 1 mortgage finance company. Generally, the sector has remained fairly stable for the last few years with only three banks, Euro, Daima and Charterhouse banks being put under statutory management, all violating matters relating to KYC compliance (CBK Inspection Report, 2007).

Commercial banks in Kenya operate under an umbrella body, the Kenya Bankers Association (KBA), which is charged with the mandate of coming up with a collective approach to matters affecting the members of the industry. Through KBA, commercial banks have sponsored a technical training and development wing, the Kenya Institute of Bankers (KIB) which is mandated to deal with matters of technical training, ethics and professional development of member banks and staff in order to instill discipline and high standards in the sector. The banking code of ethics developed by KIB addresses some of the salient issues relating to KYC. Through the code of ethics, commercial banks are able to exchange vital yet confidential KYC data about an existing mutual customer among member banks. The overall aim of these bodies is to harmonize synergies and ensure that banking services are conducted in the best possible manner together with the regulator's participation. This is usually intended to achieve better compliance levels with the demands of the oversight authority especially on matters of KYC (CBK Inspection Report, 2007).

1.2 Problem Statement

KYC compliance in Kenya is no longer a suggestion for best practice but has become a compliance mandate for financial institutions under the Proceeds of Crime and Anti-money

Laundrying Act (2009). Ngagi (2009) indicated that having an effective KYC policy presented a challenge to many commercial banks as the KYC guidelines issued by the CBK appeared to be applied inconsistently, depending upon various factors determined by individual banks. The study showed that if KYC policies were implemented effectively, incidences of money laundering and fraud could be mitigated. Previous studies (Aosa, 1998; Alexander, 2001 Mwayo, 2005 and Builov, 2007) focused on investigating the effects of anti-money laundering and the effectiveness of anti-money laundering programs such as KYC. The studies did not consider the factors that affect compliance of the programs initiated to combat money laundering. It is vital to examine factors that determine compliance because doing this will be useful in assisting institutions to know the areas that they need to focus on in order to not only ensure but also improve KYC compliance. This research wishes to fill that void by examining the factors that determine KYC compliance so as to understand why the various banks end up with varying compliance, despite the fact that the KYC requirements specified in the Prudential Guidelines are supposed to be followed across the board.

1.3 Objective of the Study

The study has been guided by the following objectives:

The broad objective of the study was to establish the factors that determine compliance with KYC requirements by commercial banks in Kenya.

The specific objectives were:

- (i) To examine the influence of customer verification procedures on compliance with KYC requirements by commercial banks in Kenya.
- (ii) To examine the influence of the bank size on compliance with KYC requirements by commercial banks in Kenya.
- (iii) To determine the influence of staff competency on compliance with KYC requirements by commercial banks in Kenya.
- (iv) To identify the effects of ICT infrastructure on compliance on KYC requirements by commercial banks in Kenya.

1.4 Research Questions

- (i) Do customer verification procedures influence compliance with KYC compliance?
- (ii) Does the bank size influence KYC compliance?
- (iii) Does staff competency influence compliance with KYC requirements?
- (iv) What are the effects of ICT infrastructure on KYC Compliance?

1.5 Significance of the Study

The findings of the study should be useful to commercial banks, customers, Central Bank of Kenya and researchers.

The commercial banks will be in a better position to understand what factors determine KYC compliance. This may serve as a guide when setting up policies and procedures within their establishments with regard to KYC guidelines.

Bank customers and the general public are likely to understand the industry better especially on the reasons why certain requirements are mandatory when dealing with a bank as well as why an account must be conducted in a particular way. This will enable them to provide the necessary requirements and co-operate with the bank officials during account opening and throughout the duration of the banking relationship.

The findings of the study will also benefit the CBK as the regulator to better understand the different variables affecting KYC requirements compliance and hence deploy appropriate monitoring systems and controls.

The study will be equally useful to scholars and academicians who may wish to use the findings of this study for reference and as a basis for further research in future.

1.6 Scope of the Study

The study focused on establishing factors that determine compliance among the 43 commercial banks in Kenya and 1 mortgage institution. The study was limited to the commercial banks headquarters in Nairobi. This was motivated by the fact that procedures

and policies are usually first implemented at the headquarters before being rolled out to the rest of the branches.

Customer verification procedures, staff competency, ICT infrastructure and bank size were selected as the key variables to be studied. This decision was arrived at after consultation with anti-money laundering experts responsible for assessing KYC compliance, who advised the researcher on some of the factors that they consider on during their compliance testing. The researcher aimed to find out whether the factors considered by the experts actually determine KYC compliance in Kenya.

The study focused on the period from 2009 to 2011. This is because 2009 was the year that the Proceeds of Crime and Anti-money Laundering Act (2009) was passed thereby making it mandatory for all banks to comply with KYC requirements. The data for the research was collected between September and November 2011. Additional information was requested from the bank supervision department of the CBK for data relating to KYC compliance in the sector.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviews theoretical arguments and studies that have been done in the field of KYC compliance by various researchers. The specific areas covered here include: The concept of KYC compliance, KYC in relation to management, KYC in relation to the banking sector in Kenya and other countries, CBK KYC guidelines, conceptual framework and operationalization of the study variables.

2.2 Concept of KYC

2.2.1 KYC Compliance

KYC conformity increasingly entails the creation of auditable evidence of due diligence activities, in addition to the need for customer identification. Muller et al.(2007) indicate that in order to meet KYC conformity requirements, financial institutions must; validate that customers are not or have not been involved in illegal activities such as fraud, money laundering or organized crime, verify a prospective client's identity, maintain confirmation of the steps taken to identify their identity and determine whether a prospective customer is listed on any certified lists in connection with supposed terrorist activities, money laundering, fraud or other crimes.

They further assert that an organization needs to know the source of funds in a customer's accounts. Wolfsberg group (2002) reiterates that banks have to confirm the identity and business of account holders and generate profiles on them in order to detect any activity that is contradictory with an account holder's business or income.

A bank's internal audit and compliance functions have important responsibilities in evaluating and ensuring observance to KYC policies (Pieth, 2003). Mitsilegas (2003) emphasizes the need for banks and mortgage institutions to set sound KYC systems for the prevention of money laundering which underpins all other activities. He further states that the use of financial institutions for money laundering not only jeopardizes their soundness and stability but also the confidence in the financial system as a whole.

Much of the banking industry's counter measures will stem from a solid KYC procedure with a tiered monitoring system of certain accounts wherein "red flags" for any un-usual behavior are set and these risks will vary along bank-product lines (McCollum, 2001). These principles as laid down have been widely accepted and adopted by jurisdictions throughout the world as a benchmark for commercial banks and a good practice guideline for all other categories of financial institutions.

2.2.2 KYC in Relation to Management

Broadly, management is defined as the process of designing and maintaining an environment in which individuals working together in groups professionally accomplish selected aims (Koontz & Weihrich, 1990). Management comprises the core functions of planning, organizing, leading and controlling. All the activities are interconnected such that when one aspect of the four functions is not well managed then the others are also affected. KYC compliance is part of the control function. It is essential that proper evaluation and monitoring systems are put in place to control any possible abuse due to inadequate compliance.

Banks with inadequate KYC management programs may be subject to major risks, especially legal and reputation risk (Loader, 2007). Sound KYC policies and procedures not only lead to a bank's overall safety and soundness, they also protect the reliability of the banking system by reducing the likelihood of banks becoming vehicles for money laundering, terrorist financing and other unlawful activities. Greuning (2003) shows that banks are exposed to financial, operational, business and event risks as depicted in figure 2.1.

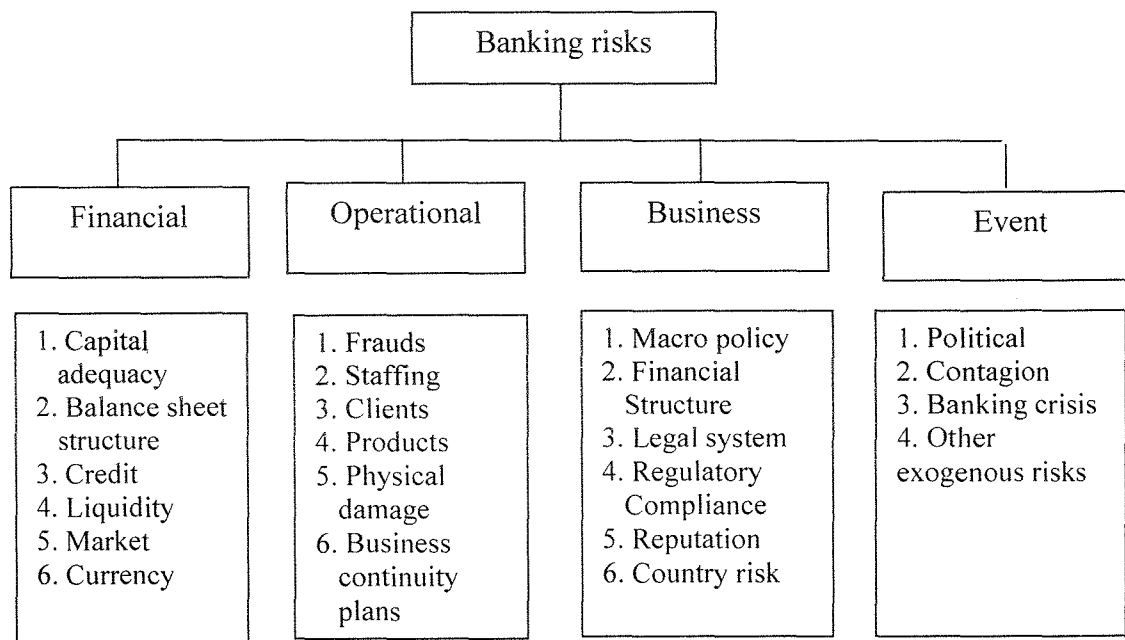


Figure 2.1: Banking risks

Source: Adapted from Analyzing and Managing Banking Risk: A Framework for Assessing Corporate Governance and Financial Risk by Greuning (2003) page 63

KYC falls within the wider span of operational risk which governs most of the day to day operations within a banking environment. According to the Basel Committee on Banking Supervision (BCBS), the key areas of KYC operational management include customer acceptance policy, customer identification procedure, high risk monitoring process and risk management framework (Standard Bank Group Risk Management Guidelines, 2009). The KYC risks at the operational level can be managed effectively through strict and effective laid down control processes.

2.2.3 KYC in Relation to the Banking Sector in Kenya

Being custodians of public funds, all commercial banks in Kenya regularly undergo a statutory inspection exercise by the CBK as the regulator, in order to determine how well the business is being run and to establish compliance with stipulated regulations. The inspection exercise is centered along the various risk frameworks to determine how best the banks mitigate against them. CBK has laid forth guidelines to help banks manage this risk but the

banks have the duty to come up with measures that they perceive to control these risks even better as long as they are complimentary to the Prudential Guidelines.

During the regular inspection of banks, the CBK always insists on knowing who the ultimate beneficiaries of selected samples of accounts are, especially those held by nominees or trustees. This forms a key component of KYC at the time the banking relationship is created (CBK inspection report, 2007).

The collapse of several Kenyan banks in the 1980 – 1990s gave credence to the fact KYC is an important aspect of banking. This is because the significant account holders in the banks that collapsed and the sources of funds were unknown. Outside the banking sector, the capital markets as is the case in the Equity Bank share issue, Co-operative bank and Safaricom stand out as institutions with substantial ultimate shareholders who remain unknown legally. This presents a challenge to their bankers while carrying out KYC procedures (Business Daily, 2011).

In his book, Dynamics of Indian Banking, Sharma (2008) stresses that the long-term vision of India's banking system lies in change from a domestic arena to the global field with a combination of new technologies, strengthening of prudential norms such as KYC. Being a developing economy, the Kenyan banking sector cannot therefore be left behind in light of universal changes within the sector.

2.2.4 KYC in Relation to the Banking Sector in Other Countries

Around the world banks have set up anti-money laundering frameworks with KYC being one of the key components of the framework. The common element of most of the anti-money laundering frameworks is the requirement to conduct customer due diligence which is an aspect of KYC. The challenge for most of the regulatory agencies is that most banks have reduced the implementation of the anti-money laundering frameworks into a box ticking exercise, meaning that they are only meeting the minimum requirements set up by regulators in order to pass the compliance test (Builov, 2007).

2.3 CBK KYC Guidelines

Naylor (2006) states that a bank ceases to be passive or reactive and becomes a spy as it would have to know a client's clients and even further, a client's, client's clients. Despite the high profile measures taken to prevent drug trafficking, global terrorism and tax evasion, the International Monetary Fund estimates that money laundering accounts for between 2 – 5% of the world's gross domestic product. The implementation of Proceeds of Crime and Anti-money Laundering Act (2009) to curb vices arising from poor KYC practices is meant to further strengthen the integrity of the entire Kenyan financial system against abetting and dealing in proceeds of crime (CBK annual inspection report, 2007).

In the 2007 inspection report, the CBK reiterates that enactment of the bill will require the establishment of appropriate systems by institutions to identify and prevent anti-money laundering. The Board of Directors of a banking institution operating in Kenya are expected to ensure that the management obtains, maintains and ensures proper identification of customers wishing to open accounts or make transactions whether directly or through proxy. The board are also required to do the following: maintain adequate records for a minimum period of seven years regarding the sources of funds and details of transactions; train staff on a regular basis in the prevention, detection and control of money laundering and the identification of suspicious transactions; submit to the CBK a report of any suspicious transactions or activities that may indicate money laundering or other attempts to cover the true identity of customers or ownership of assets and establish adequate internal control measures which will assist in the prevention and detection of money laundering activities. The CBK also prohibits the institutions from opening and the maintaining of anonymous accounts or accounts in obvious fictitious names. In addition, any numbered accounts should go through the same identification and verification process (PG, 2008).

Reporting entities are also required to monitor their provision of designated services (to ensure that they identify and mitigate their money laundering/terrorist financing risk on a continuous basis). This means that reporting entities need to implement KYC systems, transaction monitoring and enhanced customer due diligence as part of their anti-money

laundering and counter terrorist financing programs (Standard bank group risk management guidelines 2009).

2.4 Empirical Review

2.4.1 Customer Verification Procedures

Establishment of a relationship between a bank and its customer is initially pegged upon information received from the customer and how the staff handling the customer perceives and goes about ascertaining the validity and reliability of this information. False information delivered with or without evil intentions creates a permanent untruthful view of the customer by the bank. Whether any further KYC information is required or verified will depend on the money laundering/terrorist financing risk relevant to the provision of the designated service and the KYC information itself will vary depending on the type of customer (Wolfsberg group, 2002).

The regulations on the customer and beneficial owner classification in the financial organizations brought the new dimension emphasized in global documents– the dimension of beneficial owners' identification. Banks are required to know all types of their customers not only at a customer level but also at a contract level monitoring the clients' accounts movements (Mountain 2005). A financial institution is required to obtain proof of identity of its customers, especially new customers opening accounts. The customer names and addresses are then to be compared to sanctions lists of suspicious or designated persons that are regularly produced by government agencies (Wolfsberg group, 2002). The anti-money laundering policy is a global policy designed to ensure that all employees and businesses of the entity are well informed with respect to their customers and the nature of the transactions processed through their accounts. The policy addresses the significance of thorough KYC procedures and monitoring of foreign correspondent bank relationships (Builov, 2007). To ensure observance regarding customer identification ("Know Your Customer" principles), obtaining verifying information and record keeping, it is incumbent upon the relationship manager to perform the requisite KYC due diligence involved in a new customer relationship (Markov, 2007).

Builov (2007) further states that KYC procedures also enable banks to know/understand their customers and their financial dealings better which in turn help them manage their risks prudently. He recommends that banks should frame their KYC policies incorporating the following four key elements: customer acceptance policy, customer identification procedures; monitoring of transaction and risk management.

The CBK 2008 prudential guidelines indicate that the policy approved by the Board of banks should clearly spell out the customer identification procedure to be carried out at different stages i.e. while establishing a banking relationship; carrying out a financial transaction or when the bank has a doubt about the authenticity/veracity or the adequacy of the previously obtained customer identification data. Customer identification means identifying the customer and verifying his/ her identity by using reliable, independent source documents, data or information. Banks need to obtain sufficient information necessary to establish, to their satisfaction, the identity of each new customer, whether regular or occasional, and the purpose of the intended nature of banking relationship. Being satisfied means that the bank must be able to satisfy the competent authorities that due diligence was observed based on the risk profile of the customer in compliance with the extant guidelines in place. Such risk based approach is considered necessary to avoid disproportionate cost to banks and a burdensome regime for the customers. Besides risk perception, the nature of information/documents required would also depend on the type of customer (individual, corporate) (PG, 2008).

The CBK 2008 prudential guidelines further indicate that for customers that are natural persons, the banks should obtain sufficient identification data to verify the identity of the customer, his address/location, and also his recent photograph. For customers that are legal persons or entities, the bank should (i) verify the legal status of the legal person/ entity through proper and relevant documents (ii) verify that any person purporting to act on behalf of the legal person/entity is so authorized and identify and verify the identity of that person, (iii) understand the ownership and control structure of the customer and determine who are the natural persons who ultimately control the legal person. Banks may, however, frame their own internal guidelines based on their experience of dealing with such persons/entities,

normal bankers' prudence and the legal requirements as per established practices. If the bank decides to accept such accounts in terms of the customer acceptance policy, the bank should take reasonable measures to identify the beneficial owner(s) and verify his/her/their identity in a manner so that it is satisfied that it knows who the beneficial owner(s) is/are (PG, 2008)

The level of due diligence to be undertaken depends on a number of factors, including the type of customer. For example, there are different requirements for individuals, corporations, trusts, partnerships, associations, co-operatives and government bodies. Simplified verification procedures are available for domestic listed companies and some regulated trusts. For other types of companies and trusts, more detailed information (including information on directors, beneficial owners and trust beneficiaries) may be required. In certain circumstances, e.g., where a suspicious matter arises, it may be necessary for a reporting entity to carry out a customer identification procedure on an existing customer or to re-verify a customer that has already been the subject of a customer identification procedure (Ngagi, 2009).

2.4.2 Bank Size

Bank size appears to have a direct impact on the level of KYC compliance due to the respective capital outlay, which predisposes it to a certain level of accessibility to varying levels of infrastructure. This invariably determines the level and sophistication of investments in various resources and hence the ability to effectively manage KYC issues within their tier group. Bank size also enables a bank to have a higher competitive edge over any undue influence by influential customers due to well established mechanisms. The risk-based approach of the Anti-Money Laundering/Counter Terrorist Financing (AMLCTF) Act, referred to as principles-based legislation, aims to provide control to the institution itself to design an AMLCTF program that suits it (AUSTRAC, 2007). This shift of control from regulatory body to the regulated entity provides flexibility (Ross and Hannan, 2007) but requires the organizations to be knowledgeable of the risks they face. Misunderstanding of these risks may be interpreted as non-compliance (AUSTRAC, 2007). The survey by KPMG (2008) proposed that the big banks are capable of meeting these KYC compliance costs.

Thus, it would be fair to say that small institutions who are new to the anti-money laundering rules requiring establishment of KYC procedures would find it difficult to be acquiescent. Small institutions have limited income and a risk-based approach which expects reporting entities to have full understanding of ML/TF risks which may be arduous. Moreover, the cost of complying with the KYC can be devastating (Clarke, 2006).

2.4.3 Staff Competency

Staff attitudes and physical facilities may affect customer service. Effective KYC procedures embrace routines for proper management, oversight, systems, controls, segregation of duties, training and other related policies which is a board of directors' responsibility. Low staff motivation due to poor working conditions is likely to have a significant impact on the quality of work and performance. Mamontov (2007) in his study found out that the directive on organization of legal and reputation risk management systems in the banks, put emphasis on risk management with the focus on the risk of trailing reputation as a result of non-compliance with the KYC legislation, non-cooperation with the regulator, having unsuccessful internal control rules and divergence from participation in the KYC regime. The regulator's recommendations also referred to the requirement of the banks to elaborate on not only the "Know Your Customer" (KYC) system but also on the "Know Your Employee" system. Following the enactment of the anti-money laundering legislation, actions inside a financial organization requires not only formal recognition of the law and the regulator's recommendations but also the deeper understanding of the importance of the international recommendations regarding staff training. KYC specialized expertise is required to develop, apply and administer suitable compliance programs (Gibbons 2003). This brings to the forefront to the importance of the personnel qualifications and training.

Dementyeva (2006) showed that personnel training is given a great deal of attention in big banks where there are constant training sessions provided for the staff, all new employees are required to pass introductory Anti-money laundering (AML) courses concentrating mainly on KYC and they observed a principle of maximum participation of the personnel in the AML process. Small-sized and regional branches on the other hand are not concerned about training obligations to the same extent. Constant training is, however, essential for the

effectiveness of anti-money laundering initiatives such as KYC. The lack of knowledge of the basic KYC requirements, as well as the banks' attempts to limit the resources, forces the banks to break the provision barring an AML officer from performing additional internal control functions and tasks. KYC conformity is perceived by most bankers as a part of day by day work. They admit that the reason they apply KYC measures is not because they want to but because they are obliged to. The lack of understanding roots in the unclear legislation, unclear definitions and incapacity of the regulatory and supervisory authorities to deliver the aims of the global AML standards (Markov, 2007).

2.4.4 ICT Infrastructure

Due to the effects of globalization, coupled with sophisticated white collar crime among other factors, the banking system in Kenya has evolved over the last few years has been keen in adapting new technology platforms. Kondabagil (2007) affirms that technology has offered tremendous opportunity to banks to surmount geographical, commercial and demographic barriers and deliver products and service at virtually zero marginal cost combined with unbounded reach. Kondabagil (2007) indicates that the success of a bank is now determined by its ability to deliver innovative products in a technologically advanced way that meets the needs of the customer. He however cautions that the risk profile of banking has to be heightened and modified especially with regard to KYC. In the 2007 bank supervision report, CBK states that banks will need to cope with continuously changing business environments and a continuous flow of new requirements via robust ICT platforms, while staying sufficiently agile.

Financial organizations are today more dependent on electronic transactions and more inclined to real-time information than ever. The level of computerization may therefore have a significant impact on a bank's performance (Builov, 2007). With the passage of time and technological developments, money laundering has evolved into more complex and advanced forms. The new global economy fuelled by advances in information and communication technology holds potential benefits and opportunities for banks worldwide especially in enhancing the efficiency of the KYC compliance. However, these opportunities also have their own challenges. Among these challenges include crimes related to the information

economy which is seen as an increasing source of concern within the international financial community. The proceeds from these crimes are camouflaged to give it a legal appearance and this process is known as “money laundering” (International Federation of Accountants (IFAC), 2004).

New technology, especially ICT has introduced new ways for banks to recommend products and services through new release channels. The features of these new products and services include raise speed of transmission of digitized information, facilitating the movement of funds and services transcending distance within and across national boundaries which compromises with the KYC compliance in some instances and secrecy (Bradley and Steward, 2002). According to Mishkin and Strahan (1999) and Berger (2003), speed, distance and secrecy are the key factors that are transforming the financial system. However, the new services and products which include electronic banking and the introduction of e-money technologies have made money laundering actions even more common (Philippsohn, 2001). In fact the FATF (2001) report on money laundering typologies identifies online banking and internet as key money laundering vehicle.

The Chief Financial Officer (2002) report indicates that, “technology changes have influenced the operating strategies of many banks and non-banks as they seek to contend in the increasingly fast-paced and worldwide interdependent business environment”. Alexander (2001) argued that these substitute payment technologies has open breaches that can be subjugated for disguising profits from criminal activities, as money can be channeled through multiple accounts in a host of various sources. This poses problems relating to traceability of the individual transactions which requires enormous amount of record keeping. Further, due to difficulties in traceability, law enforcement involvement occurs only after the event has taken place. FATF (1998) Philippsohn (2001) and Vargas & Backhouse (2003) stated that legislation and regulation implemented to fight money laundering activities needs to deal with the use of new technology. As such a sound financial system to monitor and control transactional activities compounded with strong anti-money laundering regimes are vital to curb money laundering activities.

2.5. Conceptual Framework

The framework which examines whether the factors under study determine KYC compliance was derived from studies done by other researchers who used regression models to determine how the factors identified influenced the dependent variable under study. The studies are summarized as follows: Computerization, staff attitudes and physical facilities were found to affect customer service at KCB (Murithi, 2006). The low staff motivation due to poor working conditions was found to have a significant impact on the quality of work and performance at Postbank (Wanjiru, 2007). The availability and quality of banking skills is a central concern in the risk based appraisal of banks (Greuning, 2003). The Association of Certified Anti-Money Laundering Specialists (ACAMS), (2008) asserted that financial institutions must provide effective compliance training to employees fully within the areas of education, motivation and risk avoidance.

The framework is summarized as indicated in figure 2.2:

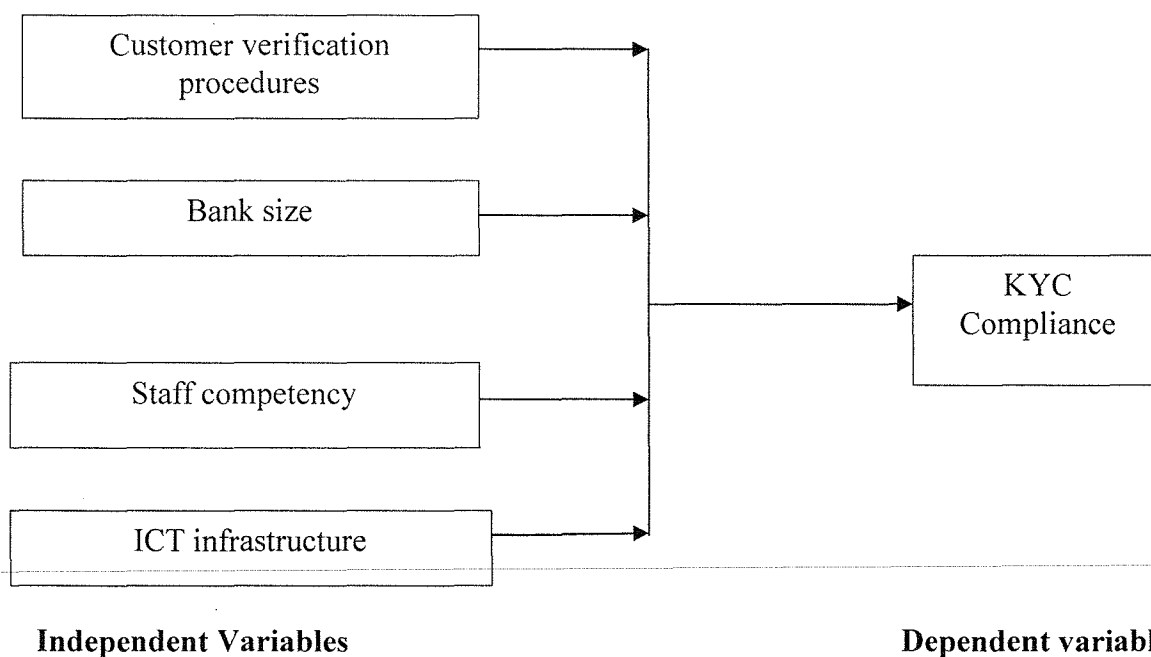


Figure 2.2: Factor Influencing KYC compliance

2.6. Operationalization of the Variables

To determine the factors influencing KYC compliance the following elements were tested: under customer verification procedures, the researcher examined the client identification

assessment and monitoring procedures followed. To examine the influence of the bank size on KYC compliance, the research examined the awareness of the KYC compliance requirements by the banks and the resources available to them to implement the KYC requirements. To assess staff competency, the KYC knowledge, training, control management, staff motivation and work environment were assessed. Finally to establish the influence of the ICT infrastructure on KYC compliance, the researcher checked whether the adoption of ICT has influenced KYC compliance, detection of exceptional activity within the accounts by the ICT system and whether the IT framework integrated to other sites.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter sets out various stages that were followed in completing the study. It involves a blueprint for the collection, measurement and analysis of data. This section includes the research design, target population, data collection instruments, data collection procedures and finally data analysis.

3.2 Research Design

The data used for the study was both quantitative and qualitative in nature. The quantitative data was analyzed through the use of the ordinary least squares regression model. Murithi (2006) Ngagi, (2009) and Wanjiru (2007) used ordinary least squares regression models in their studies. The qualitative data analyzed through use of a descriptive survey. A descriptive survey seeks to ascertain respondents' perspectives on a specified subject in a predetermined structured manner. Kothari (2006) refers to a descriptive design as concerned with providing characteristics of a particular phenomenon while determining the level of association with something else. This study chose to use a descriptive survey design and ordinary least squares regression model to assist the researcher to establish the determinants of KYC compliance. This was driven by the fact that all commercial banks in Kenya have headquarters in Nairobi so the results of each of the commercial bank in Kenya will be reflected in the study. Descriptive statistics enabled the researcher to inspect the data and identify any existing trends.

3.3 Target Population

Target population in statistics is the specific population about which information is desired. According to Ngechu (2004), a population is a well-defined or set of people, services, elements, events, group of things or households that are being investigated. In this study, the target population was the commercial banks in Kenya. As per the Kenya Banker Association bank directory there are 43 commercial banks and 1 mortgage finance company in Kenya. The mortgage finance company was included in the study because KYC guidelines require mortgage finance companies to establish the sources of funds for persons they finance to acquire property. The study carried out a survey on all the 44 institutions and targeted the top

and middle level supervisors who directly deal with the day to day operations of the commercial banks and were therefore expected to be conversant with the KYC compliance in their respective banks. The population characteristic was classified by the Kenya Bankers Association into large, medium, small and mortgage finance company and is as summarized in table 3.1:

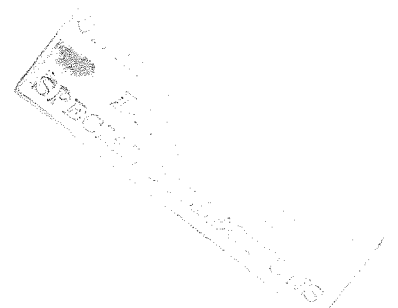
Table 3.1: Target Population

Category	No. of banks
Large	19
Medium	14
Small	10
Mortgage Finance Companies	1
Total	44

Adapted from Directory of Commercial Banks and Mortgage Finance Companies

3.4 Sampling and Sample Size

The target respondents comprised of supervisors in charge of compliance. These were chosen because they are responsible for implementing day to day KYC operations in the commercial banks and are expected to be familiar with matters that relate to KYC. The researcher interviewed one respondent from each of the commercial banks and mortgage institution. The supervisors selected were stationed at the headquarters of the banks, the motivation being that policies and procedures are first implemented at the headquarters of the banks before being rolled out to the rest of the branches. Therefore, the supervisors stationed at the headquarters of the bank would be in a better position to provide information about the KYC compliance of the bank as a whole. This generated 44 respondents from the target respondents in table 3.1. Statistically, in order for generalization to take place, a sample of at least 30 elements (respondents) must exist (Cooper and Schindler, 2003). Kotler (2001) argues that if well chosen, samples of about 10% of a population can often give good



reliability. Other literature have shown that sample size selection to a great extent is judgmentally decided. The selection was as shown in table 3.2:

Table 3.2 Sampling Frame

Category	No. of banks	Respondents
Large	19	19
Medium	14	14
Small	10	10
Mortgage Finance Companies	1	1
Total	44	44

3.5 Data Collection

The study collected both primary and secondary data for the purpose of analyzing the determinants of KYC compliance among commercial banks in Kenya. Primary data was collected using a questionnaire and informal interviews while secondary data was obtained from publications, bank journals and reports of the selected banks. Self-administered questionnaires were used to collect primary data and where possible the researcher interviewed the respondents to get clarification about the responses they had provided. The questionnaire comprised of two sections. The first part included the demographic and operational characteristics of the respondents. The structured questions were used in an effort to conserve time and money as well as to facilitate in easier analysis as they were in immediate usable form; while the unstructured questions were used so as to encourage the respondent to give more in-depth responses. During the research period the researcher got a chance to be included as part of a team that was engaged to assess the KYC compliance levels for one of the banks. The information acquired from the engagement was also used to confirm the accuracy of the data that the researcher had earlier collected for the bank.

3.6 Reliability and Validity of Research Instrument

Validity is the degree by which the sample of test items represents the content the test is designed to measure. Content validity which was employed by this study is a measure of the degree to which data collected using a particular instrument represents a specific domain or content of a particular concept. Cooper and Schindler (2003) contend that the usual procedure in assessing the content validity of a measure is to use a professional or expert in a particular field.

To establish the validity of the research instrument the study sought the opinions of experts in the field of study who are anti-money laundering experts and the researcher's supervisor. This facilitated the necessary revision and modification of the research instrument thereby enhancing validity. Reliability of the research instrument was enhanced through a pilot study that was done on two commercial banks. The pilot data has not been included in the actual study. The pilot study allowed for pre-testing of the research instrument. The clarity of the instrument items to the respondents was established and therefore enhanced the instrument's validity and reliability. The pilot study enabled the researcher to be familiar with research and its administration procedure as well as identifying items that require modification. The result helped the researcher to correct inconsistencies arising from the instruments, which ensured that they measured what was intended.

3.7 Data Analysis

Before processing the responses, the completed questionnaires were edited for completeness and consistency. The data was coded to enable the responses to be grouped into various categories. The data collected was both quantitative and qualitative in nature. The descriptive statistical tools such as Minitab software and MS Excel was employed to perform data analysis and determine the extent the factors were valid. Tables and charts were used to summarize responses for further analysis and to facilitate comparison. Consistent with prior research (Murithi (2006), Ngagi, 2009 and Wanjiru, 2007) ordinary least squares regression was used to analyze the quantitative data collected to aid in establishing the significance and strength of the variables and the model through the p-values.

Model Specification

The regression equation was as follows: ($Y = \beta_0 + \beta_i X_i + \beta_{ii} X_{ii} + \beta_{iii} X_{iii} + \beta_{iv} X_{iv} + \beta_v X_v + e$)

Whereby Y = KYC Compliance

β_0 = Constant

β_i, β_v = Co-efficient

X_i = Customer verification procedures

X_{ii} = Bank size

X_{iii} = Staff competency

X_{iv} = ICT infrastructure

e = Error Term

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents analysis and findings of the study as set out in the research methodology. The study findings are presented to establish the factors that determine the compliance with KYC requirements by commercial banks in Kenya. The study was conducted across the 43 commercial banks and 1 mortgage finance company in Kenya. The data was collected between September and November 2011. The data was gathered from the questionnaires and interviews as the research instrument. The questionnaire was designed in line with the objectives of the study. Where possible informal interviews were conducted with the respondents in order to seek further clarification on the responses they had provided in the questionnaire. The questionnaires were coded 001 to 044 to represent the banks and mortgage institution involved in this research and coded A, B, C and D to indicate whether the financial institutions were large, medium or small banks and a mortgage institution.

4.2 General Information

4.2.1 Response Rate

The study targeted 44 respondents in collecting data with regards to determinants of KYC compliance among commercial banks in Kenya. From the study, 30 out of the 44 respondents filled-in and returned the questionnaires making a response rate of 68.2%. This response rate was made possible after the researcher made personal calls and visits to remind the respondent to fill-in and return the questionnaires. The highest response rate was from large banks with a 73.7% response rate followed closely by the medium sized banks with a 71.4% response rate. The lowest response level was from the small banks with a 60% response rate. There was no response from the mortgage finance company. The findings are consistent with other literature which shows that large and medium banks are more likely to be complying with KYC requirements thereby more willing to provide information when compared to the small banks.

4.2.2 Demographic Information

According to the findings, 53% of the respondents were female, 44% were male while 3% of the respondents didn't give any response. This indicates that the persons responsible for KYC compliance are likely to be female.

The research findings also showed that 33% of the respondents were 35-40 years, 27% of the respondents were 25-30 years, 23% of the respondents were 31-34 years, 10% of the respondents were 41-44 years and 7% of the respondents were 18-24 years. This implies that the persons charged with the responsibility of adhering to KYC requirements are likely to be persons who are established in their career and therefore have suitable work experience. The results are presented in figure 4.1 below:

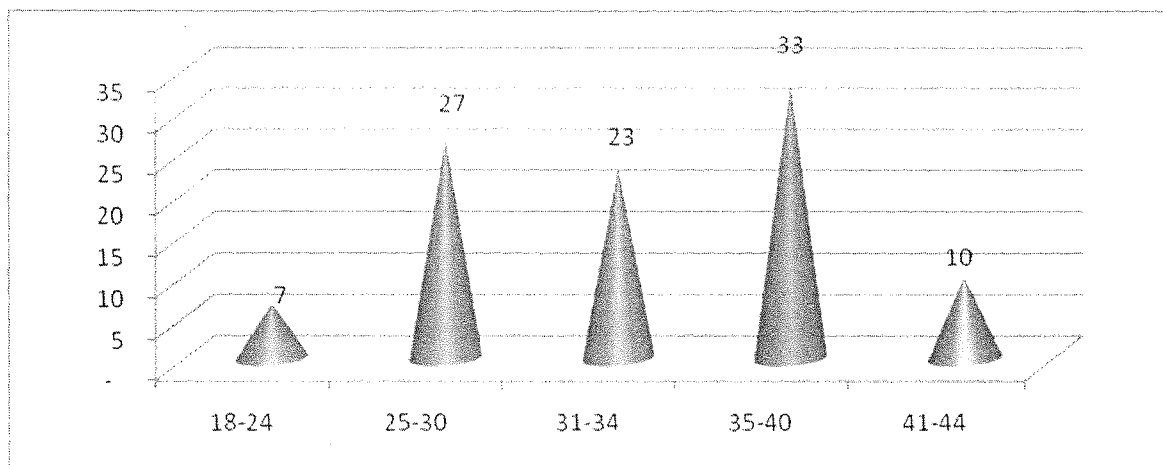


Figure 4.2: Age Bracket

4.2.3 Level of Education

From the findings, 70% of the respondents were degree holders, 17% of the respondents had higher diplomas while 13% of the respondents had a master's degree. This shows that persons responsible for KYC compliance need to have acquired some level of higher education in order to be able to comprehend some of the technical aspects of the KYC requirements. This is presented in table 4.1:

Table 4.1: Response Rate Based on Level of Education

Level of education	Frequency	Percentage
Higher diploma	5	17
Bachelors	21	70
Masters	4	13
Total	30	100

4.3 KYC Compliance in Commercial Banks in Kenya

The results indicate that 87% of the respondents indicated that they complied with the KYC guidelines while 13% of the respondents indicated that they did not comply with KYC guidelines. Although most of the banks indicated that they complied with KYC requirement the researcher was only able to substantiate the information for ten banks, for one bank where she was allowed to be part of a team that assessed KYC compliance at the bank and for nine where the information was acquired from CBK and other sources. These provides a challenge in that the costs of checking KYC compliance are high and CBK is not able to conduct the checks on all banks on a regular basis. Also the CAMEL rating method used by CBK does not cover KYC compliance aspects (The camel rating method is an internationally adopted rating system for banks used by banks supervisory authorities towards rating their institutions (investopedia.com, 2008). The camel acronym stands for: (C: Capital adequacy, A: Assets quality, M: Management quality, E: Earning capacity, L: Liquidity risk)). In all the cases where banks were discovered to have not complied with KYC requirements the damage had already been done and the banks winded up. Branches of multinational banks are able to hire the services of expert consultants to assess their KYC compliance and hence are able to address the non-compliance aspects identified by the experts. However, most of the banks in Kenya do have the resources to engage such experts and therefore have no way of knowing which KYC requirements they are not complying with. The compliance level is presented in figure 4.2:

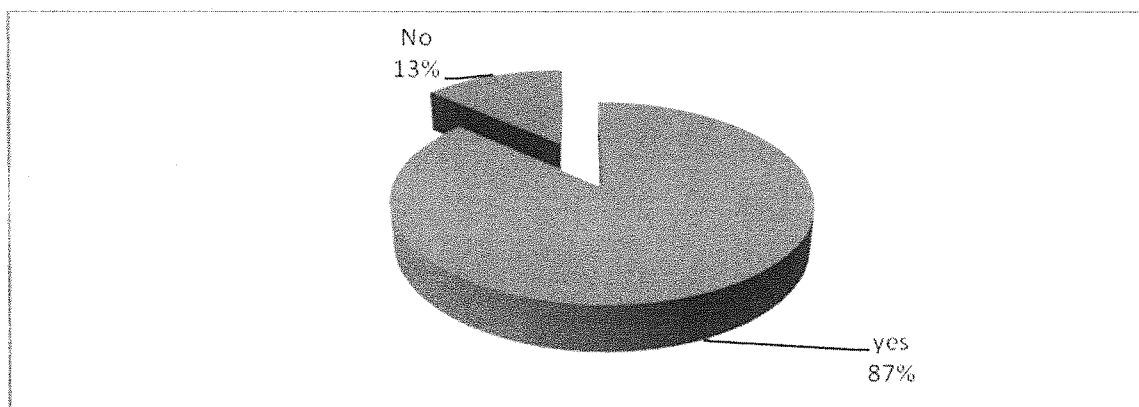


Figure 4.3: Banks Compliance with KYC Guidelines

Additional results on KYC compliance indicate that 54% of the respondents had moderate compliance, 23% of the respondents had high compliance, 10% of the respondents had low compliance and 13% of the respondents did not respond to the question. Respondents who stated that they had a high level of compliance indicated that they complied with most of the KYC requirements. The respondents who stated that they had a moderate compliance indicated that they complied with some of the requirements but not all of them and finally the respondents who stated that they had a low level of compliance indicated that they complied with only what they deemed necessary. This is presented in table 4.2 below:

Table 4.2: The Level of KYC Compliance among Commercial Banks in Kenya

Level of compliance	Frequency	Percentage
No response	4	13
Low	3	10
Moderate	16	54
High	7	23
Total	30	100

4.3.1 Awareness of KYC Compliance in Commercial Banks in Kenya

87% of the respondents were aware of the KYC compliance requirements, 10% of the respondents were not aware of the KYC compliance requirements and 3% of the respondents did not respond. The proportions of respondents that were either not aware of the KYC

requirements or did not respond to the question were from small banks and mortgage institution. This is consistent with literature indicating that small banks have resource limitations that make it difficult to comply with KYC requirements. This is presented in figure 4.3 below:

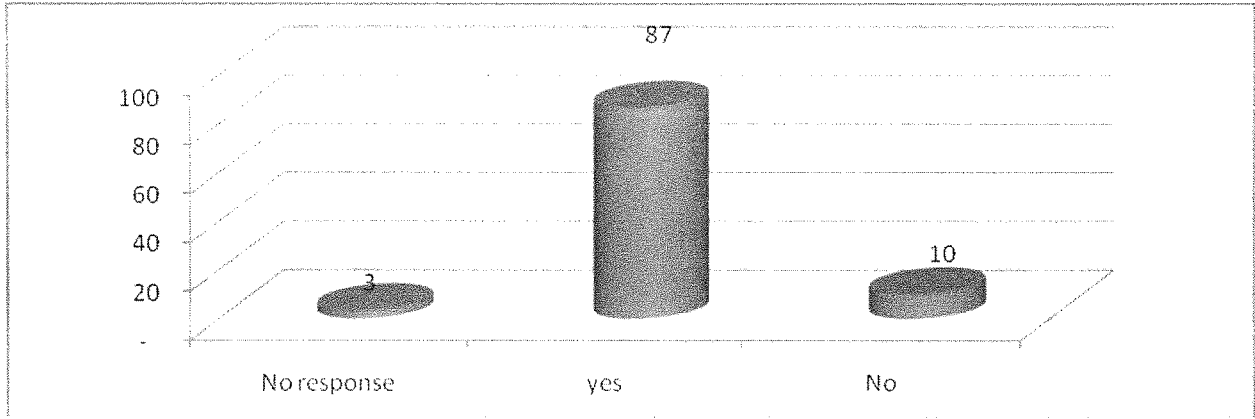


Figure 4.4: Awareness of KYC Compliance Requirements by Commercial Banks

4.4 Factors Influencing KYC Compliance in Commercial Banks in Kenya

4.4.1 Customer Verification Procedures and KYC compliance

The survey was also carried out to determine whether banks consider the customer verification procedures as a factor that influence KYC compliance. The responses were analyzed through tabulation of the frequency of the response received. The results are as shown in table 4.3:

Table 4.3: Respondents Level of Agreement With Statements That Relate To Customers Verification Procedures As A Determinant Of KYC Compliance

Details	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
The nature of the banking relationship is determined by the information provided by the customer and how the staff handing the customers verifies the information provided.	3%	20%	20%	17%	40%
False information provided by a customer perpetually affects how they are perceived by the bank.	30%	1%	23%	43%	3%
Banks are required to obtain proof of identity of its customers, especially new customers opening accounts.	0%	20%	33%	23%	23%
Banks should frame their KYC policies incorporating the following four key elements: Customer Acceptance Policy; Customer Identification Procedures; Monitoring of Transactions; and Risk Management.	0%	13%	40%	40%	7%

From the findings, 43% respondents agreed that false information provided by a customer perpetually affects how the customers are perceived by the bank. A respondent in bank 007A stated that for cases where it has been established that a customer provided false information the compliance officer is required to assesses the risk of opening the account and may require the customer to provide additional information to substantiate the information earlier provided. Depending on the risk rating, such accounts are earmarked for regular monitoring of the account activity so as to detect any irregular transactions. This is consistent with the requirements of the CBK prudential guidelines but also exposes the bank to the risk of

operating an illegal account in instances whereby a bank employee is not able to establish that a customer has given false information. This was the case with the collapsed bank Charterhouse bank whereby the sources of income indicated by the owners of the account were not corresponding with the amount of money that was being deposited in the accounts (Business Daily, 2011).

The responses were shared equally at 40% between strongly agree and agree that banks should frame their KYC policies incorporating the following four key element customers' acceptance policy, customer identification procedures, monitoring of transactions and risk management. A respondent in bank 042C mentioned that knowing their customers at both customer level and contract level was a challenge because of the high status of some of their customers. She further stated that the decision to open accounts for such people is usually made by employees in high level management and monitoring of the accounts is limited to selected individuals especially with regards to politically exposed persons. The respondent alluded that although they endeavored to assess all customers equally it may not always be possible to do so. This implies that the KYC requirement to conduct customer due diligence is sometimes overlooked for some of the customers. A respondent in bank 013B indicated that they have no provision of re-evaluating the information initially provided by the client at the onset of the bank relationship therefore their status might have changed and the bank would have no way of knowing the current information of customers who have been with them for a long time.

33 % of the respondents were neutral about financial institutions being required to obtain proof of identity of its customers, especially new customers opening accounts. One respondent from bank 0027C indicated that they had no quick way authenticating the identification provided a client. ~~The desire for banks to open as many accounts as possible~~ and to deliver services faster has led to cases where accounts have been inadvertently opened using fake documents and irregular transactions passed though the accounts. Such cases are discovered when the damage has already been done and are not revealed to the public so as not to negatively impact on the reputation of the banks.

4.4.2 Bank Size and KYC compliance

The results of the survey indicated that the responses were equally spread among agree, neutral and disagree that small and medium sized banks do have the financial and technical capability required to comply with KYC requirements. 53% of the respondents were neutral that large banks are capable of meeting the KYC compliance cost 50% of the respondents agreed that the bank size has a direct impact on the level of KYC compliance. The responses were closely matched between neutral and agree that small institution who are new to anti-money laundering requirements especially KYC establishment of KYC procedures would find it difficult to be compliant with the requirements. The findings are consistent with previous findings by KPMG (2008) and Clarke (2006) that big banks are capable of meeting compliance costs and costs of complying with KYC can be devastating to small banks who have limited resources. The findings also are in line with AUSTRAC (2007) results that bank size enables a bank to have a higher competitive edge over any undue influence by influential customers due to well established mechanisms. Responses from medium sized banks were neutral; some respondents indicated that the size affected compliance whereas others indicated that size did not affect compliance. Based on the responses the respondents of medium sized that were well established and had more branches indicated that their size does not affect KYC compliance whereas respondents from medium sized banks that were not very well established and had fewer branches indicated that their size does affect KYC compliance.

Some of the respondents in banks which are multinationals stated that at the minimum they are required to adhere to the regulatory requirements in their parent companies countries and where the local regulatory requirements were less stringent than the parent company country requirements then the parent company requirements would have precedence over the local requirements. For such banks they apply the KYC requirements of their parent companies which are more stringent than the CBK prudential guidelines. This is presented in table 4.4:

Table 4.4: Respondents Level of Agreement Relating To Bank Size As A Determinant of KYC Compliance

Details	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
The bank size has a direct impact on the level of KYC compliance.	0%	27%	17%	50%	7%
Large banks are capable of meeting KYC compliance costs	10%	0%	53%	33%	3%
Small and medium sized banks do have the financial and technical capability required to comply with KYC requirements.	0%	33%	33%	33%	0%
Small banks, new to the anti-money laundering requirements especially establishment of KYC procedures find it challenging to comply with the requirements.	0%	23%	30%	33%	14%

4.4.3 Staff Competency and KYC Compliance

The findings indicate that 40% of the respondents disagreed that staff attitudes and physical facilities affected KYC compliance. This was 10% higher than the respondents who agreed with this assertion. A respondent in bank 017A indicated that at some point in the past, the size of their branch could not handle the large number of customers that wanted to open accounts and the staff felt overwhelmed by the large numbers. During that period the focus was on having a faster turnaround of the customers and therefore staff would not carry out sufficient customer due diligence. This exposes the bank to the risk that some of the accounts opened during that period might have been used to transact irregular transactions due to failure on both the bank's part to provide adequate resources and on the staff part to perform the required procedures despite the overwhelming numbers.

50% of the respondents were neutral on whether staff are properly trained on KYC and relevant KYC staff are regularly rotated. 47% agreed that staff competency in control management is an essential ingredient for compliance in KYC guidelines. A respondent in bank 033A stated that everyone working at the account opening department is required to undergo KYC training and take a test. Those who fail the test three times are not allowed to work in the department. They also have periodic refresher trainings on KYC. On the other hand some respondents in small banks stated that they did not have specific KYC training and therefore relied on the bank policy and procedures when carrying out their duties. In most cases the bank policy and procedures did not cover all aspects of the KYC requirements. The results are presented in table 4.5:

Table 4.5: Respondents Level of Agreement Relating To Staff Competency As A Determinant Of KYC Competency

Details	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
The staff attitudes and physical facilities affect customer service and effective KYC procedures compliance.	0%	40%	23%	30%	7%
The work environment affects compliance with KYC procedures.	0%	27%	27%	37%	10%
Staff are properly trained on KYC and relevant KYC staff are regularly rotated.	0%	10%	50%	33%	7%
Staff competency in control management is an essential ingredient for compliance with KYC guidelines	3%	24%	17%	47%	10%

4.4.4 ICT Infrastructure and KYC Compliance

The survey sought to find out the respondent level of agreement relating to information communication technology infrastructure as a determinant of KYC compliance. All the respondents indicated that their institution had some ICT infrastructure in place. 43% of the respondents were neutral on whether adoption of ICT platforms has affected KYC compliance.

47% of the respondents agreed that exceptional activity within the accounts is detected by the ICT. Most of the respondents were unsure of what the capabilities of their ICT platforms in assisting with KYC compliance. The respondents were aware that through the IT they could detect any unusual activity in the accounts but were not sure whether they could link information in different accounts to determine if they are related. These responses can be explained by the fact that most of the respondents were not IT experts and relied on their IT depart to alert them on any unusual account activity. This finding is presented in table 4.6:

Table 4.6: Respondent Level of Agreement Relating To Information Communication Technology Infrastructure As A Determinant Of KYC Compliance

Details	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Adaption of ICT platforms has affected KYC compliance.	0%	20%	43%	37%	0%
On-line banking facilities and e-commerce transactions comply with the KYC requirements.	0%	33%	13%	44%	10%
The bank's IT framework is integrated to other sites e.g. lists of UN restricted or stopped card names.	0%	33%	33%	33%	0%
Exceptional activity within accounts is detected by the ICT system.	4%	23%	17%	47%	10%

4.5 Regression Results

The study used ordinary least squares regression to test the relevance of the variables in estimating the dependent variable, in this case, KYC compliance as measured through assessing whether the commercial banks knew their customers at both customer and contract level.

The results of the regression output are presented in table 4.7:

Table 4.7 Regression results (Response is knowing customers at both customer and contract level on 4 predictors, with N = 30)

	Coefficient	P-Value	T-Value
Customer verification	0.1746	0.315	1.03
Bank size	0.3118	0.099*	1.71
Staff Competency	0.4421	0.015**	2.62
IT Infrastructure	0.0622	0.749	0.32
Constant	-0.004	0.991	-0.01
S	0.3586		
R-Square	87.1 %		
R-Square (Adj)	85.1 %		
P-Value Model	0.000		

Note: *Indicates significance at 10% level of significance

**Indicates significance at 5% level of significance

***indicates significance at 1% level of significance

Source: Researcher's computation

The OLS regression results produced an R-squared (adjusted) of 85.1%. This shows that the four independent variables studied explain 85.1% of the variation in KYC compliance. This indicates that the explanatory power of the model is strong. Other factors not studied in this research contribute 14.9% of KYC compliance. Therefore, further research should be conducted to investigate these factors.

The results indicate a positive but not significant relationship between KYC compliance and customer verification procedures as shown by the p-value of 0.315 and a co-efficient of 0.1746. This means that a unit increase in customer verification procedures will increase KYC compliance by 0.1746 if all other factors are held constant.

The regression results also indicate a significant relationship between bank size and KYC compliance as shown by the p-value of 0.099 at 10% significance level and a positive coefficient of 0.3118. This means that unit increases in bank size will lead to an increase of 0.3118 in KYC compliance if all other factors are held constant.

Further findings from the regression analysis, as shown in table 4.1, show a positive coefficient of 0.4421 with a p-value of 0.015 at 5% level of significance between the staff competency and KYC compliance. Holding all factors constant, the results suggest that a change in staff competency by one unit will increase KYC compliance by 0.4421.

The regression output shows that ICT infrastructure has the least impact on KYC compliance compared to the other factors studied. ICT infrastructure had a coefficient of 0.0622 with a p-value of 0.749. This means that if the ICT infrastructure increased by one unit, KYC compliance increases by 0.0622 units all other factors held constant.

4.6 Discussion of Findings

4.6.1 Customer Verification Procedures and KYC Compliance

Although customer verification procedures influence KYC compliance by determining the subsequent KYC procedures that will be performed their effect was not as great as the other factors studied. As indicated in table 4.1 the regression results showed that customer verification procedures influence was not as significant as bank size and staff competency which had a higher influence. These results are not in tandem with Wolfsburg group (2002) findings which indicated that customer verification procedures are the most important element in determining KYC compliance. The different findings from existing literature can be explained by the reason that the some of the respondents in this study were not well trained in customer verification procedures and therefore could not accurately assess whether the procedures determined KYC compliance.

The results further indicated that the desire for commercial banks to increase the number of customers may have led to cases where fake documents provided by customer had been used to inadvertently open new accounts as there was no quick way of ascertaining the

identification documents provided by the client. There are no official central depositories with valid identification information that can be used to cross check the information provided by the customers. This is in line with Ngagi (2009) findings which identified the lack of central information depositories as one of the factors that hampered the anti-money laundering initiatives in Kenya.

Finally the findings also indicated that the banks have no provision requiring their long standing customers to provide new information after a specified period for re-evaluation. Therefore a customer's status may have changed over time and the bank will still be relying on the information provided earlier. This results support Aosa's (1998) findings that institutions have to constantly adopt their activities and internal configuration to reflect the new external realities, failure of which leaves the organization in jeopardy. Some of the banks the banks that collapsed did so because they failed to have a provision for re-evaluating information provided by their long standing customers (Business Daily, 2011).

4.6.2 Bank Size and KYC Compliance

Bank size determines the amount of resources that will be invested in KYC compliance. Large banks have the advantage over small banks as they have the adequate resources to invest in KYC training and establishing policies and mechanisms that assist in KYC compliance. Large banks which are branches of subsidiaries of multinationals also have the support of their parent companies who require them to follow the KYC requirements of the parent company which in are more stringent than CBK KYC requirements.

Medium sized banks indicated that their size in some cases affects KYC compliance and in other cases it does not affect compliance. The more established medium sized banks have more resource to invest in KYC than their less established medium sized counter parts. Small banks indicated that they did not adequate resources and therefore implemented the minimum possible KYC requirements and in some cases did not take into consideration the KYC requirements. This supports Markov (2007) findings that the reasons some banks apply KYC measures are not because they want to but because they are obliged to.

The bigger the bank the more likely that they will comply with KYC requirements as they have a higher reputational risk and will be significantly affected if found to be non-compliant.

4.6.3 Staff Competency and KYC Compliance

The regression results indicate that staff competency is the most significant determinant of KYC compliance. This supports Gibbons (2003) argument that specialized expertise is required to develop, apply and administer suitable KYC compliance programs. Large banks have KYC training programs that empower their staff with competency to run their KYC programs. Although the staff in large banks have the levels of competency required, they admitted that at times when overwhelmed by the big customer numbers wishing to open new accounts and the pressure to have a faster turnaround of the customers they overlooked some of the KYC checks that they were supposed to perform. This indicates that in addition to staff competency attention should also be given to the work environment as this can affect whether the staff will apply what they have been trained. This finding is consistent with Murithi (2006) study that showed staff attitudes and physical facilities affected customer service.

The staff in the small banks did not have specific KYC training and instead relied on their banks policies and procedures to perform their duties. The findings are in line with Dementyeva (2006) findings that small sized banks are not concerned with about training obligations to the same extent as large banks. Constant training and provision of a conducive work environment is essential for the effectiveness of KYC compliance initiatives.

4.6.4 ICT and KYC Compliance

The findings indicate that although ICT has potential to assist the banks in implementing their KYC programs, most of the ICT platforms were under-utilized as the staff responsible for KYC implementation relied on their IT experts to run reports for them and to check for any unusual account activity. The IT experts were not well versed with KYC issues and therefore only provided what was asked of them by the KYC staff. The KYC staff were unaware of the capabilities of their ICT platforms and tended to ask for limited information

and therefore reduced the effect of ICT on KYC compliance because the staff had limited capabilities. This conclusion is similar to Philippssohn (2001) and Vargas & Backhouse (2003) findings in their studies which concluded that legislation and regulation implemented to counter money laundering activities needs to deal with use of new technology.

Kondabagil (2007) propounded that the success of a bank will be determined by its ability to deliver innovative products in a technologically advanced way. By leveraging on both the advantages of both the IT experts and the KYC staff by for example training one of the IT experts on KYC procedures then the banks will be able to fully utilize the ICT platforms. The IT expert will have a better understanding on what is required and will advise them appropriately on how they can utilize the ICT platforms.

CHAPTER FIVE: SUMMARY OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter provides the summary of the findings from chapter four, and it also gives the conclusions and recommendations based on the objectives of the study. The objectives of this study were to investigate the factors that determine the KYC compliance by commercial banks in Kenya.

5.2 Summary of the Findings

Staff competency considerably determines KYC compliance. Respondents in large banks appear to have advantage over their small and regular training on KYC requirements. Some respondents in small banks were not aware of KYC requirements followed their respective bank policies and procedures which were less stringent than the KYC requirements.

The findings also indicate that bank size is a key determinant of KYC compliance as it determines the amount of resources that will be available to invest in KYC. Small banks appear to be the disadvantaged as they do not have the resources required to comply with some of the KYC requirements. Large banks have the advantage of having the resources and where the banks are branches of multi-nationals they leveraged on the expertise of the parent company.

The research revealed that customer verification procedures are not a key determinant of compliance. This is likely due the fact that some of the respondents were not aware of the procedures and therefore could not accurately assess whether the procedures determined KYC compliance.

The study found that although ICT is a paramount resource in assisting banks to comply with KYC requirements, most of the respondents were not aware of the capabilities of their ICT platforms and therefore could not utilize them fully. They relied on the IT experts in the bank to provide the information required.

5.3 Conclusion

The study concludes that customer verification procedures is not a significant influence on KYC compliance because some respondents were not aware of the procedures and could therefore not accurately determine if the procedures determine compliance.

The study further concludes that bank size does affect compliance with small banks being the most affected as they are not capable of meeting KYC compliance costs.

Moreover the study concludes that staff competencies and work environment considerably determine KYC compliance as they are the individuals responsible for the day to day implementation of laid out KYC procedures.

Finally, the study concludes that ICT infrastructure can be used as a tool to aid compliance but most banks are not utilizing it fully.

5.4 Recommendations

The continued threat of money laundering because of weak KYC compliance can be effectively managed by the robust understanding and addressing the potential of money laundering risks associated with the customers and transactions.

Literature shows that customer verification procedures are a vital element in KYC compliance, therefore the bank employees should be trained to be as precise as possible when gathering customer information during their first contact with a potential customer. This will assist to identify customer's background, profile, source of wealth, source of income, purpose and intended use of the account, in order to effectively assess the account behavior in terms of KYC compliance based on associated risk of the account. Further, controls need to be put in place throughout the life cycle of a customer's account to ensure that that monitoring plans and reviews are in place. In the long term, the government should provide a central depository of identification information which banks can use to verify the information provided by their customers.

Small banks do not have adequate financial resources to meet the costs required to meet the KYC requirements. This is a potential risk area as money launderers can take advantage of the weak KYC controls to lauder illegal funds. CBK should work together with the small

banks to conduct KYC seminars to enable the small banks know some of the in expensive measures that they can put in place in order to comply with KYC requirements such as regular staff training on KYC. In addition, the CBK should conduct ad hoc inspections of the accounts at small banks so as to detect potential accounts that are being used to launder money. The regular inspections will also act as a deterrent to criminals that want to take advantage of the weak KYC compliance in small banks.

Commercial banks should make it mandatory for all staff to be trained and accredited on KYC requirements prior to undertaking their respective roles according to their responsibilities. Small banks must find creative ways to use their limited resources to ensure that their employees are trained on KYC. This can be done through taking online KYC courses and liaising with other small banks to have joint trainings on KYC. In addition, the commercial banks should provide conducive work environments in terms of motivating their employees and ensuring that the physical facilities are adequate. This will assist in providing an atmosphere that will enable the requirements of KYC to be complied with.

Finally, the study recommends that banks should sensitize their employees on how ICT can be used as a tool to ensure compliance with KYC. This will ensure that their ICT platforms are utilized fully to assist some aspects of KYC compliance. Although most of the respondents interviewed were aware of the ICT infrastructure in place most were unsure of how the ICT infrastructure could assist the banks in being KYC compliant.

5.5 Recommendation for Further Studies

This study has focused on four factors that determine the level of compliance with KYC requirements by commercial banks in Kenya. Further study should be carried out to other factors that determine KYC compliance in Kenya. Literature review indicates tone at the top and policies/produces set by the banking institutions as some of the other factors that influence compliance with regulations.

Moreover a study should be carried out to establish how the use of ICT can assist in complying with KYC requirements.

5.6 Limitation of the Study

The study was limited by the fact there was no way of authenticating the information provided by the banks due the risk that some of the information provided might have been incorrect so as not to affect the reputation of the banks. This limitation was overcome by confirming some of the information provided by the banks with the information provided by CBK inspection reports in addition to having informal discussions with some of the staff that are involved in day to day KYC implementation. This was essential in checking reliability of the information that had been gathered from other banks through questionnaires and interviews.

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APPENDICES

APPENDIX I: Introduction Letter

Linah Ottichilo,
P.O BOX 53055- 00200
Nairobi, KENYA.

Dear Respondents,

RE: **DATA COLLECTION**

I am a student at the Strathmore University. I am currently undertaking a research study to fulfill the requirements of the Award of Master of Commerce on the **DETERMINANTS OF KNOW YOUR CUSTOMER (KYC) COMPLIANCE AMONG COMMERCIAL BANKS IN KENYA.**

You have been selected to participate in this study and I would highly appreciate if you assisted me by responding to all questions in the attached questionnaire as completely, correctly and honestly as possible. Your response will be treated with utmost confidentiality and will be used only for research purposes of this study only.

Thank you in advance for your co-operation.

Yours faithfully,

Linah Ottichilo
Researcher

APPENDIX II: QUESTIONNAIRE

This questionnaire consists of five parts. Please answer all the questions by ticking on the spaces provided or use the spaces left for you.

1. Name of Bank (Optional)

3. Your age bracket (Tick whichever appropriate)

Over 51 years []

.....

- | | |
|-------------------------|--|
| Certificate | |
| Diploma | |
| Higher National Diploma | |
| Bachelors | |
| Masters | |
| PhD | |

- No []

6. What is the level of KYC compliance among commercial banks in Kenya?
- Low ☐
- Moderate ☐
- High ☐
7. Your bank knows the customers at both customer and contract level? **1= Strongly Disagree; 2= Disagree; 3= Neutral; 4 Agree; 5= Strongly Agree.**
8. Are small banks aware of KYC compliance requirements?
- Yes ☐
- No ☐
- If no give reason why?

.....

.....

.....

.....

PART B: CUSTOMER VERIFICATION PROCEDURES

9. What is your level of agreement with the following statements that relate to customer verification procedures as a determinant of KYC compliance? **1= Strongly Disagree; 2= Disagree; 3= Neutral; 4 Agree; 5= Strongly Agree.**

	1	2	3	4	5
The nature of the banking relationship is determined by the information provided by the customer and how the staff handling the customers verifies the information provided.					
False information provided by a customer perpetually affects how they are perceived by the bank.					
Banks are required to obtain proof of identity of its customers, especially new customers opening accounts.					
Banks should frame their KYC policies incorporating the following four key elements: Customer Acceptance Policy; Customer Identification Procedures; Monitoring of Transactions; and Risk Management.					

PART C: BANK SIZE

10. What is your level of agreement with the following statements that relate to bank size as a determinant of KYC compliance? 1= **Strongly Disagree**; 2= **Disagree**; 3= **Neutral**; 4 **Agree**; 5= **Strongly Agree**.

	1	2	3	4	5
The bank size has a direct impact on the level of KYC compliance.					
Large banks are capable of meeting KYC compliance costs					
Small and medium sized banks do have the financial and technical capability required to comply with KYC requirements.					
Small banks, new to the anti-money laundering requirements especially establishment of KYC procedures find it challenging to comply with the requirements.					

PART D: STAFF COMPETENCY

11. What is your level of agreement with the following statements that relate to staff competency as a determinant of KYC competency? 1= **Strongly Disagree**; 2= **Disagree**; 3= **Neutral**; 4 **Agree**; 5= **Strongly Agree**.

	1	2	3	4	5
The staff attitudes and physical facilities affect customer service and effective KYC procedures compliance.					
The work environment affects compliance with KYC procedures.					
Staff are properly trained on KYC and relevant KYC staff are regularly rotated.					
Staff competency in control management is an essential ingredient for compliance with KYC guidelines					

**PART E: INFORMATION COMMUNICATION TECHNOLOGY
INFRASTRUCTURE**

12. Does your bank have an ICT infrastructure?

13. What is your level of agreement with the following statements that relate to information communication technology infrastructure as a determinant of KYC compliance? **1= Strongly Disagree; 2= Disagree; 3= Neutral; 4 Agree; 5= Strongly Agree.**

	1	2	3	4	5
Adoption of ICT platforms has affected KYC compliance.					
Internet and SMS banking facilities and e-commerce transactions comply with the KYC requirements.					
The bank's IT framework is integrated to other sites e.g. lists of UN restricted or stopped card names.					
Exceptional activity within accounts is detected by the ICT system.					

14. Please recommend any other measures which you think can help in reducing the incidences of KYC non-compliance among the banks:

{THANK YOU FOR YOUR ASSISTANCE}

APPENDIX III: BANK DIRECTORY

Attached is the list of all the banks that were surveyed in the study.

DIRECTORY OF COMMERCIAL BANKS AND MORTGAGE FINANCE COMPANIES

A: COMMERCIAL BANKS

African Banking Corporation Ltd.

Postal Address: P.O Box 46452-00100, Nairobi

Telephone: +254-20- 4263000, 2223922, 22251540/1, 217856/7/8.

Fax: +254-20-2222437

Email: headoffice@abcthebank.com

Website: <http://www.abcthebank.com>

Physical Address: ABC Bank House, Mezzanine Floor, Koinange Street.

Date Licensed: 5/1/1984

Peer Group: Medium

Branches: 10

Bank of Africa Kenya Ltd.

Postal Address: P. O. Box 69562-00400 Nairobi

Telephone: +254-20- 3275000, 2211175, 3275200

Fax: +254-20-2211477

Email: headoffice@boakenya.com

Website: www.boakenya.com

Physical Address: Re-Insurance Plaza, Ground Floor - Taifa Rd.

Date Licenced: 1980

Peer Group: Large

Branches: 18

Bank of Baroda (K) Ltd.

Postal Address: P. O Box 30033 - 00100 Nairobi

Telephone: +254-20-2248402/12, 2226416, 2220575, 2227869

Fax: +254-20-316070

Email: ho.kenya@bankofbaroda.com

Website: www.bankofbaroda.kenya.com

Physical Address: Baroda House, Koinange Street

Date Licenced: 7/1/1953

Peer Group: Large

Branches: 11

Bank of India

Postal Address: P. O. Box 30246 - 00100 Nairobi

Telephone: +254-20-2221414 /5 /6 /7

Fax: +254-20-2221417

Email: cekenya@boikenya.com

Website: www.bankofindia.com

Physical Address: Bank of India Building, Kenyatta Avenue.

Date Licenced: 6/5/1953

Peer Group: Large

Branches: 5

Barclays Bank of Kenya Ltd.

Postal Address: P. O. Box 30120 - 00100, Nairobi

Telephone: +254-20- 3267000, 313365/9, 2241264-9, 313405,

Fax: +254-20-2213915

Email: barclays.kenya@barclays.com

Website: www.barclayskenya.co.ke

Physical Address: Barclays Plaza, Loita Street.

Date Licenced: 6/5/1953

Peer Group: Large

Branches: 103 , Sales Centers - 12

CFC Stanbic Bank Ltd.**Postal Address:** P. O. Box 72833 - 00200 Nairobi**Telephone:** +254-20-3638000. /11 /17 /18 /20 /21, 3268000, 0711-0688000**Fax:** +254-20-3752901/7**Email:** cfcstanbic@stanbic.com**Website:** <http://www.cfcstanbicbank.co.ke>**Physical Address:** CFC Centre. Chiromo Road. Westlands**Date Licenced:** 5/14/1955**Peer Group:** Large**Branches:** 20**Charterhouse Bank Ltd.****UNDER - STATUTORY MANAGEMENT****Postal Address:** P. O. Box 43252 Nairobi**Telephone:** +254-20-2242246 /7 /8 /53**Fax:** +254-20-2219058, 2223060, 2242248**Email:** info@charterhouse-bank.com**Website:****Physical Address:** Longonot Place. 6th Floor, Kijabe Street.**Date Licenced:** 11/11/1996**Peer Group:** Medium**Branches:** 10**Chase Bank (K) Ltd.****Postal Address:** P. O. Box 66015-00800 Nairobi**Telephone:** +254-20- 2774000, 2244035, 2245611, 2252783, 0727-531175, 0736-432025**Fax:** +254-20-4454816/4454800-10**Email:** info@chasebank.co.ke**Website:** <http://www.chasebankkenya.co.ke>**Physical Address:** Riverside Mews. Riverside Drive.**Date Licenced:** 4/1/1991**Peer Group:** Large**Branches:** 18**Citibank N.A Kenya****Postal Address:** P. O. Box 30711 - 00100 Nairobi**Telephone:** +254-20- 2754000, 2711221**Fax:** +254-20-2714810/1**Email:** Kenya.citiservice@citi.com**Website:** <http://www.citibank.co.ke>**Physical Address:** Citibank House. Upper Hill Road.**Date Licenced:** 7/1/1974**Peer Group:** Large**Branches:** 4**Commercial Bank of Africa Ltd.****Postal Address:** P. O. Box 30437 - 00100, Nairobi**Telephone:** +254-20-2884000, 2734555, 0711056222-15**Fax:** +254-20-2734599**Email:** iqueries@cba.co.ke**Website:** www.cba.co.ke**Physical Address:** CBA Building, Mara / Ragati Road, Upper Hill**Date Licenced:** 1/1/1967**Peer Group:** Large**Branches:** 20**Consolidated Bank of Kenya Ltd.****Postal Address:** P. O. Box 51133 - 00200, Nairobi**Telephone:** +254-20-340208/340836,340551, 340298, 340747,340298,211950, 0722-999177**Fax:** +254-20-340213**Email:** headoffice@consolidated-bank.com**Website:** www.consolidated-bank.com**Physical Address:** Consolidated Bank House, 6th Floor, Koinange Street.**Date Licenced:** 12/18/1989**Peer Group:** Medium

Branches: 14
Co-operative Bank of Kenya Ltd. Postal Address: P. O. Box 48231 - 00100 Nairobi Telephone: +254-20-3276000, 0711-049000 Fax: +254-20-2245506 Email: md@co-opbank.co.ke Website: www.co-opbank.co.ke Physical Address: Co-operative House, 4 th Floor Annex, Haile Selassie Avenue. Date Licenced: 1/1/1965 Peer Group: Large Branches: 87
Credit Bank Ltd. Postal Address: P. O. Box 61064-00200 Nairobi Telephone: +254-20-2222300/ 2220789/ 2220789/ 2222317, 0728607701, 0738222300 Fax: +254-20-2216700 Email: info@creditbankltd.co.ke Website: www.ceditbank.co.ke Physical Address: Mercantile House, Ground Floor, Koinange Street Date Licenced: 5/14/1986 Peer Group: Small Branches: 7
Development Bank of Kenya Ltd. Postal Address: P. O. Box 30483 - 00100, Nairobi Telephone: +254-20-340401 /2 /3, 340416, 2251082, 340198 Fax: +254-20-2250399 Email: dbk@devbank.com Website: www.devbank.com Physical Address: Finance House.16 th Floor. Loita Street. Date Licenced: 1/1/1973 Peer Group: Medium Branches: 3
Diamond Trust Bank Kenya Ltd. Postal Address: P. O. Box 61711 - 00200, Nairobi Telephone: +254-20-2849000, 2210988/9 Fax: +254-20-2245495 Email: info@dtbafrica.com Website: http://www.diamondtrust-bank.com Physical Address: Nation Centre. 8th Floor, Kimathi Street. Date Licenced: 1/1/1946 Peer Group: Large Branches: 36
Dubai Bank Kenya Ltd. Postal Address: P. O. Box 11129 - 00400, Nairobi Telephone: +254-20-311109 /14 /23 /24 /32 Fax: +254-20-2245242 Email: info@dubaibank-kenya.co.ke Website: www.dubaibank.co.ke Physical Address: I.C.E.A. Building. Ground Floor, Kenyatta Avenue. Date Licenced: 1/1/1982 Peer Group: Small Branches: 5
Ecobank Kenya Ltd. Postal Address: P. O Box 49584- 00100 Nairobi Telephone: +254-20-2883000, 2249633 /4, 0722-204863 Fax: +254-20-2883304 Email: info@ecobank.com Website: www.ecobank.com Physical Address: Ecobank Towers, Muindi Mbingu Street. Date Licenced: 01/11/2005

Peer Group: Large Branches: 20
Equatorial Commercial Bank Ltd. Postal Address: P. O. Box 52467-00200 Nairobi Telephone: +254-20-2710455, 4981000, 4981301, 4981405 Fax: +254-20-2710366 / 2719625 Email: customerservice@ecb.co.ke Website: www.equatorialbank.co.ke Physical Address: Equatorial Commercial Bank Centre. Nyerere Road. Date Licenced: 12/20/1995 Peer Group: Medium Branches: 12
Equity Bank Ltd. Postal Address: P. O. Box 75104-00200. Nairobi Telephone: +254-20- 2262000 Fax: +254-20-2711439 Email: info@equitybank.co.ke Website: http://www.equitybank.co.ke Physical Address: Equity Centre,9th Floor. - Hospital Road- Upper Hill Date Licenced: 28/12/2004 Peer Group: Large Branches: 123
Family Bank Limited Postal Address: P. O. Box 74145-00200 Nairobi Telephone: +254-020- 318173, 318940/2/7, 2244166, 2240601, 0736-698300, 0720-098309 Fax: +254-020- 318174 Email: info@familybank.co.ke Website: www.familybank.co.ke Physical Address: Four Ways Towers. 6th Floor , Muindi Mbingu Street Date Licenced: 1984 Peer Group: Large Branches: 52
Fidelity Commercial Bank Ltd. Managing Director: Mr. Rana Sengupta Postal Address: P. O. Box 34886-00100 Nairobi Telephone: +254-20-2242348, 2244187, 2245369, 2220845, 2243461, 315917 Fax: +254-20-2243389/2245370 Email: customerservice@fidelitybank.co.ke Website: www.fidelitybank.co.ke Physical Address: I.P.S Building. 7th Floor, Kimathi Street. Date Licenced: 6/1/1992 Peer Group: Medium Branches: 7
Finabank Ltd. Postal Address: P. O. Box 20613 - 00200, Nairobi Telephone: +254-20-3284000, 2246943, 2253153, 2247113, 2253040, 0722-202929 Fax: +254-20-2247164/2229696, 342024 Email: banking@finabank.com Website: www.finabank.com Physical Address: Finabank House. Kimathi Street. Date Licenced: 1/1/1986 Peer Group: Large Branches: 15
First community Bank Limited Postal Address: P. O. Box 26219-00100., Nairobi Telephone: +254-20-2843000 -3, 0726-736833, 0738-407521 Fax: +254-20-344101 Email: info@fcb.co.ke Website: www.firstcommunitybank.co.ke Physical Address: Prudential Assurance Building, 1 st Floor, Wabera Street

Date Licenced: 29.04.2008 Peer Group: Medium Branches: 18
Giro Commercial Bank Ltd. Postal Address: P. O. Box 46739 – 00200, Nairobi Telephone: +254-20-340537, 310350, 2216005, 2217777 /6, 340544, 0722823684, 0733999044. Fax: +254-20-2210679 Email: girobank@girobankltd.com Website: Physical Address: Giro House. Kimathi Street. Date Licenced: 12/17/1992 Peer Group: Medium Branches: 7
Guardian Bank Ltd. Postal Address: P. O. Box 67681 – 00200, Nairobi Telephone: +254-020-2226771, 2226774, 2226341, 222483, 0722-282213, 0722938629, 0733-888060 Fax: +254-020-2216633 Email: biashara@guardian-bank.com Website: www.guardian-bank.com Physical Address: Guardian Centre, Biashara Street Date Licenced: 12/17/1992 Peer Group: Medium Branches: 7
Gulf African Bank Limited Postal Address: P. O. Box 43683 – 00100, Nairobi Telephone: +254-20-2740000, 2718608/9, 2740111 Fax: +254-20-2715655 Email: info@gulfafricanbank.com Website: www.gulfafricanbank.com Physical Address: Gemina Insurance Plaza. Kilimanjaro Avenue, Upper Hill Date Licenced: 1/11/2007 Peer Group: Medium Branches: 15
Habib Bank A.G Zurich Postal Address: P. O. Box 30584 - 00100 Nairobi Telephone: +254-20-341172/76/77, 340835, 310694 Fax: +254-20-2217004 /2218699 Email: habibbank@wananchi.com Website: Physical Address: Habib House, Koinange Street. Date Licenced: 1/7/1978 Peer Group: Medium Branches: 5
Habib Bank Ltd. Postal Address: P. O. Box 43157 – 00100, Nairobi Telephone: +254-20-2226433, 2222786, 2226406/7, 2218176 Fax: +254-20-2214636 /2214636 Email: hblro@hbblfrica.com Website: www.hbl.com Physical Address: Exchange Building, Koinange Street. Date Licenced: 2/3/1956 Peer Group: Medium Branches: 4
Imperial Bank Ltd. Postal Address: P. O. Box 44905 – 00100, Nairobi Telephone: +254-20-2874000, 343416 /12/17/18/19/94, 342373, 2719617 /8 /9 Fax: +254-20-2719705/2719652, 342374, 2719498 Email: info@imperialbank.co.ke Website: www.imperialbank.co.ke Physical Address: Imperial Bank House. Bunyala Road, Upper Hill

Date Licenced: 1/11/1992
Peer Group: Large
Branches: 16

I & M Bank Ltd.
Postal Address: P.O. Box 30238 – 00100, Nairobi
Telephone: +254-20-310105, 2711994-8, 3221200/2
Fax: +254-20-2713757 / 2716372
Email: invest@imbank.co.ke
Website: <http://www.imbank.com>
Physical Address: I & M Bank House. 2nd Ngong Avenue.
Date Licenced: 1/1/1974
Peer Group: Large
Branches: 19

Jamii Bora Bank Limited
Postal Address: P. O. Box 22741 – 00400, Nairobi
Telephone: +254-20- 2224238/9, 2214976, 2219626, 2210338/9, 0722-201112
Fax: +254-20-341825/2245223/2214534
Email: info@jamiiborabank.co.ke
Website: <http://www.jamiiborabank.co.ke>
Physical Address: Jamii Bora House. Koinange Street.
Date Licenced: 9/10/1984
Peer Group: Small
Branches: 1

Kenya Commercial Bank Ltd.
Postal Address: P. O. Box 48400 – 00100, Nairobi
Telephone: +254-20-3270000, 2851000, 2852000, 250802
Fax: +254-20-2242408
Email: kcbhq@kcb.co.ke
Website: <http://www.kcbbankgroup.com>
Physical Address: Kencom House, 8th Floor, Moi Avenue.
Date Licenced: 1/1/1896
Peer Group: Large
Branches: 165

K-Rep Bank Ltd.
Postal Address: P. O. Box 25363 – 00603, Nairobi
Telephone: +254-20- 3906000-7, 3873169, 3568996/7, 0711-058000-7, 0732-058000-7
Fax: +254-20-3568995
Email: registry@k-repbank.com
Website: www.k-repbank.com
Physical Address: K-Rep Centre. Wood Avenue. Kilimani
Date Licenced: 3/25/1999
Peer Group: Medium
Branches: 31

Middle East Bank (K) Ltd.
Postal Address: P. O. Box 47387 - 0100 Nairobi
Telephone: +254-20-2723120/24, 2722879, 2723124, 2723130, 0722-205903' 0733-333441
Fax: +254-20-343776 / 2256901
Email: ho@mebkenya.com
Website: www.mebkenya.com
Physical Address: Mebank Tower - Milimani Road.
Date Licenced: 10/1/1980
Peer Group: Small
Branches: 3

National Bank of Kenya Ltd.
Postal Address: P. O. Box 72866 - 00200 Nairobi
Telephone: +254-20-2828000, 2226471, 0711-038000, 0735-995050-4
Fax: +254-20-311444/2223044

Email: info@nationalbank.co.ke.
Website: www.nationalbank.co.ke
Physical Address: National Bank Building, 2nd Floor, Harambee Avenue.
Date Licenced: 1/1/1968
Peer Group: Large
Branches: 54

NIC Bank Ltd.
Postal Address: P. O. Box 44599 - 00100 Nairobi
Telephone: +254-20-2888000, 2888600, 4849000, 0722-203885 /6 /7, 0711041000
Fax: +254-20-2888505/13
Email: info@nic-bank.com
Website: http://www.nic-bank.com
Physical Address: N.I.C House. Masaba Road.- Upper Hill
Date Licenced: 9/17/1959
Peer Group: Large
Branches: 16

Oriental Commercial Bank Ltd.
Postal Address: P.O BOX 14357-00800, Nairobi
Telephone: +254-20-3743278/87, 3743289/98, 0714611466, 0733610410
Fax: +254-20-3743270
Email: info@orientalbank.co.ke
Website: www.orientalbank.co.ke
Physical Address: Apollo Centre, 2nd Floor, Ring Road- Westlands.
Date Licenced: 8/2/1991
Peer Group: Small
Branches: 6

Paramount Universal Bank Ltd.
Postal Address: P. O. Box 14001 -00800 Nairobi
Telephone: +254-20-4449266/7/8, 446106 /7, 4443896, 445722
Fax: +254-20-449265
Email: info@paramountbank.co.ke
Website: www.paramountbank.co.ke
Physical Address: Sound Plaza Building. 4th Floor. Woodvale Grove. Westlands
Date Licenced: 10/1/1993
Peer Group: Small
Branches: 6

Prime Bank Ltd.
Postal Address: P. O. Box 43825 - 00100, Nairobi
Telephone: +254-20-4203000
Fax: +254-20-4451247
Email: headoffice@primebank.co.ke
Website: www.primebankkenya.com
Physical Address: Prime Bank Building. Chiromo Lane / Riverside Drive.-Junction, Westlands
Date Licenced: 3/1/1992
Peer Group: Large
Branches: 14

Standard Chartered Bank Kenya Ltd.
Postal Address: P. O. Box 30003 - 00100 Nairobi
Telephone: +254-20-3293000, 3293900
Fax: +254-20-3747880
Email: Talk-Us@sc.com
Website: www.standardchartered .com
Physical Address: Stanbank House, Moi Avenue.
Date Licenced: 10/1/1910
Peer Group: Large
Branches: 33

Trans-National Bank Ltd.
Postal Address: P. O. Box 34353 - 00100 Nairobi
Telephone: +254-20-2224234-6, 2210335, 2252188/90/91, 2224235/6, 2252219
Fax: +254-20-2252225
Email: info@tnbl.co.ke

Website: www.tnbl.co.ke
Physical Address: Transnational Plaza, City Hall Way.
Date Licenced: 8/1/1985
Peer Group: Medium
Branches: 18

UBA Kenya Bank Limited
Postal Address: : P. O. Box 34154 - 00100 Nairobi
Telephone: +254-020- 3612000 /1 / 2. 3740814.
Fax: +: +254-020-3612049
Email: muyiwa.akinyemi@ubagroup.com
Website: www.ubagroup.com
Physical Address: Apollo Centre, 1st Floor, Ring Road / Vale Close, Westlands
Date Licenced: 24/09/2009
Peer Group: Small
Branches: 4

Victoria Commercial Bank Ltd.
Postal Address: P. O. Box 41114 - 00100 Nairobi
Telephone: +254-20-2719499, 2719815, 2710271, 2716108, 2719814
Fax: +254-20-2713778/2715857
Email: victoria@vicbank.com
Website:
Physical Address: Victoria Towers, Mezzanine Floor, Kilimanjaro Avenue. Upper Hill
Date Licenced: 6/1/1987
Peer Group: Medium
Branches: 3

B: MORTGAGE FINANCE COMPANIES

Housing Finance Ltd.
Postal Address: P. O. Box 30088 -00100 Nairobi
Telephone: +254-20- 3262000, 317474, 2221101
Fax: +254-20-340299/2250858
Email: housing@housing.co.ke
Website: www.housing.co.ke
Physical Address: Rehani House, 2nd Floor, Kenyatta Avenue. / Koinange Street - Junction.
Date Licenced: 5/7/1965
Peer Group: Large
Branches: 11

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