

Financial competencies in the institutional dimension

Editor:

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CHAPTER 3. FINANCIAL COMPETENCIES IN COMBATING MONEY LAUNDERING IN THE BANKING MARKET

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3.1. Justification of the structure of internal anti-money laundering factors.

The internal bank anti-money laundering factors are structured by the following groups: client-related, operational, and systemic. Client-related factors reflect the type of activity, beneficial owners, and purpose of opening bank accounts. Operational factors within the legal economy allow assessing the amount of cash in the country, volume of cash transactions of banks, availability of any anonymous transactions in banks and transactions with cryptocurrencies. Systemic factors cover the issues of staff competence and training, compliance, bank information systems management, corporate governance, document and information storage, and internal control and audit.

Internal banking anti-money laundering factors were assessed using the developed tools, which include: questionnaires to assess the competence and training of staff, information systems management, compliance, internal control and audit, documents and information storage, corporate governance; and scoring of possible answers.

The evaluation of these factors performed according to seven banks of Ukraine established that compliance is the factor that least corresponds to the most favorable situation for the three banks, for two banks it was competence and training of staff, for other banks - internal control and audit, corporate governance and role of its bodies.

The analysis of current legislation in the sphere of the prevention and counteraction of money laundering through banks showed that a set of functional components of the prevention is identified, whereas a set of the counteraction components is not. Based on generalization and analysis of regulatory legal acts and

leading scientists practices, it was determined the feasibility of including into the structure of a system for preventing and counteracting the legalization of bank clients' money the following functional elements: identification, verification, and scrutiny of a client; detecting, registration, monitoring, analyzing, and reporting the financial transactions; risk management; staff competencies and training; documents and information storage; internal control, internal and external auditing; compliance; information systems management; corporate governance and role of a bank's management bodies. The clients' information and documents, clients' financial transactions, clients' risks, and their financial transactions' risks were defined as the objects of a system. Into the generalized scheme of a system for preventing and counteracting the legalization of bank clients' money were also included the common external factors affecting a bank's activity in general and its systems' creating and functioning (at a system's input); a set of internal factors incorporating staff competencies and training; compliance; information system management; documents and information storage; internal control, auditing and a corporate governance of a bank; a functional-process core of the prevention of money laundering including identification, verification, and scrutiny of a client; detecting, registration, monitoring, analyzing, and reporting the financial transactions; risk management (assessment, analysis, control, monitoring of a clients' risks and their financial transactions' risks); a functional-process core of the counteraction of money laundering consisting of: refusing to establish business relationships and severance of them; refusing to financial transactions and their stopping. At the output of a system for preventing and counteracting the legalization of bank clients' money, its goal is expected to be achieved, that can be seen in decreasing and minimizing the risk of money laundering, reducing the number of attempts and incidents of money laundering through bank institutions, satisfying the clients' needs and strengthening the bank's competitive advantages at the market of financial services.

In this work, the sequence of steps in creating a system for preventing and counteracting the legalization of bank clients' money is established, which includes not only the well-known stages of a system's building and a current system's evaluation but also unannounced audits, a planned staff training, and planned audits.

In the second section of the work, money-laundering factors are structured into three groups: geographical, client and operational. The geographical factors incorporate economic factors subgroup (population's income level; the hidden economy existence and its volumes; results of a system for preventing and counteracting the legalization of money), the political subgroup (quality of a state administration), and the subgroup of legislative factors (liberal state regulation, financial monitoring system's incompleteness). The client factors display a kind of activity, beneficial owners, and the aim of opening accounts. The operational factors in the context of the legal economy allow estimating the cash volume in a state, the cash transaction volume of banks, the presence of anonymous transactions in banks, and transactions with cryptocurrencies. For each subgroup of money-laundering factors is offered a set of indicators allowing: to analyze fully the conditions in which economic entities are operating, and identify the level of their perception of corruption, the level of a country's instability, and sufficiency in the rule of law; to take into account a list of quantitative and qualitative characteristics of bank's clients and their transactions. Using the established set of indicators, the external factors towards banks were analyzed in this work.

Internal factors of the legalization of bank clients' money are estimated with the help of developed tools including questionnaires for assessment of staff competencies and their training, compliance, information system management, documents and information storage, internal control, auditing, and corporate governance; possible replies' scale. Assessing the indicated factors of seven Ukrainian banks identified that for three of them the least relevant to the most favorable conditions factor was compliance, for two of them they were staff competencies and their training, for other banks they were internal control, auditing, corporate governance, and role of its bodies.

The issue of preventing and counteracting the legalization (laundering) of proceeds from crime is one of the key issues in the context of ensuring the economic security of both Ukraine and the world. The rapid development of information technology, in particular in the field of FinTech, has contributed to the complexity of criminal schemes and emergence of new tools for money laundering. In the process of European integration, Ukraine has made a number of commitments to combat money

laundering. Recently, the legislation in the field of prevention and counteraction to legalization (laundering) of proceeds from crime has been updated¹¹¹, updated FATF recommendations have been implemented, and the Strategy for Development of Prevention and Counteraction to Legalization (Laundering) of Proceeds from Crime, Terrorist Financing and Financing weapons of mass destruction for the period up to 2020 has been approved¹¹². However, the process of forming the legal framework, as well as methodological support for combating money laundering in Ukraine is not yet complete. Therefore, it is important to develop and improve the theoretical basis for preventing and combating money laundering, in particular the systematization of factors that affect the processes of money laundering, as well as the further development of tools for assessing such factors.

The analysis of statistical data conducted in¹¹³ shows that the Ukrainian banking system is attractive for criminals to perform money laundering operations, while the financial monitoring services of banks until 2018 worked with insufficient efficiency. The work¹¹⁴ emphasizes the importance of improving the efficiency of financial monitoring systems of banking institutions, given the significant role that banks play in the financial system of Ukraine. In many works¹¹⁵ it is emphasized that banking institutions take a special place among all the subjects of primary financial monitoring. This is confirmed by statistics on reports of suspicious financial transactions (Table 3.1).

Table 3.1 shows that of all sent reports of suspicious financial transactions, 96-99% are reports from banking institutions¹¹⁶. The generalization of information from these reports is the basis for the formation by the State Financial Monitoring Service of materials for further referral to various law enforcement agencies, including

¹¹¹ On prevention and counteraction to legalization (laundering) of proceeds from crime, financing of terrorism and financing of proliferation of weapons of mass destruction: Law of Ukraine as amended on 19.06.2020. URL: <https://zakon.rada.gov.ua/laws/show/361-20#Text> (accessed on: 26.09.2020).

¹¹² Samorodov B.V., Utkina O.V. Classification features of the risk of a banking institution in the field of money laundering or terrorist financing. *Bulletin of the University of Banking*. 2018. No.2 (32). P. 47–51.

¹¹³ Efimenko T.I., Hasanov S.S., Korystin O.E. Development of the national system of financial monitoring. K.: DNUU "Academy of Financial Management", 2013. 380 p.

¹¹⁴ Biryukov G.M., Grynevych A.G., Dudnyk L.M., Nykyforchuk D.J. General theoretical foundations of combating legalization (laundering) of proceeds from crime: a monograph. Irpin: National University of the State Tax Service of Ukraine, 2009. 176 p.

¹¹⁵ Bysaga K.V. Regulation and institutional support to combat legalization of proceeds from crime (on the example of the Czech experience). *State building*. 2015. No.2. P. 31–44.

¹¹⁶ Samorodov B.V., Utkina O.V. Classification features of the risk of a banking institution in the field of money laundering or terrorist financing. *Bulletin of the University of Banking*. 2018. No.2 (32). P. 47–51.

investigative bodies, prosecutors, and National Anti-Corruption Bureau.

Table 3.1. Dynamics of the number of notifications on financial transactions to the State Financial Monitoring Service with regard to types of subjects of primary financial monitoring

Year	Number of notifications of financial transactions			
	Type of banks		Type of non-banks	
	Absolute value, units	Specific weight in total number, %	Absolute value, units	Specific weight in total number, %
2012	937 704	96.89	30 117	3.11
2013	954 380	96.37	35 957	3.63
2014	1 259 543	97.16	36 855	2.84
2015	4 344 881	98.97	45 405	1.03
2016	7 560 852	99.13	66 725	0.87
2017	9 366 636	98.97	97 004	1.03
2018	2 840 916	98.76	35 669	1.24
2019	11 352 454	99.04	110 040	0.96

Based on the data in table 1 it can be argued that among all the subjects of primary financial monitoring, banks create 96-99% of the information field to prevent and combat money laundering. Thus, it can be concluded that an important aspect of the proper functioning of the internal banking system to prevent and combat money laundering is the tools and appropriate methodological support, based thereon the main functions of the system are operating, including analysis and evaluation of external and internal factors, risk of money laundering, and evaluation of the system. Further sections of the monograph will cover solving the issue of assessing the state of internal bank factors of money laundering.

Current anti-money laundering standards developed by the International Anti-Money Laundering Group (FATF) focus on assessing the risks of money laundering and taking them into account when analyzing and conducting international and domestic transactions. The 2012 FATF Typological Report “Specific Risk Factors Related to the Legalization (Laundering) of Proceeds from Corruption” states that “factors affecting

the level of money laundering risk refer to client-related risk, country risk or geographical risk, as well as risks related to products or financial instruments. Understanding these risks and related factors makes it possible to apply more effective and efficient measures to protect against money laundering”¹¹⁷. This suggests that not only are the risks of money laundering important, but also the factors that influence these risks.

The analysis of the works devoted to solving of the issues of counteraction to money laundering has shown that many studies of scientists are devoted to the issues of risks, criteria of risks, their classification and assessment, modeling, and they are quite widely worked out and developed, and the question of factors of legalization of criminal proceeds remains out of scope of the scientists though actually factors are those defining conditions, and sometimes the reasons promoting or restraining money laundering. The task of this section is to identify and analyze the factors of legalization of criminal proceeds, search for relevant indicators on the basis of which these factors can be measured or evaluated, and develop proposals to take into account their impact in the operations of bank clients.

As stated in the FATF Recommendations and Reports, there are three main groups of money laundering risks - geographical, client-related and operational (level of specific service). As long as this approach is recognized by most countries and scientists around the world factors of legalization of criminal proceeds should also be grouped in a similar way. Three groups of factors - geographical, client-related, operational - correspond to the levels of money laundering. That is, geographical factors are related to the country of the transaction, and correspond to the macroeconomic level, as well as the level of interaction between different states and jurisdictions. Client-related factors are factors related to the client’s identification data, his/her socio-political status, competencies – and they correspond to the level of the economic entity, for example, it may be a client of a bank, insurance company, notary, etc., and all these subjects have residency, i.e. they are persons registered in the territory of a particular state, must comply with the

¹¹⁷ FATF Report. Specific Risk Factors in the Laundering of Proceeds of Corruption: Assistance To Reporting Institutions, June 2012. URL: <http://www.fatf-gafi.org/media/fatf/documents/reports/Specific%20Risk%20Factors%20in%20the%20Laundering%20of%20Proceeds%20of%20Corruption.pdf> (Last accessed: 26.03.2018).

requirements and rules of regulatory activity, and thus link the macroeconomic level with the microeconomic. And the last level of factors is operational - one that corresponds to a certain financial instrument that the client uses to ensure certain operations, get services, the ultimate objective thereof is money laundering.

Geographical factors of money laundering (or factors of the country) reflect the social-economic, political, regulatory conditions that have been developed in a particular state and are the conditions for the functioning of all subjects of this state. Generalization and structuring of information from various sources on the factors of the country of legalization of criminal proceeds allows forming the following list of main groups of factors: economic, political, and regulatory.

The group of economic factors includes: the level of official proceeds, availability and volume of unofficial proceeds or level of the shadow economy. Thus, the level of official proceeds of the population is a disincentive to money laundering processes: the higher the official proceeds, the lower the volume (intentions) of money laundering. Availability and volumes of unofficial proceeds of the population, criminal proceeds of criminal groups. This factor is a stimulus to money laundering: the higher the level of the country's shadow economy, the higher the risks of money laundering.

The second direction of determining and analyzing the factors of legalization of criminal proceeds are client-related factors, i.e. characteristics of the client that may indicate the implementation of such illegal activities. The FATF Reports and Recommendations¹¹⁸ identify the following main factors: the type of activity for a legal entity and scope of primary physical employment; purpose of opening accounts; and beneficial owners of a legal entity. In addition, researchers M. Kordik and L. Kurilovska (2017) from Comenius University in Bratislava¹¹⁹ single out such a factor as the profile of the client base of the user of banking services. Indeed, if the main clients are non-residents, resident politicians or non-residents, come from countries that do not regulate money laundering, then the activities of such a user of banking services, although it may

¹¹⁸ The FATF Recommendations: International Standards on Combating Money Laundering and the Financing Terrorism and Proliferation / Adopted by The FATF Plenary in February 2012, updated June 2017. URL: <http://www.fatf-gafi.org/publications/fatfrecommendations/documents/fatf-recommendations.html> (Last accessed: 11.01.2018).

¹¹⁹ Kordik M., Kurilovska L. Protection of the National Financial System From the Money Laundering and Terrorism Financing. *Entrepreneurship and Sustainability Issues*. 2017. Vol. 5, No 2 (December). P. 243–262.

not be high-risk, but still be aimed at money laundering.

As for the type of activity of legal entities, the clients of banks operating in the field of property privatization, public procurement, large-scale infrastructure projects, mining, health care, development assistance, as well as activities in the security sector, defense and military operations are in the field of high risk. Activities that are not licensed by the state are also at higher risk.

As for individuals, special attention should be paid to operations ensured by public and political figures, including foreign states and officials, as well as close relatives of such persons. FATF recommends that these transactions be classified as high-risk, that they be referred for in-depth analysis, and that they be notified to the appropriate authorities (for Ukraine - the State Financial Monitoring Service).

Ukraine has a world-famous fact and example of abuse of power and money laundering at the highest level of government: the case of Prime Minister P.I. Lazarenko on the export of capital from Ukraine has gained worldwide notoriety, the identified money laundering schemes serve as an example in the Report FATF 2012¹²⁰. P.I. Lazarenko, holding the post of Prime Minister of Ukraine for 14 months (from May 1996 to July 1997), stole 200 million USD, according to an estimate of UN and World Bank experts and 320 million USD, according to Ukrainian experts; illegally transferred them to the United States. The Federal Court of California found P.I. Lazarenko guilty, but the proven amount of the abduction is 114 million USD, which the US government was able to return to Ukraine.

Transactions of legal entities owned by politicians, officials (although in most countries it is strictly forbidden), close relatives of these categories of clients, or their proxies (representatives of interests, wealth managers, relatives who are residents of other states) are at high risk. The persons who ultimately actually own and manage the enterprise are commonly referred to as the beneficial owners of the legal entity. FATF has established the following signs of such legal entities:

corporate entities with a multi-level, confusing or unreasonably complex

¹²⁰ FATF Report. Specific Risk Factors in the Laundering of Proceeds of Corruption: Assistance To Reporting Institutions, June 2012. URL: <http://www.fatf-gafi.org/media/fatf/documents/reports/Specific%20Risk%20Factors%20in%20the%20Laundering%20of%20Proceeds%20of%20Corruption.pdf> (Last accessed: 26.03.2018).

organizational structure, such as entities owned and managed by other entities, especially if the owner is registered in another country;

significant participation in the possession of persons who are not obliged by current legislation to apply measures on AML/TF;

participation of fictitious persons who are related to high-risk clients (criminals, government officials, and politicians).

Beneficial owners shall be identified, and the transactions of such bank clients shall be subject to in-depth analysis.

The purpose of opening accounts (or their functional purpose) for public and political figures and persons related to them is important in the case of opening accounts outside the country of residence (jurisdiction). In this regard, the FATF 10th Recommendations¹²¹ insist that banks do not open accounts for these clients without a legal basis and a proper explanation of their purpose.

The third group of factors of legalization of criminal proceeds, which is specified in the documents of the FATF¹²², is a set of factors directly related to the operations of banks and financial instruments used. Anonymous operations need special attention (prohibited by law in Ukraine); cash transactions and bank electronic transfers, as well as transactions with cryptocurrencies, as they combine signs of anonymity, uncontrollability, high speed of movement of valuables.

The information on the factors of money laundering through the bank is summarized in table 3.2.

¹²¹ The FATF Recommendations: International Standards on Combating Money Laundering and the Financing Terrorism and Proliferation / Adopted by The FATF Plenary in February 2012, updated June 2017. URL: <http://www.fatf-gafi.org/publications/fatfrecommendations/documents/fatf-recommendations.html> (Last accessed: 11.01.2018).

¹²² FATF Report. Specific Risk Factors in the Laundering of Proceeds of Corruption: Assistance To Reporting Institutions, June 2012. URL: <http://www.fatf-gafi.org/media/fatf/documents/reports/Specific%20Risk%20Factors%20in%20the%20Laundering%20of%20Proceeds%20of%20Corruption.pdf> (Last accessed: 26.03.2018).

Table 3.2. The set of systemically significant factors of money laundering through the bank

Group of factors	Subgroup of factors	Factor
Factors of external environment	Social economic	The level of proceeds of the population Availability and volume of informal proceeds or availability and volume of the shadow economy
	Economic political	Results of operation of the system of prevention and counteraction to money laundering Quality of public administration, including the presence and extent of corruption Refusal of the country's management to cooperate in combating money laundering
	Regulatory	Liberal government control Imperfection of financial monitoring system
Factors of internal environment	Client-related	Identification, verification and scrutiny of a client
	Operational	Detection, registration, monitoring of financial transactions
	Management	Risk management Corporative management Competence and training of the staff
	Technological	Information systems management
	Procedural	Storage of documents and information Internal control and audit Compliance

The data in Table 3.2 show the main groups of factors that have a significant impact on the processes of combating money laundering. It should be explained why economic factors are present in both social and political groups. The authors proceed from the thesis, which is a postulate in classical economic thought: "Economy is the basis. Everything else is an add-on"¹²³. Thus, some economic factors affect the social-economic state of society, and other factors manifest themselves in the political system.

The next task of the study is to assess the state of the factors of the internal environment. To solve this issue, you need to create the appropriate tools.

¹²³ Marx K. Capital: A Critique of Political Economy. Vol.1: Book 1: The process of capital production. - Moscow: Politizdat, 1988. - 891 p.

3.2. Development of tools for evaluation of internal bank anti-money laundering factors

Environmental factors reflect the impact of economic processes and operating conditions, which are generally the same for all subjects of primary financial monitoring, and hence for all banks operating in Ukraine. From the point of view of ensuring the prevention and counteraction to legalization of dubious and criminal proceeds both at the level of an individual bank and at the level of the entire banking system of Ukraine, intrabank factors play a more important role of bank. The most important factors based on the results of generalization and substantiation of their significance, which is substantiated in detail in¹²⁴, include the following:

1. Identification, verification and scrutiny of a client.
2. Detecting, registering, monitoring the financial transactions.
3. Risk management.
4. Corporate governance.
5. Competence and training of the staff.
6. Information systems management.
7. Storage of documents and information.
8. Internal control and audit.
9. Compliance.

The lack of public, accessible and commonly used tools for the analysis and/or evaluation of these internal banking factors necessitates its formation. To do this, the paper used: the format of the Report on risk management in the field of financial monitoring¹²⁵.

The first internal bank factor that significantly influences the fight against money laundering, and embodies three important processes of working with client's data is the identification, verification and scrutiny of a client. To evaluate them, the authors have

¹²⁴ Ponomarenko V.S., Kolodizev O.M., Lebid O.V., Veits O.I. Evaluation of the system of prevention and counteraction to legalization of doubtful proceeds of bank's clients. Financial and credit activities: problems of theory and practice. 2018. Vol. 3. No.26. P. 17–28. DOI: <https://doi.org/10.18371/fcaptp.v3i26.143845>.

¹²⁵ On amendments to the Regulation on the procedure for organizing and conducting inspections on prevention and counteraction to legalization (laundering) of proceeds from crime, terrorist financing and financing of proliferation of weapons of mass destruction: Resolution of the Board of the National Bank of Ukraine dated December 23, 2015 No.920. URL: <http://zakon3.rada.gov.ua/laws/show/v0920500-15> (accessed on: 12.01.2019).

developed an appropriate questionnaire and scales for evaluating responses. The questions of the questionnaire coincide with the parameters of the Bank's Report on Risk Management in the Field of Financial Monitoring (Table 3.3).

Table 3.3. Questions to assess the parameters of the component "Identification and scrutiny of a client" of the bank and assess possible answers

Question No.	Question	Possible answer and its evaluation
1	2	3
1	Does the bank have a properly approved procedure for identification and scrutiny of a client	Max. 10 Min. 1
1.1	resident individuals who open accounts	Yes – 1 No – 0,1
1.2	non-resident individuals who open accounts	
1.3	individuals-entrepreneurs who open accounts	
1.4	resident legal entities that open accounts	
1.5	non-resident legal entities that open accounts	
1.6	ultimate beneficial owners (controllers)	
1.7	correspondent relations with non-resident banks	
1.8	public figures, relatives and/or persons related to them	
1.9	non-profit organizations	
1.10	persons who perform financial transactions without opening an account	
2	Are the following procedures used for identification and scrutiny of the clients	Mx. 4 Min. 0,4
2.1	establishing a business relationship with a new client or denial of service, including termination of business relationship	Yes – 1 No – 0,1
2.2	classification of client-related risks	Yes – 1
2.3	in-depth inspection and study of high-risk clients, products, financial transactions, etc.	No – 0,1
2.4	monitoring of client's accounts and financial transactions	
3	Do the bank's procedures provide for differentiation of the procedure for studying clients depending on the level of their risks?	Yes – 1 No – 0,1
4	Are the requirements of AML/TF applied in the procedure for identification and scrutiny of a client in terms of (the answer is quoted in percent):	Max. 3 Min. 0,6
4.1	recording information about the purpose and nature of business relationships or financial transactions	100 % – 1
4.2	establishment of a separate procedure for identification and study of clients-public figures, correspondent banks and other high-risk	76 – 99 % – 0,8 50 – 75 % – 0,6

	clients and financial transactions	26 – 49 % – 0,4
4.3	update of client’s information	0 – 25 % – 0,2
5	For which categories of clients the order of identification and study of clients requires the indication of such information (the answer is quoted in percent):	Max. 4 Min. 0,8
5.1	sphere of activity/profession/content of activity	100 % – 1
5.2	the purpose of opening an account	76 – 99 % – 0,8
5.3	sources of origin of funds	50 – 75 % – 0,6
5.4	sources of origin of assets	26 – 49 % – 0,4
		0 – 25 % – 0,2
6	Do the identification and study procedures for all clients include the following actions (the answer is quoted in percent):	Max. 4 Min. 0,8
6.1	verification of validity/authenticity of documents	100 % – 1
6.2	personal meeting with a potential client	76 – 99 % – 0,8
6.3	in-depth examination of high-risk clients	50 – 75 % – 0,6
6.4	in relation to legal entities, obtaining information on the type of activity, location, financial condition, nature of expected financial transactions, etc.	26 – 49 % – 0,4 0 – 25 % – 0,2
7	If the bank is an intermediary or recipient in making international payments, do the bank have the following requirements (the answer is quoted in percent)	Max. 3 Min. 0,6
7.1	identification of the initiator of the payment and the need to suspend or refuse to make the payment in case of insufficient information about its initiator or beneficiary	100 % – 1 76 – 99 % – 0,8 50 – 75 % – 0,6 26 – 49 % – 0,4 0 – 25 % – 0,2
7.2	verification of international payments in accordance with the sanctions lists set out in United Nations Security Council Resolutions 1267 and 1373	100 % – 1 76 – 99 % – 0,8 50 – 75 % – 0,6
7.3	identification of the person who returned to the bank to receive the transfer	26 – 49 % – 0,4 0 – 25 % – 0,2
8	Does the bank provide for administrative liability of employees in case of violations of the procedure of identification and scrutiny of a client	Yes – 1 No – 0,1
9	Have bank employees been prosecuted for violating the procedures for identification and scrutiny of a client over the past three years?	Yes – 0,1 No – 1
10	Is there any analysis of financial transactions related to clients	Yes – 1 No – 0,1

Table 3.3 shows that 10 questions are used on various aspects of identification, verification and scrutiny of a client to assess the component “Identification and scrutiny of a client” taking into account the recommendations of the NBU. Some questions are

asked in terms of types of clients, stages of the identification procedure and features of the transaction. The maximum score of the bank with regard to “Identification and study of the client” according to the results of surveys can be 32 points, and minimum - 4.6.

The next most important component of the banks AML system is “Detecting, registering, monitoring the financial transactions”. Data on the estimated elements of this component are given in table. 3.4.

Table 3.4. Questions for estimating the parameters of the component “Detecting, registering and monitoring the financial transactions” of the bank and evaluation of possible answers

Question No.	Question	Possible answer and its evaluation
1	2	3
1	Are there any requirements for monitoring the client’s financial transactions and performing an analysis of the client’s overall behavior for unusual/suspicious actions	Yes – 1 No – 0,1
2	Are there internal requirements for monitoring the client and his/her financial transactions depending on the level of his risk	Yes – 1 No – 0,1
3	Are there any requirements for enhanced monitoring of financial transactions of high-risk clients	Yes – 1 No – 0,1
4	Does the bank have a system for monitoring and reporting on unusual and suspicious activities of the bank’s clients, including clients of its branches, other separate divisions and subsidiaries	Yes – 1 No – 0,1
5	Is the bank’s procedure documented if the client’s account, financial transaction or activity is found by the bank to be unusual or suspicious	Yes – 1 No – 0,1
6	Does the bank provide for administrative liability of bank employees for non-compliance with the procedure for monitoring financial transactions and reporting on financial transactions	Yes – 1 No – 0,1
7	Have bank employees been prosecuted for non-compliance with the procedure for monitoring financial transactions and reporting on financial transactions during the last three years?	Yes – 0,1 No – 1

According to the data of table 3.4, the estimation of “Detecting, registering, monitoring the financial transactions” involves 7 questions with two possible answers - yes or no. The maximum score is 7 points and the minimum is 0.7.

Risk management in the context of the mandatory implementation of a risk-based approach is an important component of the anti-money laundering system of any bank. 10 questions, the list thereof is given in table 5, are used to assess “Risk Management”, taking into account the recommendations of the NBU.

Table 3.5. Questions to assess the parameters of “Risk Management” component of the bank and assess possible answers

Question No.	Question	Possible answer and its evaluation
1	2	3
1	Is there a risk management function in the internal documents on AML/TF?	Yes – 1 No – 0.1
2	Does the risk management unit deal with AML/TF issues?	Yes – 1 No – 0.1
3	Does the bank have a procedure for analyzing the risk of legalization of proceeds of the bank’s client	Yes – 1 No – 0.1
4	If so, how often is it performed	More than once per 3 months - 1 Once per 9 months – 0.5 Less than once per 9 months – 0.1 No data – 0
5	Does the bank have a classification of certain types and categories of products, clients or geographical regions that are defined as high-risk	Yes – 1 No – 0.1
6	Is the classification of high-risk types and categories of products automated (implemented in ABS of the Bank)	Yes – 1 No – 0.1
7	Does the bank’s management take into account the risks of AML/TF when approving the decision to expand the business, such as new branches, markets, and new products	Yes – 1 No – 0.1
8	Is the financial monitoring unit involved in all stages of the process of introducing new products, services, business expansion, mergers and acquisitions	Yes – 1 No – 0.1
9	Is the bank’s management informed about changes in AML/TF risk levels?	Yes – 1 No – 0.1
10	Does management consider changes in AML/TF risk levels when making decisions	Yes – 1 No – 0.1

“Risk Management” component of the bank, provided positive answers to all

questions (Table 3.5) can score 10, which is the maximum. The minimum score is 0.9.

Analysis and assessment of the competence of the bank's staff and its training should be performed to prevent and combat money laundering, rather than in general. No doubt, that the competence of staff is derived from the systematic training and training in general, as well as from experience in the field of financial monitoring. To analyze and assess the competence of staff and their training, the author has developed a questionnaire containing 10 questions. If the analysis can be based on the results of the answers to the questions, the evaluation requires a quantitative interpretation of the answers. In this regard, it is proposed to assign a certain score to each answer, which will allow further comparing the various internal factors and identify those that need the most adjustment. The questionnaire developed by the author to assess the competence and training of the bank's staff in the context of preventing and combating money laundering (AML) with answer options is given in table 3.6.

Table 3.6. Questionnaire and scale for assessing responses to the internal factor of AML for the bank's clients "Competence and training of the staff"

Question No.	Question	Possible answer and its evaluation
1	2	3
1	What is the procedure for the training provided by the training program on AML approved by the bank	Regular, systematic – 1 Regular, not systematic – 0.5 No procedure – 0.1 No data – 0
2	Frequency of holding training on AML	More than once per 3 months - 1 Once per 9 months – 0.5 Less than once per 9 months – 0.1 No data – 0
3	What percentage of the bank's employees are required to participate in training on AML	100 % – 1 76 – 99 % – 0.8 50 – 75 % – 0.6 26 – 49 % – 0.4 0 – 25 % – 0.2 No data – 0
4	Did the chairperson and members of the bank's board take part in training on AML?	Yes – 1 No – 0.1
5	Availability of special training programs on	Yes – 1

	AML, developed and implemented in accordance with the job responsibilities of employees	No – 0.1
6	Forms of training on ZPLD: trainings; seminars and practical classes; computer classes; independent classes	training in all forms – 1 training only in the form of trainings and classes on computers – 0.8 training only in the form of seminars, practical classes – 0.6 training is conducted only in the form of independent classes – 0.4 No information – 0
7	Does the bank document and record the results of training on AML	Yes – 1 No – 0.1
8	Does the bank’s internal audit check the quality of training programs and assess their effectiveness?	Yes – 1 No – 0.1
9	Does the bank have an internal staff policy and procedures that control the business reputation of the bank’s specialists/employees	Yes – 1 No – 0.1
10	Does the bank inspect persons applying for employment in the bank (for example, in terms of any relevant experience, criminal record, etc.)	Yes – 1 No – 0.1

Table 3.6 shows that it is proposed to assess the competence of the staff through questions on training and recruitment, as training itself helps to improve the skills of employees who already work in the bank, and the selection is aimed at attracting new professionals with a given level of competence. Questions about the competence of staff (Table 3.6) cover the procedure and frequency of training, allow to assess the number of staff trained to combat AML/TF, forms of training and their documentation, the quality of personnel selection during hiring. The maximum score of “Staff Competence” component is 10, and minimum is 0.6.

Information systems and technology are the functional core of banking, facilitate and significantly accelerate the performance of certain functions and operations. If the elements of prevention and counteraction are taken into account and contained in the bank’s automated system, the risk of abuse or negligence of the bank’s staff is minimized

(table 3.7).

Table 3.7. Questionnaire and scale for evaluating responses on the evaluation of the internal factor of AML of the bank's clients "Information Systems Management"

Question No.	Question	Possible answer and its evaluation
1	2	3
1	Are the bank's programs and procedures requirements for information systems for risk management of the bank's services for money laundering?	Yes – 1 No – 0,1
2	Do the bank's programs and procedures contain the following requirements for information systems (the answer is quoted in percent):	
2.1	recording relevant information about all the clients, including information about their established levels of risk	
2.2	recording establishment of new relationships with clients	100 % – 1
2.3	fixation of cases of termination of relations with clients	76 – 99 % – 0.8
2.4	recording cases of termination of relations with clients	50 – 75 % – 0.6
2.5	recording cases when the relationship with the client was not established or was terminated on the basis of the requirements established by the legislation on financial monitoring	26 – 49 % – 0.4 0 – 25 % – 0.2
2.6	checking clients on the databases available in the bank (databases to which the bank has access in accordance with the concluded agreements), which contains information on AML/TF risks of the clients, as well as using other sources, if such information is public	100 % – 1 76 – 99 % – 0.8 50 – 75 % – 0.6 26 – 49 % – 0.4 0 – 25 % – 0.2
2	Does the bank's programs and procedures include the following requirements for information systems (the answer is quoted in percent):	
2.7	identification of cases of absence (need to clarify) information on client's identification and scrutiny	100 % – 1
2.8	storing information in such a way that it is easy to recover it and track all financial transactions	76 – 99 % – 0.8 50 – 75 % – 0.6 26 – 49 % – 0.4
2.9	analysis of the client's financial transactions, which allows identifying any unusual activities	0 – 25 % – 0.2
2.10	notification of any case of unusual or suspicious activity	100 % – 1
2.11	notification of any financial transaction for a significant amount	76 – 99 % – 0.8 50 – 75 % – 0.6 26 – 49 % – 0.4 0 – 25 % – 0.2

According to table 3.7, the maximum score of "Information Systems

Management” component is 12 points, and minimum is 2.3 points.

The factor of internal control and audit is important because it aims to identify shortcomings in AML of the bank’s clients, encourages elimination of these shortcomings and improvement of processes and systems. The questions that allow indentifying and analyzing internal control and audit, as well as possible answers and assessments, which are assigned for every answer are given in table 3.8.

Table 3.8. Questionnaire and scale for evaluating responses to assess the internal factor of AML of clients of the bank “Internal Control and Audit”

Question No.	Question	Possible answer and its evaluation
1	2	3
1	Periodicity of holding internal audits in the bank on compliance with the requirements of anti-money laundering legislation	More than once per year – 1 At least once per year – 0.7 At least once every 2 years – 0.4 When required – 0.1 No data – 0
2	Any shortcomings identified by the NBU in the activities of the internal audit department of the bank for the last three years	Yes – 0.1 No – 1
3	Any internal audit function taking into account the level of identified risks of money laundering (doubtful and/or criminal)	Yes – 1 No – 0.1
4	Any audits of compliance of the bank’s actions with respect to clients, products/services and high-risk geographical regions with internal documents	Yes – 1 No – 0.1
5	Do the audit reports contain any anti-money laundering issues?	Yes – 1 No – 0,1
6	Does the respective person in charge of the bank inspect the bank’s divisions and its employees with regard to their compliance with internal documents?	More than once per year – 1 At least once per year – 0.7 At least once every 2 years – 0.4 When required – 0.1 No data – 0
7	Have any measures been taken based on the results of the violations revealed by the last audit of the bank on the issues of AML (the answer is quoted in percent)	100 % – 1 76 – 99 % – 0.8 50 – 75 % – 0.6 26 – 49 % – 0.4 0 – 25 % – 0.2
8	Any appropriate mechanisms for segregation of duties and avoidance of conflicts of	Yes – 1 No – 0.1

	interest regarding risk management of money laundering	
9	Did the last audit of the bank ensured by third-party auditors include	Yes – 1 No – 0.1
10	Were there any violations of the requirements of AML detected during the NBU’s last inspection of the bank	No violations detected - 1 NBU did not take any measures of influence with regard to the detected violations - 0.8 NBU sent a written claim with regard to the violations - 0.6 NBU sent a written warning with regard to the violations -0.4 NBU imposed a fine with regard to the violations - 0.2 No data - 0

According to the results of the evaluation of “Internal control, internal and external auditing” component, the maximum score can be 10, and the minimum - 0.8. Regarding the scores assigned to the answers: the answers to question 6 are unevenly distributed, so according to the rules of qualimetry, their scores should differ more significantly than the scores on the questions with evenly distributed answers, e.g. question 7 (Table 3.8).

Compliance of the elements of AML system with the legally established norms guarantees the proper performance of the functions assigned to the system, so the next important factor in its formation is “Compliance” (Table 3.9).

Table 3.9. Questionnaire and rating scale for responses to “Compliance” internal factor

Question No.	Question	Possible answer and its evaluation
1	Does the bank’s internal banking system provide for effective interaction of the employee in charge with structural units in the risk management process?	Yes – 1 No – 0.1
2	Has the employee in charge been agreed with the NBU?	Yes – 1 No – 0.1
3	Experience of the employee in charge in the field of AML	More than 5 years – 1 5 – 3 years – 0.8 1 – 3 years – 0.4 Less than 1 year – 0.2 No data – 0

4	Provide information on the last date of training of the employee in charge	Less than 1 year – 1 1 – 2 years – 0.8 2 – 3 years – 0.4 More than 3 years – 0.2 No data – 0
5	The bank has a mechanism for tracking changes in the legislation on AML and their implementation in internal documents	Yes – 1 No – 0.1
6	Is there an employee in charge in each separate branch of the bank	Yes – 1 Hi – 0.1
7	Does the employee in charge perform any other functions apart from AML?	Yes – 0.1 Hi – 1
8	The share of working time of the employee in charge, which he/she devotes to the issues of AML, in the total working time (the answer is quoted in percent)	76 – 100 % – 1 50 – 75 % – 0.8 25 – 49 % – 0.4 0 – 24 % – 0.2 No data – 0

Questions for assessing (Table 3.9) the compliance of the system of prevention and counteraction of AML/TF of a particular bank with the legislation allow establishing whether the bank monitors and implements changes in legislation, or agreed the employee in charge with the NBU, how often the employee in charge pass training on the issues of financial monitoring, and how he/she interacts with other divisions of the bank, whether he/she has any additional functions.

Storage of documents and information (Table 3.10) is an important component of the bank’s AML system, as documents play an important role in investigations.

Table 3.10. Questionnaire and rating scale for responses to “Storage of Documents and Information” internal factor

Question No.	Question	Possible answer and its evaluation
1	Are there any procedures in the bank that provide for the recording of documents and storage of information	Yes – 1 No – 0.1
2	What is the retention period of documents and information on the identification of the client, his/her financial transactions, reports on suspicious financial transactions/unusual activities	7 years and more – 1 5 – 7 years – 0.7 5 years – 0.4 Less than 5 years – 0.1 No data – 0

3	Form of storage of information: hard copy, in electronic form, in the bank or external custodians	Electronic and hard copy – 1 In the original – 0.5 Data is partly lost – 0.1 No data – 0
4	Requirements for records that they should be comprehensive, detailed and be stored to enable recovery of the information about financial transactions	Yes – 1 No – 0.1
5	Any procedure established for obtaining information and/or documents on a specific client dating five years back	Yes – 1 No – 0.1
6	Any requests from law enforcement agencies for information about the client during the reporting period	Yes – 1 No – 0.1

Documents and their storage allow analyzing past events. As a rule, a certain period of time elapses between the submission of information on suspicious transactions and the bringing of the case to human rights bodies. According to table 3.10, which takes into account the recommendations of law enforcement agencies and the provisions of the NBU, it is important that information about suspicious financial transactions is stored in the bank for more than 7 years, both in hard copy and electronically. The assessment also takes into account any procedures how to obtain any information and factual requests from the Ministry of Internal Affairs and the Prosecutor's Office.

The next factor is “Corporate governance and role of the bank’s governing bodies”, as their decisions determine how the functions of AML system are performed, evaluated and controlled. The questions of the questionnaire (Table 3.11) provide information on the availability and obsolescence of approved documents on combating money laundering, on the direct participation of the bank’s management in financial monitoring activities with the participation of relevant employees, on the adequacy of resources allocated by management to combat proceeds legalization (Table 3.11).

Table 3.11. Questionnaire and rating scale for responses to the internal factor “Corporate governance and role of bank management bodies”

Question No.	Question	Possible answer and its evaluation
1	Does the bank have approved internal documents on	Yes – 1

	financial monitoring	No – 0,1
2	How much time has passed since the approval of the latest internal documents (changes to them)	Less than 3 months – 1 3 – 6 months – 0.7 6 – 12 months – 0.4 More than 1 year – 0.1 No data – 0
3	Is there an approved separate compliance risk management program?	Yes – 1 No – 0.1
4	Does the bank's management hold meetings with relevant employees and is an effective implementation of anti-money laundering prevention and counteraction programs ensured?	Tak – 1 No – 0.1
5	How often are internal documents on financial monitoring reviewed?	Once per quarter – 1 Every half a year – 0,5 Once per year – 0,1 No data – 0
6	Has the bank's management allocated sufficient financial, human and other resources to perform its function in the field of AML?	Yes – 1 No – 0.1
7	Does the Supervisory Board of the bank (other governing bodies of the bank) approve and/or is the program (policy) of the bank on AML issues approved at the level of the banking group?	Yes – 1 No – 0.1

The questionnaires with scales for assessing the responses of respondents developed and described in this section of the monograph, are tools for evaluation and further analysis of the current conditions of the bank, which operates a system to prevent and combat money laundering. The use of such tools creates a basis for monitoring the quality of competence and training of bank staff on financial monitoring, quality and functionality of information systems, internal control and audit, compliance, storage of documents and information, participation and role of bank management in preventing and combating legalization of client's proceeds. The obtained results create a basis for reasonable and purposeful improvement of AML systems of the clients operating in banks.

3.3. Assessment of the state of internal bank anti-money laundering factors on the example of current banks of Ukraine

To test the developed tools, all developed questionnaires are entered into Google forms and sent to publicly available e-mail addresses of members of bank management

bodies, responsible employees, heads of separate divisions. The survey was held in March-August 2019. Most of the respondents who agreed to answer the questions and took part in the survey wished to do so anonymously. The distribution of respondents by positions was as follows: 2 employees of the internal financial monitoring service, 1 top manager of the financial institution, 1 mid-level manager, 1 manager of the financial institution, 1 head of a separate unit, 1 deputy head of the department. In total, the survey involved employees of 7 banks.

Summarized results of the answers to the questions of the questionnaire on the component “Identification and scrutiny of a client” are given in table. 3.12

Table 3.12. Scores of respondents’ answers to questions about the component
“Identification and scrutiny of a client”

Question No.	Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 7
1.1.	1	1	1	1	1	1	1
1.2.	1	1	1	1	1	1	1
1.3.	1	1	1	1	1	1	1
1.4.	1	1	1	1	1	1	1
1.5.	1	1	1	1	1	1	1
1.6.	1	1	1	1	1	1	0,1
1.7.	1	1	1	0,1	1	1	1
1.8	1	0,1	1	1	1	1	0,1
1.9.	1	0,1	1	1	1	1	1
1.10.	1	0,1	1	1	1	1	1
2.1.	1	1	1	1	1	1	1
2.2.	1	1	1	1	1	1	1
2.3.	1	1	1	1	1	1	1
2.4.	1	1	1	1	1	1	1
3	1	1	1	0.1	1	1	1
4.1.	0.8	0.8	0.8	0.8	1	1	0.8
4.2.	0.8	0.6	1	1	1	0.8	0.8
4.3.	0.8	0.8	0.8	1	1	1	0.8
5.1.	0.8	1	0.8	1	1	1	1
5.2.	0.8	0.8	0.2	0.8	1	1	0.8
5.3.	0.8	0.6	0.8	0.8	1	1	0.6
5.4.	0.8	0.6	0.2	0.8	1	0.8	0.8
6.1.	1	1	0.8	1	1	1	1
6.2.	0.8	0.8	1	1	1	1	0.8
6.3.	1	0.8	1	0.8	1	1	1
6.4.	0.8	0.8	0.8	1	1	1	0.8

7.1.	0.6	0.4	0.6	1	1	1	0.6
7.2.	1	0.4	1	1	1	1	0.8
7.3.	0.8	0.6	1	1	1	1	1
8	1	1	1	1	1	1	1
9	1	1	0.1	1	0.1	1	0.1
10	1	1	1	1	1	1	1
Total score	29.6	25.3	27.9	29.2	31.1	31.6	26.9
Share of maximum, %	92.50	79.06	87.19	91.25	97.19	98.75	84.06

Identification and scrutiny of a client in the analyzed banks, as shown in Table 3.12, is ensured at a fairly high level. Thus, Banks 1 - 6 perform primary identification, information verification and scrutiny of their own clients by more than 90% of the maximum possible efficiency. And only Bank 7 has the efficiency of this process at 84%.

According to the results of the scoring of the factor “Monitoring and reporting on financial transactions”, four of the seven banks got the maximum score (Table 3.13).

Table 3.13. The results of the scoring of the component “Monitoring and reporting on financial transactions” in the system of prevention and counteraction to legalization of proceeds of the bank’s clients

Question No,	Response of the respondent of the respective bank						
	Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 7
1	1	1	1	0,1	1	1	1
2	1	1	1	1	1	1	1
3	1	1	1	1	1	1	1
4	1	1	1	1	1	1	1
5	1	1	1	1	1	1	1
6	1	1	1	1	1	1	1
7	0.1	1	1	1	1	1	0.1
Total score	6.1	7	7	6.1	7	7	6.1
Share of maximum, %	87.1	100.0	100.0	87.1	100.0	100.0	87.1

The maximum assessment of the factor “Monitoring and reporting on financial transactions” can be explained by the fact that monitoring as a function of the system of

prevention and counteraction to money laundering is the most regulated by the NBU.

Table 3.14 gives the results of risk management assessment in the analyzed banks.

Table 3.14. The results of the scoring of the component “Risk Management” in the system of prevention and counteraction to legalization of proceeds of the bank’s clients

Question No.	Response of the respondent of the respective bank						
	Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 7
1	1	1	1	1	1	1	1
2	1	1	1	1	1	1	1
3	1	1	1	0.1	1	1	1
4	0.5	0.5	1	0	1	1	0.5
5	1	1	1	1	1	1	1
6	1	1	0.1	1	1	0.1	1
7	1	1	1	1	1	1	1
8	0.1	0.1	0.1	1	1	1	0.1
9	1	0.1	1	1	1	1	1
10	1	0.1	1	1	1	1	1
Total score	8.6	6.8	8.2	8.1	10	9.1	8.6
Share of maximum, %	86.0	68.0	82.0	81.0	100.0	91.0	86.0

Table 3.14 shows what is done (even taking into account self-esteem) at different levels.

Assessment of the factor “Competence and training of the staff” showed that the answers to the first five questions of the questionnaire were distributed in such a way that 5 out of 7 banks have a procedure that establishes continuous systematic staff training, one bank provides periodic non-systematic training, one of the respondents does not give answers to questions. One of the assessed banks of Ukraine does not have an approved procedure for conducting training on AML, which potentially significantly reduces both the results of staff training and its competence in combating money laundering. All the analyzed banks check persons applying for employment, each of the

analyzed banks has an HR policy that controls the business reputation of employees, the analyzed banks document and record learning outcomes, there are special training programs to prevent and combat money laundering, in each of the analyzed banks, senior management, in particular the chairman of the board and members of the board, participate in the training. The internal audit does not check the quality of training programs and does not evaluate their effectiveness only in one of the banks analyzed. Such an approach can affect the quality of training and negatively affect its effectiveness.

The share of bank employees who are required to take part in training on AML in all the banks analyzed is more than 50%, but the forms of training are different: 4 banks use different forms of training, and all others use either only training in the form of independent classes, or training in the form of seminars and practical classes, or only training in the form of training and computer classes (table 3.15).

Table 3.15. The results of the assessment of the internal factor of AML of the bank's clients "Competence and training of the staff"

Question No.	Question	Result according to the bank serial number						
		1	2	3	4	5	6	7
1	What is the procedure for training provided by the training program approved by the bank on AML	1	0.5	1	1	1	1	1
2	Frequency of training on AML	0.5	0.1	0.1	1	1	1	0,1
3	What percentage of the bank's employees are required to participate in training on AML	0.6	0.4	1	1	0.6	0.8	0,6
4	Did the chairman and members of the bank's board take part in the training on AML?	1	1	1	1	1	1	0,8
5	Are there any special training programs designed and implemented in accordance with the job duties of the employees	1	1	1	1	1	1	0,1
6	Forms of training on AML: trainings; workshops and practical classes; computer classes; independent classes	0.6	0.6	0.4	0.8	1	0.8	0,6
7	Does the bank document and record the results of training on AML?	1	0.1	1	1	1	1	1
8	Does the internal audit check quality of training programs and assess their effectiveness?	0.1	0.1	1	1	1	1	0,1

1	2	3	4	5	6	7	8	9
1	Are there any requirements in the bank's programs and procedures for information systems on risk management of the bank's services for legalization of criminal proceeds/terrorist financing?	1	1	1	1	1	1	1
2	Do the bank's programs and procedures contain the following requirements for information systems (the answer is quoted in percent):							
2.1	recording relevant information about all clients, including information about their established levels of risk	0.8	1	0.8	0.8	1	0.8	0,8
2.2	recording the establishment of new relationships with clients	0.2	1	0.8	0.8	1	1	1
2.3	recording any cases of termination of relations with clients	0.2	0.2	0.8	0.8	1	1	1
2.4	recording any cases of termination of relations with clients	1	1	0.8	0.8	1	1	1
2.5	recording any cases when the relationship with the client was not established or was terminated on the basis of the requirements established by law	0.2	0.2	0.8	0.8	1	1	0,4
2.6	checking clients on the databases available in the bank, which contains information on the risks of AML/TF clients, as well as using other sources	0.8	1	0.8	0.8	1	1	0,8
2.7	Identifying any cases, when information about identification and scrutiny of a client is missing (needs to be clarified)	0.8	0.2	0.8	0.8	1	1	0,4
2.8	storing information in such a way that it is easy to recover it and track all financial transactions	1	1	0.8	0.8	1	0.8	1
2.9	analysis of the client's financial transactions, which allows you to identify unusual activities	0.6	0.8	0.8	0.8	1	1	0,6
2.10	informing in case of unusual or suspicious activity	1	1	0.8	1	1	1	0,8
2.11	informing if the financial transaction is ensured for a significant amount	1	1	0.8	1	1	1	1
Total score		8.6	9.4	9.8	10.2	12	11.6	9.8
Share of maximum, %		71.7	78.3	81.7	85.0	100.0	96.7	81.7

The information systems management factor of according to the table 3.16 is most fully taken into account in the activities of Bank 5, which had the highest score in terms of competence and training of the staff. Bank 1 needs to significantly improve the settings and functions of information systems. Bank 3, Bank 4 and Bank 7 have more than 80% taken into account and use the capabilities of their own information systems. Bank 6 has 96.7% of the maximum possible assessment of information systems management, the shortcomings thereof are insufficiently complete recording of the fact of refusal to establish relationships with clients, insufficiently complete recording of relevant information about all the clients, including information about their levels of risk. In general, the factor of information systems management in the analyzed banks is taken into account by 80% or more, with the exception of Banks 1 and 2, where the capabilities of information systems are not taken into account about 30%.

Banks set the number of internal inspections and audits themselves. Among the seven banks analyzed, only 3 perform internal audits more than once a year, 2 banks - once a year, 1 bank - at least 1 time in 2 years, and 1 bank - when needed. Similar results for inspections by an employee in charge with regard to implementation of internal documents: 5 banks - hold such inspections accurately once a year.

During inspections of the NBU for the last 3 years, Bank 1 received a written warning, some minor violations were established in the activities and documents of Bank 2 and Bank 3, for which no measures of influence were applied. No violations were detected in the activities of Bank 4 and Bank 5. The respondent of Bank 6 does not have information on the results of NBU's inspections. Based on the results of NBU's inspections, a written claim was sent to Bank 7 to eliminate the identified violations. When comparing the results of the comprehensive assessment of the factor "Internal control and audit" for all questions of the questionnaire, the best situation was in Bank 5, which has a maximum total assessment of the factor - 10 points.

The data of the processed questionnaires showed that Bank 1 has the most vulnerable factor of internal control and audit, which has a total of 7 points out of 10 possible. In order to correct the situation and strengthen this component of the bank's

AML client system, the shortcomings detected by the NBU have to be eliminated and third-party auditors have to analyze the bank's internal bank system.

The results of the survey of bank's experts on the factor "Compliance" are given in table 3.17.

Table 3.17. The results of the assessment of the internal factor "Compliance" in the system of prevention and counteraction to legalization of proceeds of the bank's clients

Question No.	Response of the respondent of the respective bank						
	Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 7
1	1	1	1	1	1	1	1
2	1	1	1	1	1	1	1
3	1	0.8	0.4	0	1	0	0.8
4	0.8	0.8	1	1	1	0	0.8
5	1	1	1	1	1	1	1
6	1	1	1	0.1	1	0.1	1
7	1	1	1	0.1	1	0.1	0.1
8	0.8	0.4	0	0	0.4	0	0.4
Total score	7.6	7	6.4	4.2	7.4	3.2	6.1
Share of maximum, %	95.0	87.5	80.0	52.5	92.5	40.0	76.3

Table 3.17 shows that the compliance factor in Bank 6 is the weakest among all the banks analyzed. This is explained, firstly, by the fact that not every separate branch of the bank has an officially appointed employee in charge, and in the units with an employee in charge, he/she performs other functions, and secondly, the respondent who answered the questionnaire, did not have answers to 3 questions.

In Bank 7, the total score for assessing the Compliance factor is higher, but there are areas for further improvement, i.e.: the employees of separate divisions in charge should have more time to perform functions related to AML. The compliance corresponds to the most favorable situation in Bank 1 and Bank 6 for 95.0 and 92.5%, respectively.

A survey performed on the evaluation questionnaire in the bank of processes

“Storage of documents and information” (Table 18) showed that 3 banks store information for 5-7 years, 2 banks - only 5 years, and 2 other banks had no information about documents storage period.

Table 3.18. The results of the assessment of the internal factor “Storage of documents and information” in the system of prevention and counteraction to legalization of proceeds of the bank’s clients

Question No.	Response of the respondent of the respective bank						
	Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 7
1	1	1	1	1	1	1	1
2	0.7	0.4	0	0.7	0.7	0	0.4
3	1	1	1	1	1	1	1
4	1	1	1	1	1	1	1
5	1	1	1	1	1	1	1
6	1	1	1	1	1	1	1
Total score	5.7	5.4	5	5.7	5.7	5	5.4
Share of maximum, %	95.0	90.0	83.3	95.0	95.0	83.3	90.0

In general, table 3.18 shows that the extension of the bank’s internal regulations to the period of storage of information up to 7 years or more will create the most favorable conditions to prevent anti-money laundering in terms of the factor “Storage of documents and information”.

Respondents’ answers to questions about the participation and influence of government agencies on the processes of preventing and combating money laundering of bank’s clients (Table 3.19) showed that frequency of review (question 5) and duration of approval (question 2) of internal documents on financial monitoring are the main areas for improvement.

Bank 2 (Table 3.19) approved the documents on financial monitoring more than 1 year ago, which is unacceptable given the frequency of changes in current legislation.

Table 3.19. The results of the assessment of the internal factor “Corporate governance and role of bank management” in the system of prevention and counteraction to legalization of proceeds of bank’s clients

Question No.	Response of the respondent of the respective bank						
	Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 7
1	1	1	1	1	1	1	1
2	0.4	0.1	0	1	1	0	0.4
3	1	1	1	0.1	1	1	1
4	1	1	1	1	1	1	1
5	0.1	0.1	0.1	0	0.7	0	0.7
6	1	1	1	1	1	1	0.1
7	1	1	1	1	1	1	1
Total score	5.5	5.2	5.1	5.1	6.7	5	5.2
Share of maximum, %	78.6	74.3	72.9	72.9	95.7	71.4	74.3

Bank 1 and Bank 7 (Table 3.19) approved internal banking documents on financial monitoring within 6-12 months, and Bank 5 and Bank 6 have the latest (updated) internal banking documents on AML.

On the positive side, all banks organize and hold meetings with relevant employees or divisions of the bank and ensure the effective implementation of AML programs, as well as in all analyzed banks the higher authorities approve AML Program (or Policy).

If we compare the state of the analyzed factors by the share of compliance with the most favorable state, which corresponds to the maximum possible assessment, we can identify the most vulnerable places in the banks (Table 3.20).

Table 3.20. Summarized shares of compliance of the state of AML factors of the bank’s clients with the most favorable condition

Aspect	The share of compliance with the most favorable condition,%						
	Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 7
Competence and training of the staff	78.0	58.0	76.0	98.0	96.0	96.0	63.0

Information systems management	71.7	78.3	81.7	85.0	100.0	96.7	81.7
Internal control and audit	70.0	76.0	94.0	87.0	100.0	88.0	83.0
Compliance	95.0	87.5	80.0	52.5	92.5	40.0	76.3
Storage of documents and information	95.0	90.0	83.3	95.0	95.0	83.3	90.0
Corporate governance and role of the bank's governing bodies	78.6	74.3	72.9	72.9	95.7	71.4	74.3

According to table 3.20 it can be established that the weakest in the system of HRD among the internal factors of Bank 1 was internal control and audit (70% of the most favorable situation), for Bank 2 it was vulnerable factor of competence and training of the staff (58% of the most favorable situation), for Bank 3 - corporate governance and role of governing bodies, compliance was the weak point for Bank 4, Bank 5 and Bank 6, and for Bank 6 compliance took only 40% of the most favorable condition. Among all internal factors, Bank 7 should give priority to development of staff training and competence.

Along with the macroeconomic factors of proceeds legalization, there are client-related and operational factors. Client-related factors are characterized by qualitative indicators of clients of the subjects of primary financial monitoring, e.g.: type of activity of legal entity, composition and residence of beneficial owners, sphere of main employment of the individual (for example, politicians and other public figures), and purpose of opening accounts. The effect of operational factors can be traced to the indicators of cash in the country, volume of cash transactions of the subjects of primary financial monitoring. The paper reveals that in Ukraine, starting from 2006, the share of cash in the money supply is growing from 84.49% in 2006 to 91.81% in 2018, but the share of cash transactions of banks in total decreases - from 30,01% to 28.46%, as well as the share of cash in GDP - from 15.09% to 11.24%.

The analysis of internal banking factors to prevent and counteract the legalization of proceeds of the bank's clients - competence and training of the staff, information systems management of the bank, internal control and auditing, compliance, storage of documents and information, corporate governance of banks - revealed weaknesses of some banks of Ukraine. As the bank's information on financial monitoring is information with limited access during the study, an anonymous survey was performed on the basis of the questionnaires in terms of the listed factors. 7 banks took part in the survey. According to the results of the questionnaire survey, the factors that need most urgent intervention and improvement are: for Bank 1 and Bank 7 - internal control and auditing, for Bank 2 - competence and training of the staff, for Bank 3 - corporate governance and role of management, and compliance was a weak point for Bank 4, Bank 5 and Bank 6.