

Louvain School of Management

To better understanding of the factors affecting customer attitude towards AML Regulations – An application to Bank of Palestine.

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Summary

This study concentrates on building a better understanding of the factors affecting customer attitude towards Anti-Money Laundering (AML) regulations – An application to Bank of Palestine. This thesis focuses on the relationship and impact of customer awareness of AML regulations, satisfaction towards the bank services, and trust of the bank on the customer attitude towards a successful implementation of Anti-money laundering regulations. In addition to evaluating customers' attitudes towards AML regulations. This study employed the qualitative approach in the form of face-to-face interviews with experts from Bank of Palestine to help build a fit research model. This research also followed the quantitative approach by conducting a questionnaire distributed to Bank of Palestine customers. One hundred sixty questionnaires were received, and 154 questionnaires were validated and analyzed for the study.

The results of the study show a relationship between the three factors and the customer attitude towards anti-money laundering regulations. Customer awareness, customer satisfaction, and customer trust positively impact the customer attitude towards anti-money laundering regulations. The study recommends Bank of Palestine to enhance customers' awareness of AML regulations, customer satisfaction and customer trust towards the bank to receive positive attitudes from the customers towards anti-money laundering regulations.

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“We must find time to stop and thank the people who make a difference in our lives”

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List of Abbreviations

AML Anti-Money Laundering.

CFT Combating the Financing of Terrorism.

ML Money Laundering.

FT Financing of Terrorism.

BoP Bank of Palestine.

FATF Financial Action Task Force on money laundering, Group d'action Financière sur le blanchiment de capital (GAFI).

The Forty Recommendations The forty recommendations on money laundering issued by FATF.

IMF International Monetary Fund.

KYC know-your-customer policy.

Wolfsberg Group Wolfsberg group of banks.

Account A business relationship between a financial institution and the customer.

Competent authorities referred to law enforcement agencies.

PA Palestinian Authority.

PMA Palestinian Monetary Authority.

ESA European Supervisory Authorities.

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1 Chapter One: Introduction

The consequences of Money Laundering (ML) and the Financing of Terrorism (FT) are extensive and dangerous. It can have an international and local influence on organizations, economies, and societies. To counter Money Laundering and the Financing of Terrorism, the international community led by the United States of America made a fight against Money Laundering and Financing of Terrorism by creating the Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) regulations to protect the integrity and stability of the international financial system (IMF, 2016)

Broadly speaking, Anti-Money Laundering regulations are the laws and policies designed to hinder criminals from hiding illegal funds received as legal earnings. While Combating the Financing of Terrorism (CFT) is investigating and preventing funding sources for operations aimed to execute terrorist actions. That happens through tracking the source of funds behind the support of the terrorist action.

According to the Financial Action Task Force (FATF, n.d.) *“The purpose of implementing anti-money laundering and counter-terrorist financing (AML/CFT) measures¹ is to stop criminals and terrorists from abusing the financial system”*

The consequences of AML/CFT regulations at the financial institutions can be broadly characterized by “De-Risking”, which is the loss of business relationships with customers. (McGough, C.M, 2016).

In our research, we are investigating the effects of AML/CFT regulations on the customer. We want to build a better understanding of the factors that affect the customer attitude towards AML regulations.

1.1 Problem Statement

Financial institutions such as banks represent a portal for money launderers to inject *dirty* money into the economy. According to Singh (2009), banks need customer support and awareness of the negative effects of money laundering to help decrease illegal funds and have

¹ Measures are referred to regulations taken to prevent ML/TF or other financial crimes like KYC.

a better monitoring. Our intuition is that sometimes customers feel interrogated or offended when asked to provide identification documents. Customer's perception of the Know Your Customer (KYC) policy can be transformed into a bad customer experience, because customers are not aware of the threat of money laundering. However, customer awareness of AML regulations could make it difficult for money launderers to execute illegal activities by cooperating and performing transactions in legal organizations and for legal purposes. Making it easier for the bank to have an exemplary implementation of regulatory compliance². If the bank was able to collect information about the customer such as income, occupation, nature of customer business, etc, this allows the bank to perform more effective, accurate assessments and do better monitoring of launderers' activities. (Financial Services Consumer Panel, 2004). Also, providing the bank customers with sufficient information and raising the customer awareness on AML regulations allows the bank to better control customer alienation, customer compliance cooperation, and develop better trust from customers towards the bank, which prevents the loss of a business relationship. (Skvarciany, Jureviceiene 2017)

1.2 Objectives and Importance of the Research

Having stated this, the objectives proposed to be achieved with this thesis are:

1. Examine the level of awareness the bank customers have on Anti-Money Laundering (AML) regulations.
2. Assess the attitude of bank customers towards AML/CFT regulations implemented at the Bank of Palestine.
3. Assess the impact of customer satisfaction towards the bank services and customer trust towards the bank on customer's attitude towards AML procedures.

Our research tackles a significant issue for the international financial sector and especially the banking sector. This research tackles the Money Laundering issue from a rarely adopted perspective in the literature, as it focuses on "regular" bank customer's understanding of the AML procedures and wants to assess the impact of these procedures on the customer's attitudes. The study is expected to be useful to the bank stakeholders and decision-makers at Bank of Palestine (and more globally, to financial institutions), as it may highlight the need to get

² Compliance is generally conforming to a rule, such as a policy, regulation, or law.

customer support and cooperation when implementing AML regulations. It will help them understand the customer's attitude towards AML regulations and how managers can implement these regulations while keeping excellent business relationships and customer acquisition.

1.3 Scope of the Study

The study will focus on Palestinian customers; more specifically, the study will test the hypotheses on a sample of Bank of Palestine customers. Especially employees and businessmen³ from the Bank of Palestine, in Gaza Strip. By customers, we refer to customers who do daily or weekly transactions and financial transfers through the bank.

The quantitative survey sample will cover customers of different ages and genders who are in continuous contact with the bank.

1.4 Methodology

To justify the research hypotheses, the research starts with an exploratory phase, citing the different literature reviews related to the study, then implementing a qualitative study in the form of face-to-face interviews with experts from Bank of Palestine to know their opinions towards the issue. Thereafter, use a quantitative study in the form of a structured questionnaire to collect customer's responses through a survey distributed in person with the bank employees' help and in electronic format on a sample of Bank of Palestine customers.

1.5 Thesis Structure

The thesis consists of six chapters organized around the objectives of the research:

Chapter 1: Introduces the study, problem, objectives, significance, the scope of the research, and the methodology.

Chapter 2: Consists of two parts; part one will give an overview of Money laundering, and part two will provide an overview of AML regulations and Bank of Palestine Compliance Policy.

³ Businessmen refer to any person who performs a commercial activity and is a member of the commerce chamber, whether this activity in the contracting business, free trade, agriculture, or manufacturing activity.

Chapter 3: is devoted to the literature review and previous studies on the factors that potentially affect the customer's attitude or reaction to different compliance situations.

Chapter 4: includes the methodology, qualitative study analysis and results, data collection methods, questionnaire design, and data analysis techniques.

Chapter 5: includes presenting the results obtained in the quantitative study. Also, this section features testing hypotheses and results.

Chapter 6: Presents the study results with a link to the literature review and the qualitative study—also, it present's the conclusion, recommendations, future studies, and the study limitations.

2 Chapter Two

This chapter consists of two parts in order to provide rich insights on Money Laundering and AML regulations before we dive in the research. Part one will present an overview on Money Laundering, and Part two will exhibit AML regulations and Bank of Palestine compliance Policy.

2.1 Part One. Money Laundering Overview

This section presents information about Money Laundering, how it happens, stages of money laundering, where does it take a place, the effect on economy, and the moves to counter this issue.

Money laundering is one of the greatest severe economic crimes that reformulate legitimacy to many illegal operations, and one of the most serious problems confronted by countries and financial institutions nowadays (Brown, 2018).

According to the International Monetary Fund (2016), Money laundering is “*a process by which the illicit source of assets obtained or generated by criminal activity is concealed to obscure the link between the funds and the original criminal activity. Terrorist financing involves the raising and processing of assets to supply terrorists with resources to pursue their activities*”.

In other words, criminals' objective is to achieve profits through illegal methods using legal entities without any suspicious alert to law agencies. These methods are usually well planned through different techniques until the money enters the financial system and used for legitimate purposes. This process is called money laundering.

These amounts of illegal or *dirty* money come from different crimes such as illegal arms sales, drug trafficking, corruption, tax evasion, smuggling, women and child trafficking, illegal gambling, fraud, etc. All funds coming from sources like these will have to be cleansed or disguised as it cannot be used directly from the same origin. Money has to go from dirty to clean, so the financial institutions and law agencies accept it and not question it or attract their attention.

2.1.1 Stages of Money Laundering

The methods used by money launderers are diverse. Generally, to launder money, it has to go through three stages: Placement, Layering, and Integration (Schott, 2006).

The Placement stage is the initial stage of money laundering; it will help the launderer avoid large bulks of cash in his possession by injecting the illegal profits into a legitimate financial system. The criminal has to do that without attracting attention; otherwise, there is a possibility of being detected. Breaking up these large amounts of cash into smaller ones and then depositing it into a bank account is a typical process. Thereby, it's easier to be transferred or controlled. There are many different Placement techniques, such as:

- Money smuggling by physically moving illegal cash using the country borders.
- Purchase of high-value products such as gold, diamonds, or expensive cars to get rid of cash, sometimes using unsuspecting individuals.
- Smurfing/Structuring is parceling a large amount of money or a financial transaction into several smaller transactions to avoid triggering any regulator's alert. It is carried out in amounts below the trigger limits that do not lead the financial institution to report the transaction to a governmental law agency.
- Loan repayment or credit cards using illegal money.
- Gambling, especially online, by moving money from one place to another to make it hard to track, such as bets on sports events.
- Using currency exchange by purchasing foreign currencies through a currency exchange or remittance systems such as Hawala⁴.

The Layering stage is the second stage of money laundering after the illicit funds entered the financial system, the launderer starts a series of activities to distance or separate illicit money from its original sources (Schott, 2006).

An example of that, buying huge investments locally and overseas or using intermediaries like attorneys or accountants who engage themselves for the good of the criminal by injecting money in several accounts with different names and different financial institutions across the country or the globe—executing different financial transactions through these various accounts.

⁴ Hawala is a remittance system that transfers money without money movement.

Another method uses offshore banks, like in Switzerland or the Cayman Islands, which sometimes provide many legal benefits like fewer control and secrecy. Also, benefiting of the Shell corporations, which are legally initiated firms that do not perform any activity; by concealing the funds in their accounts to add legitimacy to the money deposited. A fictitious example can be found in the Netflix series Breaking Bad⁵, when criminals established a car washing company to hide the original source of money (Drugs).

The Integration phase is the last phase of the process. It aims to give legitimacy to the cleansed money by re-entering the assets into the legal financial system (Schott, 2006). In other words, the funds are returned to the criminal from a legal source, making them ready for investment in real estate, business ventures, automobiles, etc.

2.1.2 Where can money laundering take place?

Money laundering reach's any geographical place the launderer operations sneak to. The enormous international financial operations could be employed to commit this crime. To detect where money laundering happens, some organizations were established as a "watchdog" to prevent and give a risk assessment to counter money laundering. This will be explained later in part 2.

Money laundering and the Financing of Terrorism are related. According to the International Convention for the Suppression of the Financing of Terrorism (1999), an individual commits the crime of financing terrorism "*if that person by any means, directly or indirectly, unlawfully and willfully, provides or collects funds with the intention that they should be used or in the knowledge that they are to be used, in full or in part, in order to carry out[...].etc.*", an offense within the scope of the convention.

In other terms, the launderer's objective is to conceal funds sources, and the nature of the operations being financed. In summary, money laundering is to put out of sight the origins of the crime or give a lawful image to dirty money, whereas the laundering of terrorist funds is the collection of illicit money and conceal them for terrorist goals (IMF n.d.).

⁵ Breaking bad is an American crime- drama T.V series produced by Vince Gillig

Still, there is a similarity between money laundering and terrorism financing, especially the phases of money laundering (ML): Placement, Layering, and Integration. However, the terrorist groups are much more focused on the financial infrastructure than the financial profits to have better financial performance.

Nevertheless, law enforcement agencies' goal is to highlight the problem of illicit money and determine the dirty money and the groups of people behind these operations. Setting regulations to compact money laundering in financial institutions go the same way with compacting terrorist activities.

2.1.3 Money laundering effect on the economy

Money laundering and terrorist financing can harm financial sector organizations by causing corruption, reducing productivity, increasing crimes, and affecting cross-border activities, which slows and damages economic growth (Bartlett, 2002).

According to (Sarigul, 2013) banks represent an essential vehicle for criminals to launder their dirty money because of their various services, and the spread of banks worldwide, which are used later to execute illegal goals causing adverse effects on both; the general public and the economy.

The study of Brent L. Bartlett (2002) shows some of the adverse economic effects of money laundering on the economic development through financial organizations. Explaining that money laundering wears out financial organization. Money laundering can lead the customer or the institution to be defrauded by corrupting an employee within the organization. Making the financial organization corrupted or under the control of criminal interests to execute criminal purposes. Moreover, it leads to organization's reputational risk and loss of investor or customer trust. Indubitably, by damaging the institution's reputation, it will lose its' financial authenticity. The possibility of the institution ending up under the control of criminals is higher in developing countries because it's size is usually small, making it easier to be controlled. Besides, the risk system in developing countries is less concrete than that in developed countries.

According to (Schott, 2006), money laundering increases crime rate and corruption. If the country has a weak AML system and ineffective penalties, it becomes a perfect environment to attract criminals, promote corruption, and bribery.

According to (McDowell, John; Novis, 2001), money laundering causes economic distortion and instability as money launderers are not profit-oriented but are more interested in hiding money. Explaining that Launderers invest in projects such as construction or hotels, but when these projects are no longer suitable for them, launderers abandon them directly, which damages the economy and causes a collapse in the sectors launderers invested in.

Furthermore, launderers make the government collection of taxes challenging, leading to a loss of governmental revenues. By default, the government will impose higher taxes to increase its revenues from taxes, leading to harming decent taxpayers.

Moreover, money laundering can undermine financial markets' integrity; if a financial institution relied on crime funds, it would face difficulties managing its liabilities and operations. For example, vast amounts of money can reach a financial institution and with no further notice, disappear in the form of financial transfer; such an action can cause the organization a liquidity problem.

2.1.4 What is being done to handle the issue?

To tackle the issue of money laundering and terrorist financing, the Universal network of worldwide associations and standard setters (United Nations, European Commission, etc.) followed up numerous fronts. The universal reaction was first to admit that money laundering and terrorist financing takes advantage of rapid worldwide exchange components and globalization of services, such as fast financial transfers, open borders, currency exchange, and stock brokerage to achieve their goals.

Therefore, purposeful participation and coordination are required to frustrate the goals of lawbreakers. For example, the establishment of the Financial Action Task Force (FATF), where the governments of seven major industrial nations and the president of the Commission of the European Communities met in July 1989 to push the international cooperation. (FATF n.d.).

That is when the advancement of the Anti-money laundering and Terrorism Financing started. AML/CFT, in short, refers to all laws and regulations which aim to prevent financial crimes by forcing financial organizations to monitor their customer's transactions and profiles to prevent

crimes from happening. According to (Zhu) Deputy Managing Director of the International Monetary Authority (IMF), “Effective anti-money laundering and combating the financing of terrorism regimes are essential to protect the integrity of markets and the global financial framework as they help mitigate the factors that facilitate financial abuse”.

Part two examines the different worldwide associations viewed as the global standard setters for Anti-Money Laundering regulations.

2.2 Part Two. Anti-Money Laundering Regulations.

There are several measures and guidelines generated by different institutions to fight Money Laundering. Each of them has its objectives and recommendations that banks have to follow to succeed with the fight against Money Laundering and avoid the risk of being sanctioned. This section will discuss these different organizations and the consequences of non-complying to AML regulations. Besides, viewing Bank of Palestine compliance policy.

2.2.1 International Standard Setters

Banks operates under the obligations of Anti-Money Laundering to prevent financial crimes from happening. AML regulations are significant for obliged entities from all sizes because it is a global concern that can move beyond borders and touch any organization in the world.

Further to avoiding any sanction that can be imposed on banks, combating money laundering is an integrated universal endeavor. Many local and international law enforcement agencies were established to counter this issue with many measures. We will thus discuss the most potent and important international standard setters and the preventive regulations beginning with the Financial Action Task Force (FATF), The Basel Committee on Banking Supervision (BCBS) and the Wolfsberg Group.

2.2.1.1 The Financial Action Task Force (FATF)

The Financial Action Task Force (FATF) is considered to be the universal money laundering and terrorist financing monitor and policymaker. The inter-governmental body of FATF enables it to produce and set international regulations to reduce and prevent illegal acts as a response to fight money laundering. FATF works with several organizations and bodies which have the observer status among other responsibilities. FATF adopted recommendations to set out the global standards and framework of regulations for countries to follow to prevent money laundering and financing of terrorism. As each country has a different operating situation, it will not be possible to apply the same regulations to all countries. Therefore, FATF adopted 40 recommendations in a detailed list to form a particular measure for a country's AML policy. These recommendations are reviewed and updated continually.

The Forty FATF Recommendations (2019) tackles the following:

1. Risk allocation, policies development and national coordination.

2. Money laundering and Terrorist financing.
3. Preventive measures.
4. Powers and responsibilities of competent authorities.
5. Transparency, beneficial ownership, and legal person's information.
6. Enhance international cooperation.

FATF Recommendations⁶ were accepted by more than 180 countries; afterwards, FATF added +9 new recommendations specialized in combating terrorism. It is globally identified as the international standards for AML/CFT (FATF Recommendations, 2019). FATF established a mutual evaluation report, which examines each member country's peer reviews to evaluate how well FATF standards are being implemented. If the country or the bank wants to be perceived by the international community as trustworthy to do business with, it is mandated to commit upon FATF Recommendations. Otherwise, countries apparently not to be cooperative are situated or classified in a list of high-risk countries, which can cause that country many problems when being screened by others to deal with or not.

2.2.1.2 The Basel Committee on Banking Supervision (BCBS)

The Committee on Banking Regulations and Supervisory (BCBS) was formed in 1974 by the Group of 10 countries' central bank after the failure of Bankhaus Herstatt⁷ in Germany. Basel Committee was formed to improve financial stability by providing a forum for cooperation on banking supervisory matters and standards. FATF formulates suggestions and guidelines of the finest procedures on banking supervisory matters that encourage cooperation among territories and quality of banking supervision worldwide. Basel has many publications concerning regulations for effective risk management and AML/CFT, including the paper of the core principles for effective banking supervision (2012), discussing the different policies, measures, and standards for banks to stop illicit funds.

⁶ For more information on FATF Recommendations:

<http://www.fatf-gafi.org/publications/fatfrecommendations/documents/fatf-recommendations.html>

⁷ Herstatt Bank went bankrupt in 1974 in notable incident due to settlement risk in international finance. Visit: https://en.wikipedia.org/wiki/Herstatt_Bank

In 2016, Basel Committee published the Guidelines for sound management of risks related to money laundering and financing of terrorism, laying the following guidelines in respect to core principles and measures (BCBS, 2016):

1. Risk management including elements of governance structure, AML lines of defence, and building an effective monitoring system.
2. Customer Acceptance Policy, to identify customers who can threaten the bank due to their activities through customer data collection, and risk classification. The customer must provide information about the nature of his work, source of income, nationality or country of origin, the purpose of the bank account, and the business relationship with others. The customer is classified in the 'low risk' versus 'high risk' category owing to this information. For example, a low-risk customer with few transactions record which is easily monitored and not suspicious will go through a simplified process, that means the customer will not be contacted or required to provide documents each time the customer wants to execute a transaction. Because customer acceptance policy should not be rigid, if it was rigorous, it can prohibit the customer from access to banking services or can lead the customer to end the business relationship with the bank.

An Enhanced Due Diligence (EDD)⁸ is employed for high-risk customers like Politically Exposed Persons (peps) or for a customer who does transactions with large financial amounts that would exceed the customer's logical income size, which leads the bank to investigate the customer.

The Customer acceptance policy determines the basis on which the bank will enter a business relationship with its customer or end an existing one.

Inappropriate implementation of the customer acceptance policy can compromise the bank to legal risks.

3. Customer and beneficial owner identification, according to (FATF glossary n.d.), Beneficial owner refers "*to the natural person(s) who ultimately owns or controls a customer or the natural person on whose behalf a transaction is being conducted. It also includes those persons who exercise ultimate effective control over a legal person*

⁸ Enhanced Due Diligence (EDD) is an extra data collection for higher-risk customers to assess the customer's activity profoundly.

or arrangement", customer due diligence (CDD)⁹ concerns customers who are authorized to act on behalf of others. The process of identifying beneficial owners depends on concerted information sources or official documents, such as passports or financial transaction records. The bank can ask the customer to fill in a written declaration of identity, details of the beneficial owner and their relationship. Based on this, the bank builds a customer profile to assess the size of transactions and customer activity. If the bank could not complete the CDD requirements or the customer is not cooperative, the bank should not open the customer an account, however there are some exceptions made by bank managers to some VIP customers. Still, if authorities questioned the bank to provide documents about this customer, and the bank could not provide an adequate justification to the authorities, the bank risks being sanctioned.

4. Continuous Monitoring: like FATF, Basel encourages banks to have ongoing monitoring and review over customers to identify suspicious or unusual transactions.
5. Data Management: in this context Basel encouraged the following:
 - I. Record keeping of all information obtained through CDD.
 - II. Updating the existing information regularly.
 - III. Provide information and measures taken in the context of AML to supervisors.
6. Reporting suspicious activities to the proper authorities and asset freezing.

2.2.1.3 The Wolfsberg Group

The Wolfsberg Group is *“an association of thirteen global banks which aims to develop frameworks and guidance for the management of financial crime risks, particularly with respect to Know Your Customer, Anti-Money Laundering and Counter-Terrorist Financing policies.”* (Wolfsberg Group n.d.).

⁹ Customer due diligence (CDD) is data involving facts on a client that enables an organization to evaluate to which the extent the client exposes it to a possible risk.

The Group has several publications in the form of principles and guidelines of AML. Some of the most significant publications of Wolfsberg Group are listed below:

- Wolfsberg Anti-Money Laundering Principles for Private Banking (2002) handled risks of private banking and suggested using a robust control to impede using banks for criminal operations and suggested bank's senior management to adopt a risk-based approach regarding the banking regulations and procedures.
- Wolfsberg Anti-Money Laundering Principles for Correspondent Banking (2014), in this paper, Wolfsberg addressed the Foreign Correspondent banking¹⁰ relationships which an organization forms with another correspondent banking customer. Implying all correspondent banking customers to be under due diligence process and placing a risk assessment for the correspondent banking customers by considering several elements including the correspondent banking customer's geographic risk, affiliates and subsidiaries, customer's ownership (e.g., the reputation of the owner), customer's business and type of products, etcetera.

2.2.2 What if the Financial Institution did not comply to AML regulations?

If the country or the financial institution did not comply to the AML and TF standards, the country or the financial institution would be subject to sanctions. These sanctions usually come in the shape of trade restrictions or termination of business activity, which is applied by one country or more against a specific government, individual or entity for different motives.

Many other organizations can impose sanctions, such as the United Nations, U.K. Treasury Office, European Union, but most importantly, and which the researcher was personally reporting to during working at Bank of Palestine, is the U.S Office of Foreign Asset Control (OFAC).

OFAC applies economic and trade sanctions in accordance with the US foreign policy and national security goals against a country or entity. It acts under national presidential powers

¹⁰According to Wolfsberg AML principles for correspondent banking (2014), “A Correspondent Bank is effectively acting as its Correspondent's agent or conduit, executing or processing payments or other transactions for the Correspondent's customers”.

with the authority to enforce controls or freeze assets. OFAC made significant enforcement activities related to ML against financial organizations. For example, in 2012, ING bank entered a settlement agreement with (OFAC) to forfeit \$619 Million for illegal transactions; also, OFAC reached a \$132 Million settlement with Standard Chartered Bank, and in the same year, OFAC announced a \$375 million settlement with HSBC Holdings PLC to settle potential liability for violations. We can imagine how many years it requires the bank to compensate these amounts paid for sanctions.

2.2.3 Bank of Palestine compliance to AML regulations.

Bank of Palestine (BoP) was established in 1960. BoP is one of the largest national operating banks in Palestine. According to Bank of Palestine AML and TF Policy V3.0 (2017), Bop is committed to the best standards of AML and demands employees and managers to commit to these regulations. Thus, BoP issued proper procedures and policies to ensure the implementation and commitment to the different international and national regulations related to AML and Terrorist Financing in Palestine. (Bop Compliance and AML policy, n.d).

The situation of banks operating in Palestine is usually critical because of the political and economic conditions. According to Nada Maalouf (2012), who works as an audit partner at Deloitte. *"The risks that financial institutions are facing, especially those operating in the Middle East and North Africa region (MENA), have intensified as financial sanctions are imposed on governments, financial institutions, and individuals across the region, especially politically exposed persons (PEPs)."* According to KnowYourCountry¹¹ website, the USA and Israel established guidelines on transactions with the Palestinian Authority (PA). Fortunately, Palestine is not on FATF list of countries identified as having strategic AML deficiencies, which means that the Palestinian Authority has a strong and effective AML/CFT regime. However, the Palestinian economy is cashed-based, making it challenging to monitor transactions because criminals prefer to use cash since it is broadly acknowledged, anonymous, and virtually difficult to track. Due to the political situation and the division of authorities between Israel, the Palestinian Authority (PA), and Hamas, it is more difficult for the PA to control or monitor everything. The PA has no effective control outside some areas in West

¹¹ KnowYourCountry, for West Bank/Gaza Strip visit: <https://www.knowyourcountry.com/gaza1111>

Bank¹², led it to be vulnerable to smuggling of consumer goods, bulks of cash, and counterfeit of currency cases.

Based on the International Finance Corporation report (2015), financial remittance inflows to Palestine are basic source of foreign exchange because Palestine is considered to be a major source of international migrants who continually transfer funds to their relatives and families in Palestine. In 2015 the remittance inflows reached \$2 billion, there are restrict AML/CFT regulations implemented on these transfers, besides the Israeli restrictions and the dependency of Palestine on Israel central bank due to the absence of Palestinian national currency, posed a huge barrier to execute regular or flexible financial transactions for customers and a burden in applying the AML/CFT regulations.

The International Business Corporation (2017) published a book titled '*Palestine customs, trade regulations and procedures*', stressing that Palestinian banks suffer from the deteriorated relations with the Israeli correspondent banks. The absence of Palestinian currency and dependency of the Palestinian banks on the bank of Israel, and the unstable relations between the Israeli banks and the Palestinian banks, especially in Gaza characterized by restricted cash services, caused intermittent liquidity crises in Gaza and Westbank.

This opened the door for money laundering incidents to occur anytime without warning. These factors forced the Palestinian Monetary Authority (PMA) and the Palestinian banks to use tight AML regulations that caused a massive burden on banks and on the Palestinian customers.

According to Bop compliance and AML policy (n.d.), Bank of Palestine applies the best AML compliance standards and ensures that employees are aware, updated, and applying these standards to manage Bop AML risks. Bank of Palestine uses several safe watches screening lists, including; OFAC blocked countries, SDNs, EU blacklist, UN blacklist., etc.

According to BOP AML/CFT Policy V.3 (2017), BoP is committed to regional and international guidelines, including:

- I. Financial Action Task Force (FATF)'s recommendations on AML/CFT.
- II. US Patriot act.

¹² West Bank is a landlocked territory in Palestine, having frontiers with Jordan.

- III. The committee's Financial Standards to control money laundering.
- IV. Vienna Agreement of illegal trading.

Besides, Bop follows the requirements of the Foreign Tax Compliance Act (FATCA). Also, BoP applies Wolfsberg Group's standards and signed the Wolfsberg Group correspondent banking due diligence questionnaire V1.2.

Figure (2.1)¹³ shows the different aspects of Bank of Palestine AML/CFT policy. After a review, we can say that it matches the international standards and recommendations of AML regulations.

Figure 2. 1 Bop Anti-Money Laundering and Terrorism Financing Policy V.3(2017).



¹³ Figure (2.1)¹³source ;Bank of Palestine P.L.C Anti-Money Laundering and Terrorism Financing Policy V3.0 March 2017, pp11. Web site : https://www.bankofpalestine.com/files/AML_Policy_2017_en.pdf

3 Chapter Three: Customer Reaction Toward AML Regulations

Considering previous related literature is essential to put the study on the right course. Literature review, previous studies, and interviews with experts serve as the basis for building the research hypotheses and analysis. This literature review includes previous research about the factors that can potentially affect the customer's attitude or reaction to different situations of compliance.

Therefore, this chapter will tackle the constructs that are relevant for a better understanding of customers' perceptions about AML regulations, namely Awareness of these measures, Satisfaction towards the bank setting up the regulations, and Trust towards this bank. Each of these constructs will be considered individually, before discussing the potential relationship between each variable and the attitude towards AML regulations.

3.1 Customer Attitude

Understanding customer attitude is not a simple matter, still, it is a significant issue in developing business strategies and enforcing policies. Customer attitude would catch the attention of anybody who wants to set a business model in an organization. Attitude is considered the primary determinant of behavior as individuals approach the things they like and avoid the things they dislike (Allport, 1935).

Many researchers have been curious in the concept of 'attitude', Allport (1935) defines attitude as *"a mental and neural state of readiness, organized through experience, exerting a directive and dynamic influence upon the individual's response to all objects and situations with which it is related."*, this definition seems to be general; Eagly and Chaiken (1993) defined attitude as *"a psychological tendency that is expressed by evaluating a particular entity with some degree of favor or disfavor."* Similarly of Kotler et al. (2006) *"an attitude sums up the feedback (positive or negative), emotional reactions and predispositions toward an object or idea"*. That means attitude can be a good or bad feeling towards an object and can be influenced by certain factors.

There are many different definitions of attitude, but most scientists agree that the main attribute of attitude is its evaluative positive-negative dimensions (Fishbein & Ajzen 1975; Hill 1981; Oskamp 1977). Attitude can be presumed from measurable reactions to the attitude object. Reactions reflect favorable or unfavorable evaluations of the that object.

It can be said that attitudes allow individuals to formulate an action or perception towards similar objects. According to Schuman & Presser (1981), individuals can hold stable attitudes, but their evaluation of experiences depends on some influences that can be favorable or unfavorable towards an object.

According to Mayo & Jarvis (1981), attitude is a reliable indicator of how the person will act under the circumstances of different walks of life.

Our research will focus on attitude as the reaction of being favorable or unfavorable towards AML regulations. The object of attitude in our study is thus linked to a specific legislation.

Several studies have tackled the different elements affecting attitude. Fishbein model studied the customer belief and the customer response or attitude relationship. This research is interested in studying customer awareness, customer satisfaction, and customer trust related to customer attitude towards AML regulations. The empirical study will include awareness, satisfaction, and trust as variables in determining the customer attitude towards the bank's AML regulations and compliance policies.

3.2 Customer Awareness

Previous research has tackled the relationship between awareness and attitude. Awareness can be defined in different forms. In the marketing field, awareness is usually linked to a particular product or a specific brand and is even part of the brand *equity process*. For example, (Aaker, 1996) identified brand awareness as the customer's ability to recognize and recall the brand under various conditions; likewise according to (Keller, 1993) it's brand recall and recognition performance by consumers.

Nonetheless, in our research, the term "awareness" refers to customer's knowledge toward specific legislation (AML regulations). This is in line with the more global management literature, which used several terms to describe "awareness", such as knowledge, or education. There is not much difference between the concepts. According to (Merriam-Webster, 2020) knowledge is "*the fact or condition of being aware of something*", while Education is "*the knowledge and development resulting from the process of being educated*".

Generally, Knowledge is gained by acquiring information from life experiences, while education, is gaining knowledge through formal methods such as school and universities. This research considers them all as boosters and synonyms of awareness, as awareness is a result of

education and knowledge gained. This part has its roots in this literature about the importance of customer awareness.

According to (Yilmaz & Koçoğlu, 2017), education and knowledge are the main features in determining customer awareness. Generally, organizations need customer awareness towards their products and services, accordingly they should educate customers about these products and services. A well-educated customer can then reach a high level of satisfaction and be more loyal to the service provider (Suh et al., 2015). Simultaneously, customers seek knowledge about the institution's services to know their rights and responsibilities or why they should follow a particular procedure or use a service. For instance, according to (Lee & Shin, 2010), higher awareness level of corporate social responsibility (CSR) activities and community contributions leads to more positive impacts on customers' intentions to buy from this corporate. Customer awareness and knowledge are critical to lead to effective customer behavior. Awareness is tipped towards action-oriented attitudes (Ishak & Zabil, 2012). It is clear that financial education is needed to boost customer awareness of financial issues, such as the one we are investigating in this thesis; AML regulations.

The Presidents Advisory Council on Financial Literacy (PACFL, 2008) defined Financial education as "*the process by which people improve their understanding of financial products, services, and concepts, so they are empowered to make informed choices, avoid pitfalls, know where to go for help and take other actions to improve their present and long-term financial well-being*". Whereas, financial literacy is "*the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being*" (PACFL, 2008).

People are not aware of money laundering being a crime and do not know about the adverse effects of such actions (Singh, 2009), as not all people have access to financial knowledge especially money laundering (Gemmell, 2019). Financial knowledge aids customers in making wise financial decisions in uncertain situations (Hadar et al., 2013).

The education of "knowledge improvement" may be achieved by participating in financial literacy programs as financial education increases financial literacy and empowers customers' desirable financial attitudes (Xiao & Porto, 2017).

Financial literacy education programs are hypothetically supposed to enhance customer attitude about financial products and services as education can decrease information asymmetries between the organization and the customer (Bell & Eisingerich, 2007). However, sometimes financial concepts are sophisticated for customers to comprehend. Therefore, to enhance the

financial attitude (money management) of a customer, it is better to consider the objectives of the financial literacy programs not just from an educational angle but also from the customer's psychological biases and limitations inherent to humans, by considering what could influence personal finance behaviors of engaging in investments or transactions with a specific corporate (West, 2012).

Ellabban & Abu-Rub (2016) conducted a study on the drivers of customer acceptance and engagement in promoting the smart grid technology; researchers found that in order for the customer to accept and support the transformation to the smart grid technology, they have to inform the customers effectively about the advantages to encourage them to buy.

The authors highlighted the importance of customer education, learning, interaction, as the more the customer is aware of what is happening, the more acceptable or favorable the customer attitude will be, in their specific context.

Moreover, there is a need to have strategies to decrease banks' risk of harming their customers' financial well-being, benefiting from poorly informed customers. Some authors insist on banks to provide more transparent financial information to the customers (Losada-Otalora et al., 2018). If customers have sufficient information about their financial services, customers will make sound financial decisions (Serido et al., 2014).

Customer education positively impacts customer behavior (Xiao & O'Neill, 2016). If the customer understands the law, it is easier for the customer to realize the coming advantages and to be supportive and cooperative. One can imagine that this could apply to our specific context of AML regulations. On the contrary, if individuals prospect the AML/CFT regulations as incompetent, the other coming new laws will not be obeyed or followed.

This gap may occur because of the lack in the role of the competent authority to spread awareness and knowledge to the public about the risks of money laundering and the financing of terrorism, which reflects a fragile knowledge of AML/CFT regulations among the non-reporting institutions and the public audience (FIU-Mauritius, 2006).

To sum up, if customers have access to reliable and objective information, they will tend to be more confident to purchase the financial product or service; as the level of awareness increases, the customer preference increases (Janefer & Siddiq, 2017). Knowledgeable customers about a specific product or service can perceive it as essential, and on the contrary, customers who are not knowledgeable about a product cannot perceive it as necessary (Lutz, R. J., MacKenzie, S.

B., & Belch, 1983). In our empirical study, we will test whether these claims apply to our AML context.

3.3 Customer Satisfaction

This section of the study will review satisfaction (towards an organization, a product or service), and show that it can be considered as one of the critical influencers of customer attitude in general. Studying satisfaction is critical for this research because customer satisfaction affect's customers' decision to stay or leave (Levitt, 1981). Moreover, satisfaction and trust are determinants for the continuity of the relationship between the organization and the customer and critical influencers of customer loyalty (Leninkumar, 2017). This section will cover the different definitions of customer satisfaction and some determinants or precedents of customer satisfaction and its consequences.

The definitions of most authors about customer satisfaction look similar; according to (Yi, 1990) customer satisfaction is the discrepancy function between the customer's expectations before the service and the customer's evaluation of the purchase. In other words, customer satisfaction is established after the customer experience with the organization, whether when buying a product, using a service, or after the treatment of customer transactions. Minarti & Segoro (2014) identified satisfaction as an attitude or emotional response exhibited by customers after the purchase, as an indicator of being happy with the service or product. Yap et al. (2012) considered satisfaction as an overall customer attitude towards the service provider. Like that, (Fornell, 2016) considered customer satisfaction as an attitude shaped after the customer purchase or service experience. Hunt (1977) defined attitude as emotion and defined satisfaction as the evaluation of this emotion. Also (Howard 1989), considered attitude as "*the degree of satisfying the needs the consumer thinks this brand may provide.*" According to (Oliver1980; Howard and Sheth 1969), when there is great satisfaction after the purchase or service, that will increase the possibility of adding the product/brand to the customer's favorite list, which increases the favorability of attitude and the intention to purchase.

Therefore, satisfaction is an emotional response to an offer, referring to happiness or not the customer feels towards the product or service, whether the product or service has met the customer expectations or not. Other authors consider customer satisfaction equal to service quality because service quality positively correlates with customer satisfaction in the banking industry (Alabboodi, 2019), but this is less present in the literature.

In the banking industry, customer satisfaction is critical when providing a service; many other banks can provide customers with the needed financial services increases their risk of losing customers when these ones are not satisfied by switching to another bank. Research has shown a positive relationship between customer satisfaction and financial performance (Fornell et al., 1996). Therefore, if service quality relates to customer retention, then an impact on customer attitude response can be detected. (Valarie, Parasuraman, 1996).

It is more appropriate to view customer satisfaction as an attitude. That is not surprising because satisfaction is considered an element that can shape customer attitude towards the service provider (Yi, 1990). As a consequence, by delivering a reliable service quality to customers, the organization can differentiate itself among others and increase customer satisfaction, loyalty, and reduce customer complaints. (Osman, Ugur, Emin, 2005).

Levesque & Mcdougal (1996) investigated the significant determinants of customer satisfaction in retail banks. The authors found that service problems and service recovery significantly influence customer satisfaction and customer intention to switch to another service provider. If customers found the service performance lower than expected, they are likely to signal negative behaviors that they are leaving the organization, such as complaining, which stem from dissatisfaction (Valarie, Parasuraman, 1996). Hence, customer complaint handling has a considerable influence on customer satisfaction and retention (Hart, C.W.L., Heskett, J.L., and Sasser, 1990).

Suppose the bank has many complaints because of implementing AML regulations, that is a clear sign of dissatisfaction as complaint handling can determine the health of the organization's relationship with the customer (Walter et al., 2015). Organizations still commit mistakes in meeting customer's expectations because not all organizations know how to treat a service failure or complaint handling tactics. Because of that, many organizations invest heavily in customer complaint handling to increase commitment, loyalty, and customer satisfaction (Nikbin et al., 2010).

In the study of (Tax et al., 1998), most customers who filed a complaint were dissatisfied with the treatment of their providers; the researchers used the justice theory (equal rights) and noticed that customers assess complaints in terms of results, output they receive, procedures to reach the outcomes and the interpersonal treatment they have. The researchers found that

satisfaction in complaint treatment has a direct effect on trust and commitment as well. Furthermore, past positive customer experiences lessen the impact of negative complaint handling. Also, satisfied customers are more willing to participate positive word of mouth (Vilgon, 1991).

Customer satisfaction will be tested in the empirical study to examine its importance in the context of AML regulations.

3.4 Customer Trust

In addition to the previous concepts of awareness and satisfaction, the research will review trust as one of the factors that may affect customer's attitude towards AML regulations. This section will include definitions of trust, the importance of trust, plus building or recovering trust when it is lost.

Trust is confidence that one party has in the other because of the other partner's honesty and reliability (Morgan & Hunt, 1994). Mayer, Davis, & Schoorman (1995) defined trust to be "*the willingness of a person to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor another party.*" For Anderson & Narus,(1990) trust is "*the firm's belief that another company will perform actions that will result in positive outcomes for the firm, as well as not take unexpected actions that would result in negative outcomes for the firm*". According to Bialaszewski & Giallourakis, (1985) trust is "*an attitude displayed in situations where (...) a person is relying on another person, a person is risking something of value, and/or a person is attempting to achieve a desired goal*".

A simple definition of customer trust is "*the willingness of the average consumer to rely on the ability of the brand to perform its stated function*" (Chaudhuri, A. & Holbrook, 2001).

Many authors reconcile that trust is a critical element for the success of banking development (Wetzel & van Gorp, 2014). Without having trust in the brand, the customer will not be able to enter the loyalty set (Ahmed et al., 2014). Trust is vital for the customer-bank relationship on the short and long run. Like any service provider, where there are many competitors, it is mandatory to realize that customers are not loyal to a certain bank as they can open accounts at different banks and deal with the provider, they feel most comfortable with. In a specific study on Indians' trust towards banks, (Singh, 2009) concluded that Indians do not trust the bank's

procedures and avoid paperwork when executing a transaction with a bank. Indians prefer to do transactions with other financial institutions that provide similar services but impose fewer regulations, paperwork, and anonymity.

To build trust with customers, banks should focus their efforts on the different bank trust drivers and realize the positive consequences of acquiring the customer's trust. Thereby, a higher trust, satisfaction, and customer loyalty can be noted. According to (Jasienė & Staroselskaja, 2010) customer trust can be influenced by the information provided to the customer, which in turn can be reflected in customer cooperation with the organization. A customer who has reliable information can analyse and assess the situations of the bank's service, not just from the current situation but also from the bank's characteristics, customer's perception of risk and past bank transactions, and use them to formulate the future behaviour of the bank (Skvarciany & Jureviciene, 2017).

Gill et al. (2006) argue that banks should ensure that their relationship managers can fulfill the customer's needs by giving the "best fit" financial services to the customer to gain the customer's trust. This confidence is built by the customer's belief that the relationship manager will act on behalf of the customer on very high expectations that the customer will be sold only the necessary services in the customer's concern, and his relationship manager will not break that trust. In addition to information, service failure can affect the customer's trust level in the organization. If customers have high expectations with relationship continuity, customers will have lower service recovery prospects after service failure and associate the failure with a less stable cause. Both the lower recovery prospects and the lower stability attributions were associated with better satisfaction with the service's performance after recovering. These impacts seemed to be necessary procedures by which connections buffer service companies when disappointments happen (Hess et al., 2003).

To restore customer's trust, organizations should understand the motive and the behavior of the complainer, then figure out how to change the complainer behavior, not forgetting the importance of answering complaints as soon as possible to prevent complaints from recurring based on the nature of the customer (Grégoire & Tripp, 2011). The institution's ability to respond effectively and promptly with satisfying the customer is a determinant for competitiveness and success (Gursoy & Swanger, 2007).

In this research setting, the banking sector is sensitive to the customer's perceptions of the bank's level of compliance with laws and regulations. Trust is significantly linked to how non-compliance is dealt with, non-compliance can make the bank exposed to sanctions, and if sanctions were approved that will cause a reputational risk for the bank and loss of customer's trust. For a bank to restore trust, the bank has to deploy regulations (Nienaber et al. 2014). Customers develop more trust feelings when they are doubtless of compliance with legal regulations of banking (A. S. Gill et al., 2006). However, the adverse effect of deploying regulations might not be favorable from the customer part. It can be said that; if customers feel that AML/CFT regulations are ambiguous or un-trustable, that could lead to a service failure and negative customer experience.

According to (Gasparotto et al., 2018), an organization can recover a customer's trust by improving the organization's processes. That includes regulations and policies, or by enhancing the discounts like giving financial compensations, by regulation, they refer to a message about building a system to guarantee future trustworthy behavior and avoid any violations. While financial compensation relates to an offer to renew trustworthiness; financial compensations and regulations can lead to similar trust levels. It is up to the organization to determine which method to use depending on its needs, goals, and resources (Gasparotto et al., 2018).

McCole et al. (2010) mentioned that trust could be found in uncertain and risky environments, provided that trust considerations influence buyers' attitudes and actions towards sellers. In the context of AML regulations, customers are usually required to show sensitive documents such as purchase invoices, declare their relationship with other individuals, identity, and supporting documents. A lot of these documents are considered to be personal information. A parallel may be made if the customer does not trust that his personal data is treated with privacy and appropriate security, the customer will not behave positively towards AML regulations.

As a result, and due to the privacy issues with AML regulations, trust may be an essential element to decrease the uncertainty perceptions customers have towards the bank regarding AML regulations. This will be assessed in our empirical studies.

3.5 Previous studies

This section explores several research pieces that have studied these constructs, due to their importance in managing a successful organization and customer-corporate relationship. Although previous studies have been implemented in different contexts, our research focuses on the relationships between awareness, satisfaction, trust, and their impact on attitude formulation.

3.5.1 The relationship between customer awareness and customer attitude.

Literature review of the relationship between customer attitude and customer awareness is rich. Nevertheless, while multiple studies investigate the relationship between awareness and attitude, it turns out to be difficult to find studies about the relationship between customer awareness and customer attitude in the context of AML regulations. The studies below thus serve as a basis of our research, and we will test whether similar relationships can be found in our specific context. Most studies show that customer awareness would significantly impact the customer attitude positively or negatively depending on the level of information, knowledge, or education provided to the customer, as the most common and long-standing hypothesis is that learning drives change of Attitude (Riley et al., 1954).

The study of Spitzenstätter & Schnell, (2020) on the effects of mortality awareness on attitude toward dying, found that death education programs were quite effective in decreasing the participants' fear of death. The mortality awareness increased the respondent's acceptance of their death and decreased the fear of their own dying. The fear of dying was affected by the mortality awareness (death educational programs), and the respondent's attitude was positively to accept their own mortality and decrease fear of dying. According to Arndt & Grønhaug (1978), a customer decision-making process enters a set of mental and physical phases, symbolized by the "hierarchy of effects" hypothesis. This hypothesis presumes that "*over time, changes in cognitive states (such as awareness) lead to changes in effective stages (such as attitudes) which again result in changes in conative states (such as intentions to buy and actual purchase behavior)*" as all relationships are expected to be positive.

Malandrino et al. (2013) aimed at helping participants be aware of the value of their privacy and make informed decisions to reduce their degree of exposure during their online navigation.

They used a privacy-enhancing tool to enhance learning and awareness by assisting participants learn behaviors and knowing what happens during their navigation. In the beginning, participants showed little willingness to adapt to the privacy tool, but when learning and awareness happened by using the tool, the participants changed their online attitudes. The tool was useful by making the participants aware of the risks of their navigation and changed their opinions of using privacy technologies as well changing their attitude during navigation.

Zhu & Xie,(2015), investigated the impact of risk and benefits knowledge on attitude formation and the effect of knowledge level on attitude change when receiving information. The study found that benefit and risk knowledge affect customer attitude in both ways positively and negatively. According to the study, the customer attitude towards genetically modified (GM) food is generally negative. The negative attitude can be explained by the lack of knowledge about GM technologies' benefits and risks, which leads to negative evaluations of technology as customers perform attitudes based on what they know. Customers will consider the characteristics of GM foods when forming their attitudes. These characteristics can be risks and benefits. The study found that knowledge contributes to attitude formation, as educating the public, and changing their knowledge level would change the public attitude. The participants of the study showed more trust in mixed information rather than information about benefits only. Mixed information seemed to be a better choice to increase the level of public knowledge. The study also found that individuals with higher knowledge levels tend to trust and be influenced by information more than others. For this reason, the customer level of knowledge is supposed to be considered when providing information.

In a context closer to ours, the study of Kaakeh et al., (2018) investigated the effects of image, awareness, shariah compliance, and individualism on the customer attitude and intention to use Islamic banking using the theory of Reasoned Action and the theory of Planned Behavior. The results found that attitude and awareness affect the customer intention directly and that there is a negative effect of unaware customers on attitude. Similarly, (Md Husin & Ab Rahman, 2016) used the theory of Planned Behavior to understand Islamic insurance acceptance; the model was adapted to include elements that affect attitude; awareness, knowledge, and exposure were found to affect attitude significantly.

The literature and previous studies highlighted a strong relationship between customer awareness and customer attitude. The previous studies will be used for comparison with the empirical study results.

3.5.2 The relationship between customer satisfaction and customer attitude.

This section of the research will include the different studies that have successfully reached a conclusion or provided proof on the relationship and effect of customer satisfaction and customer attitude.

According to LaTour & Peat, (1979), satisfaction and attitude are considered as synonymous as both are evaluative responses to products or services; still, concepts are different.

In the hotel sectors, the study of (Maggon & Chaudhry, 2018) aimed to understand what determines the relationship share¹⁴ with profitable customers. The researchers used a structured questionnaire and personal surveys on a sample of leisure travelers in a hotel. The study found that the customer will show a positive attitude towards the hotel if the customer is satisfied. Besides, that satisfaction led to a high relationship share between the customer and the hotel. Moreover, the study focused on maintaining personal relationships with the customers to keep the customers satisfied. Also, fulfilling the customer needs in a time horizon.

The study of (Thakur, 2005) tackled customer satisfaction to customer attitude towards the firm. The research found a positive relationship between customer satisfaction and customer attitude. The study indicated that if the customer is satisfied with the cell phone service provider, customers will be willing to reflect a positive attitude, such as sharing their information with the service provider.

The study of (Garga et al., 2019) investigated the factors influencing customer's behavior to change to alternative mobile phone service brand with mediating the effects of customer satisfaction. The study has shown that customer satisfaction was associated directly with the customer's attitude to switch to another provider. Satisfied customers were less willing to change their providers than the less satisfied ones. Customer satisfaction was positively associated with the attitude towards changing the brand.

¹⁴ Relationship share is *'the degree of centrality to a customer of a specific relationship with a firm when this relationship is evaluated in the context of all other relationships with companies of that customer'* (Thakur, 2005)

To sum up, there is a strong positive relationship between customer satisfaction and customer attitude in different settings investigated by the literature. It is concluded that the more the customer is satisfied, the more positive attitude the customer is going to show towards the organization. In our research, we will investigate the relationship between satisfaction towards the bank generally such as services and attitude towards AML regulations. We will test whether a global assessment of the bank is correlated with customer's attitude towards AML regulations.

3.5.3 The relationship between customer trust and customer attitude.

This section will cite the different studies that have found a relationship between customer trust and customer attitudes. Authors have found a strong positive relationship between those two constructs, and some have considered trust as type of attitude. Jones, (1996) described trust as an attitude of optimism depending on the goodwill of the other to cover all domains of interaction by counting on the other party.

McCole et al., (2010) examined the impact of e-commerce trust considerations (vendor-internet- third parties) on the customer's online purchase attitude. The study showed that when there are higher privacy and security concerns, trust in the provider and attitudes toward purchase become more critical, meaning that the relationship between trust on the internet and attitude weakens when customers have deeper privacy concerns.

In a human resources context, the study of (Barriere, 2016), investigated the role of trust in driving the positive attitude of employees towards HR analytics. By participating in sharing their personal information with the company, employees were generally unwilling to do. The study considered the positive attitude of participation to originate from trust. The study considered trust in management (in individuals) and trust in the organization (as a whole/ entity) to determine the level of employee trust and as an indicator of attitude. More than 1000 employees participated in the study from two companies using an online survey. The researcher hypothesized to have a positive relationship between trust in the organization and attitudes. Trust in the organization (collective trust) was a better indicator for determining the attitude towards HR analytics than trust in management (interpersonal trust). That is to say, when there is a high level of trust in the organization, a positive attitude towards HR analytics can be obtained.

Similarly, the study of (Singh, U., & Srivastava, 2013) investigated the predictors of organizational trust and its effect on employees' attitudes such as knowledge sharing, commitment, and turnover intentions. The survey included 303 respondents from six organizations. The study considered job security, procedural justice, organizational support, and communication as potential organizational trust antecedents. The research ran through a questionnaire analysis supported with a literature review to examine the associations between organizational trust determinants and the impact of trust on attitude (knowledge sharing, commitment, turnover intentions). The results showed that the variables of organizational trust except job security predicts trust. In conclusion, organizational trust influenced the attitudes of the employees positively.

Dierks (2007) examined the role of trust in determining the German customer behavior. The study aimed to estimate customer behavior determinants in an everyday situation and after an external shock. Trust was hypothesized to have an indirect impact on customer behavior. The study concluded that trust does not necessarily impact customer behavior in a safe environment, and the customer's attitude quickly determines that. Nonetheless, this changes when confronted with a risky environment where trust is a critical component of understanding customer behavior in uncertain situations.

In a bank setting, according to (Van Esterik-Plasmeijer & Van Raaij, 2017), trust facilitates transactions with customers. With a high level of trust, customers feel more confident that their interests are well guarded at the bank. A high level of trust is like a shield for the bank against negative customer experiences and negative word of mouth; a customer will forgive a negative experience if the customer trusts the bank, and on the contrary, a low trust level with a negative customer experience is like a 'Proof' to the customer that the bank is not worthy of being trusted.

Generally, trust is necessary for all social life interactions, as it is a fundamental component of successful relationships (Garbarino & Johnson, 1999). In some contexts, a high level of trust produces a positive attitude, especially in risky transactions. According to (Dinev et al., 2006), a low level of trust between two sides and the system that processes the exchange will slow down the speed and time at which the transaction is completed.

To sum up, the literature review with the previous studies proves that trust positively impacts attitude. We will test it in our context.

3.6 Is compliance a burden or an opportunity?

This section tackles the research question that some customers and employees may find AML regulations problematic and time consuming for both sides, the bank employees and customers. From the financial institution side, the more compliance regulations develop and change, the more workload and costs fall on the financial institution. The more complex the regulations are, the more organizations spend on costs such as external consultants and on time to meet compliance requirements (KPMG, 2013).

The study launched by (Lexis Nexis, 2017) was addressed through five markets (France, Germany, Italy, Switzerland, and the Netherlands). The European financial institutions considered AML/CFT regulations an opportunity to enhance their business, such as having better data management, better customer relationships, and better risk analysis. On the contrary, the labor resources of compliance were a massive burden on the institutions. The actual cost of compliance in these countries to be around \$83.5 billion annually, which caused a decreased productivity and loss of prospective customers. The majority of respondents agreed that AML compliance can cause customer friction through delayed onboarding¹⁵ process which causes loss of customer relationship, and a percentage of 73% reported losing up to 4% of prospective customers because of disputes during the onboarding process which all cause vast costs and negative customer experiences.

The study of (M. Gill & Taylor, 2004) showed that KYC policy worries the financial institutions. Most banks find regulation's level to be proportionate to risks, but for others it was viewed as burdensome in terms of costs and lacks flexibility in rules which cause customer alienation. Besides, KYC procedures were seen inefficient as organizations rely on customers to provide them with identity documents, because organization do not have a reliable source of verifying the data provided by customers. Demonstrating evidence that few customers are money launderers and small aspects of their activities are linked to money laundering issues, calling for a risk-based approach focusing on higher risks.

Webb (2004) tackled another aspect of AML using personal interviews with *Money Laundering Reporting Officers* (MLROs). The behaviors of MLRO were different and separated into;

¹⁵ Onboarding concerned with many steps such as evaluating new customers, compliance verification, legal terms agreement, opening new accounts., etc.

Positive about the benefits of AML regulations, such as data gains and less sanction possibility. Negative opinions, arguing that KYC is time consuming, do not respect the culture of many people worldwide, and narrow-minded; being intrusive and making customers feel offended because of the continuous verifications. Plus, lost privacy and compromised confidentiality exist; some respondents indicated that KYC is not very efficient in combating money laundering, because launderers are very smart and can find falsify documents if needed. They demanded a KYC scope, claiming being embarrassed to question a well-known and valuable customer of them.

The study of (Simwayi & Guohua, 2011) revealed that compliance officers had tremendous burdens from customer identification to assessment and reporting of suspicious activities, justifying that reporting alerts are not regular activities describing it to be stressful as these activities happen any time. It is challenging to verify and audit every transaction while the identification criteria depend on the employee's assessment and logic, which can cause failure in reporting and detecting transactions.

From the customer side, some customers are prohibited to access financial services due to their high-risk category, this has led customers to go for less reliable or informal methods to proceed with their financial needs, and by default, their transactions will not be monitored or reported, which causes more problems in the financial sector and De-risking¹⁶, (ESA, 2019).

Therefore, the European Supervisory Authorities (ESA) advised the competent authorities¹⁷ to work with the financial institutions to find solutions for these customers to ensure that AML/CFT measures do not prevent legitimate customers from processing their financial needs. Furthermore, the ESAs ensure in their guidelines that the risk-based approach is not supposed to push the financial institutions to end their business relationships with high-risk customers as the risk of each person is different. However, the discussions illustrate that de-risking is still a significant issue with no progress seen.

There are many reports on the prohibition of access to financial services by some customers, including the study of the Consultative Group to Assist the Poor (CGAP), remarking that

¹⁶ According to FATF, De-risking refers to the phenomenon of financial institutions terminating or restricting business relationships with clients to avoid, rather than manage, risk in line with the FATF's risk-based approach.

¹⁷ Competent Authority (CA), the authorities designated for supervising and ensuring supervised entities' compliance with the requirements of the Fourth AML Directive (AMLD4).

AML/CFT regulations negatively impact's the access to and use of financial services if these regulations are not carefully designed (FATF, 2011). The customer identification process plays a critical role in improving customers experience or making it worse. Some customers cannot quickly provide their ID documents due to some circumstances which could lead the bank officer to ask intrusive questions or postpone the transaction, which in turn put-off new customers and causes money laundering crime by going to unbanked entities. That is why regulations should be flexible. The bank officer should be aware of all the aspects of the job to use logical judgment, especially with new customers (Financial Services Consumer Panel, 2004).

However, the burden of AML is not only related to the customer's cooperation or awareness. The study of (Harvey, 2004) revealed different aspects; respondents reported that 50-90% of their customers are aware of AML regulations. The range of customer awareness is mixed; customers understand the causes behind compliance, but for them compliance could stop a business transaction or waste future business activity. Some customers perceived different levels of regulations or standards with different organizations. Furthermore, all respondent organizations of the study agreed that reputation is an advantage resulting from compliance, as the significant risk of money laundering would mainly affect the organization's reputation representing a reputational cost. This reputational cost will provide a motive for institutions to comply. However, a respondent expressed '*compliance activity is driven by fear, rather than by benefits to the firm*'.

Reviewing these different studies shows that compliance have advantages and disadvantages for the financial institution and the customer. There is an extent to which organizations can comply with regulations and minimize stressing their employees or losing their customers by following a flexible risk-based approach and driving a positive customer attitude towards these regulations.

4 Chapter Four: Empirical study

Introduction

This chapter describes the proposed methodology in conducting the present research. It will tackle the different aspects of research methodology, approach, data collection, and hypothesis formulation. It explains the qualitative and quantitative approaches used and deals with the sampling method, instrument development, data collection, and data analysis techniques.

4.1 Research Methodology

This research sets the objective of measuring customer awareness, customer satisfaction, and customer trust on customer attitude towards AML regulations.

To achieve this goal, this research adopts a *positive* methodological approach, including using a qualitative pre-study, followed by a quantitative one.

The research started with an exploratory phase, citing the different literature reviews related to our study, then a qualitative pre-study in the form of online face-to-face interviews with experts who have different roles in maintaining and developing a reliable AML system at Bank of Palestine. This exploratory phase (literature review and qualitative pre-study) will help set up the hypotheses that will be tested through a quantitative study among Bank of Palestine customers. This quantitative study will allow us to capture customer's attitudes who are concerned by the AML regulations.

The experts interviewed are in charge of designing and implementing AML policies. Experts deal with all issues related to AML and have a closer look at the possible problems in the implementation process. Interviewees will help us understand AML procedures profoundly and ask their opinions on customers' reactions: do customers give their cooperation and support of AML regulations at the bank? What is their level of satisfaction toward AML policies, customer identification process, and documentation? Understanding customer's responses and attitudes towards these measures and requests will enable us to assess their level of cooperation & support to AML/CFT regulations. Mixing the quantitative and qualitative approaches will provide a better understanding to come up with a rational conclusion and managerial recommendations to the Bank of Palestine. The study aims at understanding both the customer's attitudes and the expert's opinion. In the end, both were analyzed to draw a broad conclusion.

4.1.1 Data Collection

Appropriate methods for data collection are critical for the appropriate completion of the research.

The research used both primary and secondary data. Primary data was collected using interviews with experts, in addition to a questionnaire. Secondary data were collected through different resources such as scientific articles, published reports, internet official sites, and books.

4.1.2 Interviews

Interviews were conducted to produce the qualitative data characterizing the viewpoints of the experts working at the Bank of Palestine. Three employees were interviewed from all levels to have first insights regarding customer's attitude towards AML regulations.

One employee work as Money Laundering Reporting Officers (MLRO), the second works as an AML and financial transfer officer. Both review the transactions and set the policies for AML at the bank. The third works at the Customer Service Department: always in touch with customers and reports to the AML department.

4.1.3 Interview Pattern

At the beginning of the dialog, interviewees were appreciated and thanked for participating in the study. They were told about the interview topic, including what we want to measure, research purpose, interview time, and privacy of the conversation.

Interviews were conducted following three sections of the interview guide. Each section consists of 5 questions. In the first section of the interview guide, employees were asked general questions about their work experience and the bank's general process. In the second section, employees were asked specific questions to give their opinion of the AML regulations and customer awareness & knowledge of AML. In the third section, employees were interviewed about questions mentioned in the interview guide with a detailed discussion of AML regulations and the customer attitude.

At the end, interviewees were asked if they would like to add something to the dialog, provided with confidentiality assurance and appreciation for their participation.

4.2 Qualitative Analysis

Qualitative analysis was considered to figure out how employees at the Bank of Palestine perceive the effects of Anti-Money Laundering on their customers. Interviews help build the research hypothesis.

Interviews were flexible in the sequence of questions; it was asked in a manner that can keep the dialog on the right path and were directed to cover the research interests. The purpose of the interviews is to cover all elements in addition to individual perspectives.

4.2.1 Interview Results

This section illustrates the opinions of the experts summarized from the interviews. According to data extracted from the dialog with interviewees, it was decided to draw the results of the interviews in the following themes:

4.2.1.1 AML Utility

According to the interviewees, when a customer wants to start a business relationship with the bank, the customer first has to declare to the bank why the customer needs the bank account to provide the customer with a bank account that is suitable to his needs. Then the customer has to provide the bank with documents such as; the identity, profession category, source of income, commercial record in case the customer is a businessman, and invoices of export, import or purchase, and sales. In addition to being screened on the sanctions lists.

The three interviewees confirmed that any change in the bank policies is built on “Know- Your -Customer” (KYC) policy. Some updates were established at the bank recently, including an electronic list for Politicly Exposed Persons (Peps), the American citizens list, and the suspicious names list, which is open international database. Besides, the risk-based approach (RBA) which introduced the risk assessment system to evaluate the risk for each customer category.

As indicated by interviewees, most of the customers visiting the bank to execute daily financial transactions and large financial transfers are within the businessmen category. Two interviewees (2/3) argued that businessmen and elderly customers object the most and show more negative reactions than other customers when required to provide the bank with a

particular document or follow a regulatory process. On the other hand, one of the interviewees claimed that all customers object whatever their category.

As specified by one interviewee, *"usually businessmen category includes people with influence in the country, and they want their transactions to be done right away; While elderly customers are not familiar with our regulations, they face difficulties when dealing with online banking or documents, they always want somebody to help them perform a task, that's why they usually get annoyed"*. From these interviews, it looks like businessmen cannot devote much time to regulatory follow-up. Usually, banks deal with the account holders, and usually, businessmen do not delegate employees to deal with banking issues aside from account auditing. In this case, businessmen have to do the follow up by themselves. Elderly customers find it challenging to understand the banking requirements, maybe due to age or lack of education and technology use.

4.2.1.2 Awareness and Education

As reported by interviewees, most customers are not aware of AML/CFT regulations; a small percentage are knowledgeable of AML in detail. *"People think that they are free to do whatever they want with their bank accounts and money,"* Stated one of the interviewees.

Before customers being aware of AML regulations, they relate it to privacy violations. The interviewees agree on preventing customers from having this feeling by spreading awareness and informing customers of AML regulations: it would make the transaction easier for both as customers become more cooperative. Another interviewee added, *"Informing customers about AML regulations will decrease their negative thoughts about what we do with the information we collect, or about the delay of the customer's transactions, awareness will make the customer patient and more cooperative with us as a bank"*. The interviewees encourage the learning and education of customers and answering their questions.

From the customer angle, one interviewee remarked that the customer onboarding process could be impacted by transaction delay, referring to the time spent evaluating and executing the customer's transaction and checking the customer profile. The other two interviewees think that customer experience is affected depending on their awareness and satisfaction level. One interviewee evaluates the customer experience based on demographic variables; *"more positive customer experience can be found among youth (25-35) in age, this category's satisfaction level is higher than others."*

One interviewee added that AML regulations influence the customer experience at the beginning of the business relationship only. Referring that AML regulations are available in every bank, and it's up to the bank officer to smoothen or complicate the situation by balancing constraints (KYC vs. Customer is a King) policy.

According to interviewees, Bank of Palestine made some efforts to support customer knowledge of AML regulations; examples include creating an internal website for the employees to keep them informed about all AML updates in order to better handle customer's transactions and to provide convincing answers to customer's doubts and questions. One of the interviewees refer that their relationship with customers is built on trust; therefore, the customer should receive the right information directly from the bank officer rather than an outside source. Conveying that providing information through Bank of Palestine officers helps build better customer awareness. One of the interviewees mentioned that "*during working hours there is no time to explain everything for the customers; still the staff tries its best*". Reasons can be due to dealing with many customers daily and the absence of appointments policy at the bank, which place a massive pressure on employees to execute customer's transactions with efficiency and effectiveness within a time horizon.

Interviewees agree that awareness will lead to customer compliance. Still, customer satisfaction is influenced if the transaction is not completed in a timely manner due to compliance and documentation checks. Customer awareness will decrease negative attitudes and thoughts, which can affect the satisfaction level. According to one of the experts, customers object before they know the process but afterwards they cooperate. In the end, customers want their transactions to be treated.

One interviewee expressed that "*customers' reactions will change depending on the customers' educational level*" underlining that, the higher the customer's educational status, the more the customer is willing to understand or follow regulations.

4.2.1.3 Trust and Satisfaction

According to the experts interviewed, many customers find AML regulations intrusive and unnecessary. For one of the experts, Palestinians do not trust AML policies; they believe it is a method to spy on them because of the country's political situation. That's why an unaware customer will not trust AML measures, but after raising awareness, the customer trust increases.

Another interviewee argues that trust and AML regulations are not related. Assuming that trust is the customer's status being satisfied with the bank services or not, if the customer is satisfied, it would lead the customer to trust the bank officer and not question or complain about AML issues. Moreover, trust and satisfaction can be linked to the bank's reputation; in the case of the Bank of Palestine, it is considered the leading bank in Palestine with the largest market share. Another interviewee's opinion that "*customer satisfaction is concerned with completing the customer transaction and not annoying the customer with several requests*", meaning that customers are more satisfied when the transaction is performed directly without spending time in checks and compliance.

According to the experts, when the customer is aware and understands AML regulations, the bank customer trust increases. Information strengthens trust, which is a hint to the customer to cooperate with the bank (Jasiené & Staroselskaja, 2010). When the customer understands the utility of AML, the customer will perceive AML regulations as an object to protect the customer's interests, which in turn leads to trust.

Interviewees agree that flexibility in doing transactions and past customer experiences with the bank influences customer satisfaction and customer-bank relationship.

The Interviewees agree on observing in-formal complaints in verbal form. In case the customer tries to make a formal complaint, the customer finds himself wrong when faced by the bank administration, and the customer has no choice but to follow the bank regulations. AML regulations can lead the customer to show signs of dissatisfaction. One interviewee argues that customer age influence's satisfaction.

4.2.2 Hypotheses

While reviewing the results derived from the interviews, it can be assessed that qualitative results are in line with the literature review, which will be discussed in the sections below.

After reviewing the analysis and the literature review, it is appropriate to categorize the discussion results into two main themes: customer awareness and education, customer trust, and satisfaction regarding customer attitude. This will help us set up an appropriate research hypothesis.

4.2.2.1 Customer Awareness and Education

According to the interviewees, a small percentage of customers are aware of AML regulations which is confirmed by (Singh, 2009; Gemmell, 2019). This can be justified due to the lack of financial education provided to customers or the lack of efforts from the Palestinian Monetary Authority (PMA), and banks to spread awareness around this issue. That's why not all customers know that money laundering is a crime and its adverse effects on society (Singh, 2009). The interviewees encourage customers' education by doing workshops and conferences to spread awareness, as education and knowledge are the main features in assessing customer awareness (Yilmaz & Koçoğlu, 2017). According to the interviewees, customer attitude before being aware of AML regulations is not the same after providing them with information about AML regulations, which is confirmed by (Xiao & Porto, 2017). Customer awareness and knowledge are essential for a better customer attitude (Ishak & Zabil, 2012). Awareness can decrease the customer's negative thoughts about the service and reduce customer's negative attitudes, making the transaction process more manageable leading to customer cooperation and support towards the employees.

Moreover, customer awareness and education can decrease information asymmetries between the organization and the customer and the possibility of confusion or misunderstanding (Bell & Eisingerich, 2007). According to the qualitative study results, when the customer has enough information and a low level of uncertainty, the customer will understand AML regulations' utility, be more collaborative and show fewer negative expressions to the bank staff.

We expect customer awareness to have a positive impact on the customer attitude towards AML regulations. Generally, if customers have reliable information about their organization and its legal procedures, and working policies, the awareness level will increase. In return, customer preference and cooperation should expand to show a positive attitude towards AML regulations. From the interviews and literature review, the following hypothesis can be set up:

- **H1:** There is a significant relationship between customer awareness and customer attitude towards AML regulations.

4.2.2.2 Customer Satisfaction and Trust.

According to the literature review and the interviews conducted, there is a relationship between customer satisfaction, trust, and attitude.

Customer satisfaction with the bank services can determine if the customer- bank relationship is healthy or not. Many organizations are able to supply the customer with equal services. Still, to differentiate itself among others, it has to deliver a reliable service to customers to increase customer satisfaction, retention rates and decrease customer complaints (Osman, Ugur, Emin, 2005). Customer happiness or complaints are signs of customer satisfaction or dissatisfaction with the service. The results of satisfaction or dissatisfaction are expressed in the form of favorable and unfavorable attitudes and that is confirmed by experts (verbal complaints). Minarti & Segoro (2014) described satisfaction as an attitude or emotional response to the product or service. Other factors influencing customer's satisfaction towards the bank can be the service's speed as interviewees explained that customers are concerned with finishing the transaction in a time horizon. Delay is a problem, whether in the onboarding phase for a new customer or a regular customer. Therefore, employees should consider the time spent processing customer's transactions, besides complaints and problem handling. Satisfaction increases the favorability of attitudes and the customer intention to buy or engage with the bank (Oliver, 1980). In consideration of (Thakur, 2005) study, if customers are satisfied with the bank services; customers will be willing to show positive attitudes towards AML regulations such as information sharing.

In order for customers to trust their bank, their relationship should be more optimistic. According to Bialaszewski & Giallourakis, (1985), trust is an attitude displayed in different situations, that means the bank should focus on the drivers of customer trust. For example, customer trust is influenced by the information provided to the customer. Which in turn leads to positive customer attitude like cooperation with the bank officer (Jasienė & Staroselskaja, 2010). We can observe from the study of McCole et al. (2010), that the relationship between trust in the bank and attitude towards AML regulations weakness when customer have privacy concerns, especially when asked to provide documents about financial payments, factors of buying and selling or to explain customer's relationship with another individuals. Besides, trust in the bank as a whole can determine the attitude towards AML officer, in short if there is a high level of trust in the bank positive attitudes towards AML regulations can be obtained specially in uncertain situations.

Trust will facilitate the transaction process and encourage customer association with the bank; we expect positive attitudes towards AML regulations to be developed as trust in the bank increases. In addition to improving the customer reaction for future updates and regulations to ensure the business relationship's continuity. By building trust based on regulations, customers will grow trust feelings when they are doubtless of compliance issues (A. S. Gill et al., 2006). Based on what have been discussed the following hypothesis has been established:

- **H2:** There is a significant relationship between customer satisfaction and customer attitude towards AML regulations.
- **H3:** There is a significant relationship between customer trust and customer attitude towards AML regulations.

4.3 Quantitative Study

The study has adopted a positive methodological approach. This section will discuss the methods used to perform a quantitative study. The quantitative research will help test our hypothesis.

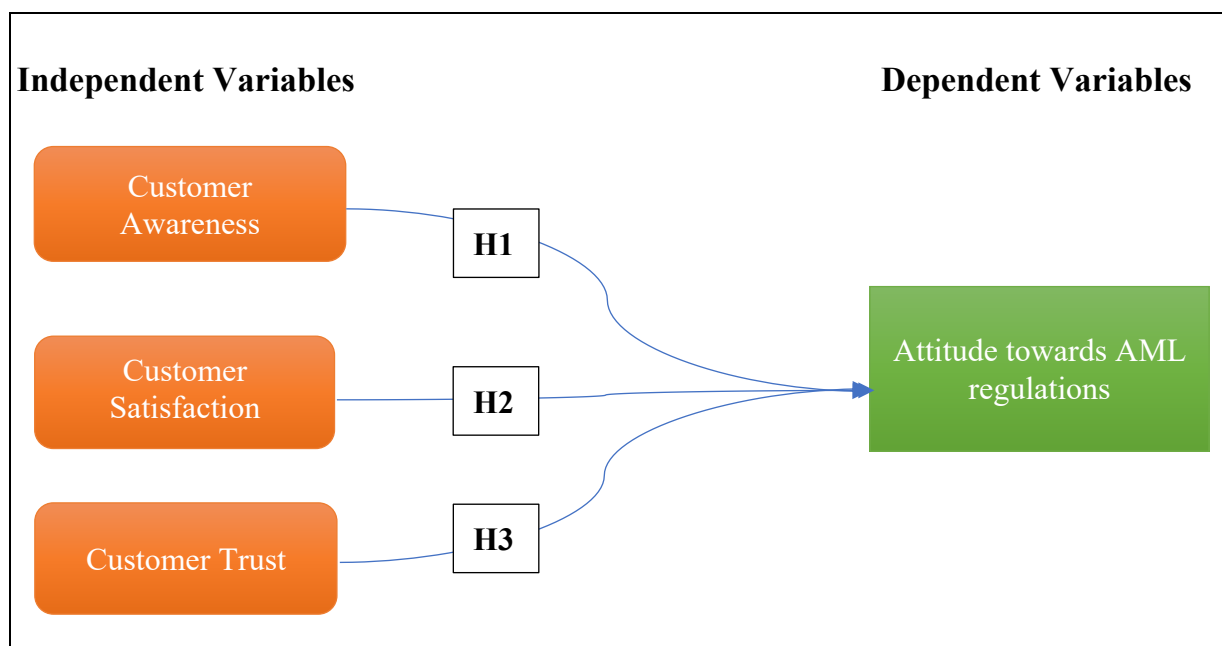
4.3.1 Conceptual Framework and Hypothesis

This section is about achieving the research objectives. Based on the literature review and the qualitative study's supported findings, a conceptual framework was developed for the study, as shown in Figure (4.1). This study conceptualizes three antecedents of customer attitude towards AML regulations and assesses the extent to which these factors influence customer attitude towards AML regulations, applied to Bank of Palestine. These variables are customer awareness towards AML regulations, customer satisfaction towards the bank of Palestine services, and customer trust towards the bank of Palestine.

The quantitative study will confirm whether these hypotheses hold or not. As a reminder, these hypotheses are as follows:

- **H1:** There is a significant relationship between customer awareness and customer attitude towards AML regulations.
- **H2:** There is a significant relationship between customer satisfaction towards the bank services and customer attitude towards AML regulations.
- **H3:** There is a significant relationship between customer trust of the bank and customer attitude towards AML regulations.

Figure 4. 1 Conceptual Framework



4.3.2 Population

The population is the whole pool from which the sample is drawn. The population of this study consists of customers dealing with the Bank of Palestine. The main target population is the bank customers who have bank accounts and perform financial transfers with the bank such as employees and businessmen because they are exposed to AML regulations and have the most contact with compliance issues depending on the size of transactions they perform.

4.3.3 Sampling

For the quantitative part, as is well known, the sampling methods are classified as probability or non-probability sampling methods. For the purpose of this research, it was decided to use purposive sampling, which falls under the category of non-probability sampling. This method is appropriate for obtaining the information from a specific target group (Bank of Palestine customers) such as employees and businessmen because they confirm to the criteria suitable for the research, and the participants are chosen carefully. This method consumes less time and less costs (Paurav Shukla, 2008).

To calculate the sample size needed for the quantitative study, we used the G-power tool. G-Power is a power analysis program used for multiple tests in behavioral and social sciences. (Erdfelder et al., 2009; Buchner, Erdfelder, Faul, 2020; Bartlett, 2019)

The three predictors of the study (awareness, satisfaction, and trust) were used with an actual power of 95%. That would result in a total sample size of 119 respondents as illustrated below.

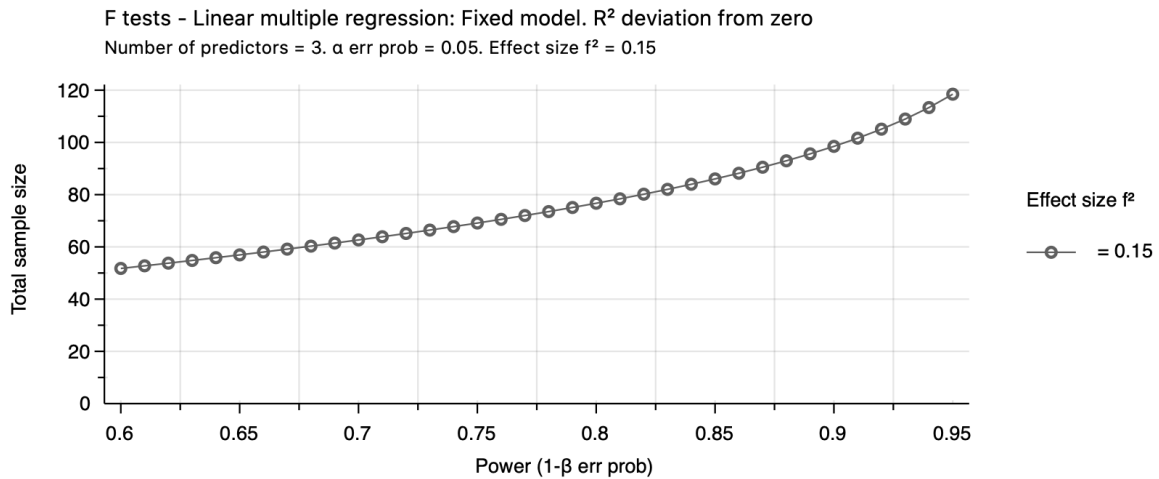
[2] -- Saturday, November 21, 2020 -- 15:42:45

F tests - Linear multiple regression: Fixed model, R^2 deviation from zero

Analysis:	A priori: Compute required sample size		
Input:	Effect size f^2	=	0.15
	α err prob	=	0.05
	Power ($1-\beta$ err prob)	=	0.95
	Number of predictors	=	3
Output:	Noncentrality parameter λ	=	17.8500000
	Critical F	=	2.6834991
	Numerator df	=	3
	Denominator df	=	115
	Total sample size	=	119
	Actual power	=	0.9509602

Figures (4.2) below illustrate the statistical calculations of the G-Power.

Figure 4. 2 Source G-Power software



4.3.4 Questionnaire Design

A structured questionnaire was used to collect primary data. Questionnaires were distributed using both drop (online) & collect (paper-based) with Bank of Palestine staff's help. When the customer finishes a transaction with an employee, he was asked to fill the questionnaire before leaving. The other part of the questionnaire was filled in electronic format using a web-based questionnaire.

The questionnaire was arranged with a cover letter clarify the purpose of the study, how to respond, the aim of the research, and the security of the information to encourage respondents. The questionnaire consists of closed-ended statements on a five-point Likert scale. The questionnaire was divided into six parts, with a total of 26 questions. It first started with four filter questions to help respondents avoid answering questions that do not concern them and avoid wasting the respondent's time or the researcher's in collecting un-useful data.

The second part examines customer awareness towards AML regulations, which helps test H1. Measurement items used in this study were adapted from previously validated measurement scales. The validated measurement scale used for this part was adapted from Al-Somali, S. A., Gholami, R., & Clegg, B. (2009).

The third part examines the dependent variable of the study, which is the customer attitude towards AML regulations. This part helps to test the hypotheses (H1, H2, H3), and the relationship between the independent variables: awareness, satisfaction, and trust and their influence on the attitude towards AML regulations. Measurement items used in this study were adapted from previously validated measures. The validated measurement scale used for this part was adapted from Heiny, J., Ajzen, I., Leonhäuser, I.-U., & Schmidt, P. (2019).

The fourth part examines customer satisfaction toward the bank of Palestine services. It helps test H2. The validated measurement scale used in this study was adapted from Tsiros, M., Mittal, V., & Ross, W. T. (2004).

The fifth part examines the customer trust towards the bank of Palestine and is related to H3. The validated measurement scale used in this study was adapted from Verhoef, P.C., Franses, P.H. & Hoekstra, J.C. (2002).

The sixth part consists of general information about the respondents such as gender, educational level, age group to understand our sample characteristics.

Since most respondents are Arabic language speakers, it was necessary to translate the questionnaire into Arabic to understand the questions easily. The questionnaire was translated using the Backtranslation method (Sousa & Rojjanasrirat, 2011). The questionnaire was translated from English to Arabic by a language professor from Al-Azhar university and then retranslated from Arabic into English by a professor from Alsalam Group who has a business background. The language mentors at Alsalam compared the back translation with the original document, and there were no significant inconsistencies found. Questionnaire items are illustrated in table (4.1).

Table 4. 1 Illustrates the questionnaire dimensions and distribution of questions

Dimension	Number of items
Filter Questions	4
Awareness	4
Attitude	5
Satisfaction	3
Trust	5
Personal information	5
Total	26

After launching the questionnaire, 160 responses were received. 154 questionnaires were selected for the study. Six questionnaires were not valid for the study. The respondent can react to the questionnaire items with a number from 1 - 5, where (5) denotes the highest acceptance degree regarding an item and (1) denotes the lowest acceptance degree. Illustrated in table No. (4.2).

This table will be used to localize the total average score. The point 3 or 60% is our cut point for comparison.

Table 4. 2 Respondent scale

Level	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Scale	1	2	3	4	5
Mean Range	1.0-1.8	1.8-2.6	2.6-3.4	3.4-4.2	4.2-5.0
Weight mean	20%-36%	36%-52%	52%-68%	68%-84%	84%-100%

4.3.5 Pilot Study

A pilot study of 30 questionnaires was carried out before gathering the results. It gives a test for the questionnaire, which involves checking question wordings, locating unclear questions, and examining data collection techniques.

4.3.6 Statistical Methods

The statistical package for the Social Science (SPSS) has been used to analyze the data to achieve the research goals. The researcher used the following statistical tools:

- 1- Frequencies and Percentile.
- 2- Person correlation coefficients to measure the validity of questionnaire items.
- 3- Alpha - Cronbach and Split-Half method to assess the questionnaire items reliability.
- 4- Spearman-Brown Coefficient.
- 5- One-sample T-test to detect if the sample mean is statistically different from a known or hypothesized population mean¹⁸.
6. Multiple linear regression¹⁹ to predict a continuous dependent variable based upon one or more predictor variables.
- 7.Heteroscedasticity.
8. Multicollinearity arises when there is a high correlation between two or more independent variables and tested by using (VIF), Tolerance and correlation coefficient.
10. Scatter plot to examine the correlation between two variables.
11. Normal P-P Plot to test the normal distribution of residuals (errors).
12. Durbin-Watson statistic to test the independence of residuals.

¹⁸ Bland. M, (2000), An introduction to medical statistics, 3rd ed. Oxford University press.

¹⁹ Alvin C. Rencher William F. Christensen (2012), Methods of Multivariate Analysis, Third edition.

5 Chapter Five

Introduction

This chapter includes presenting and analyzing the results obtained in our quantitative study. It aimed at “**better understanding the factors affecting customer attitude towards AML Regulations – An application to Bank of Palestine.**” Also, this section features testing hypotheses and results.

5.1 Validity

Generally, validity is how accurate the instrument measures what it is intended to measure. The used scales were adapted from validated scale measurements, which were tested and used multiple times by many researchers to measure our constructs. Still, the researcher consulted experts from the industry (Bank of Palestine) and two professors to ensure that the questionnaire is suitable to provide a right measurement. The expert’s consultation and amendments were taken in consideration with designing the questionnaire to generate the most precise results.

5.2 Reliability

Covid-19 severe conditions did not permit the researcher to examine the reliability in the traditional way (test repetition); in the present case we are evaluating reliability using the Cronbach's Alpha or using the Pearson correlation coefficient and Split half estimate (Eisinga et al., 2013). We will focus on examining Cronbach Alpha.

5.2.1 Cronbach Alpha

Cronbach's Alpha is used to measure the questionnaire's reliability between each field and the mean of all fields of the questionnaire (Taber, 2018). The usual range of Cronbach's alpha value is between (0 -1). Higher values indicate a greater degree of internal consistency²⁰. Table No. (5.1) shows that Cronbach’s alpha coefficient was computed for each measurement scale, each one of them has a value lower than one. Overall reliability for all items is (0.934), which means the questionnaire is considered reliable.

²⁰ Ritter, N. (2010). Understanding a widely misunderstood statistic: Cronbach's alpha. Paper presented at Southwestern Educational Research Association (SERA) Conference 2010, New Orleans, LA (ED52623.)

Table 5. 1 Cronbach's Coefficient Alpha

No.	Section	# of items	Cronbach's Alpha
1	Awareness	4	0.739
2	Attitude	5	0.934
3	Satisfaction	3	0.944
4	Trust	5	0.941
	All items	17	0.934

5.3 Respondents Personal information

5.3.1 Gender

Table No. (5.2) illustrates the sample distribution according to gender. It is noticed that (79.2%) of the study sample are "Males," and (20.8%) are "Females".

Table 5. 2 Gender

Gender	Frequency	Percentages
Male	122	79.2
Female	32	20.8
Total	154	100.0

5.3.2 Educational level

Table No. (5.3) shows the educational status of the respondents. It is noticed that (9.7%) of the study sample are at "School" level, (85.1%) "Bachelor/Master" degree holders, and (5.2%) are holders of "PHD or above". Results clarify that most of our sample is well educated (85.1%) of the study sample are bachelor or master's degree holders.

Table 5. 3 Educational Level

Educational Level	Frequency	Percentages
School	15	9.7
Bachelor/Master	131	85.1
PHD or above	8	5.2
Total	154	100.0

5.3.3 Age group

Table No. (5.4) shows the distribution of the sample according to age. Noticed that (29.9%) of the study sample are less than 30 years, (39.0%) are between “30-40 “years, (22.1%) their ages are between “40-50 years “, and (9.1%) are between “50-60 years“.

Table 5. 4 Age Group

Age Group	Frequency	Percentages
18-30 years	46	29.9
30-40 years	60	39.0
40-50 years	34	22.1
50-60 years	14	9.1
Above 60 years	0	0.0
Total	154	100.0

5.3.4 Number of banks you have accounts at.

Table No. (5.5) shows that (38.3%) of the study sample have only one bank account, and (43.5%) have “Two“ bank accounts, (15.6%) have “Three “, and (2.6%) have more than three bank accounts. Noted that (43.5%) of respondents deal with another bank than the Bank of Palestine, which would increase the chance of changing to another service provider if inconveniences were found (Levesque & Mcdougal,1996;Valarie, Parasuraman, 1996).

Table 5. 5 Number of banks you have accounts

Number of banks you have accounts	Frequency	Percentages
One	59	38.3
Two	67	43.5
Three	24	15.6
More than three	4	2.6
Total	154	100.0

5.3.5 For how many years have you been dealing with Bank of Palestine?

Table No. (5.6) shows that (9.7%) of the study sample deal with the Bank of Palestine for less than three years, (32.5%) of the sample deal with the bank from "3-6 years", and 57.8% deal with the Bank of Palestine for six years or more.

Table 5. 6 For how many years have you been dealing with Bank of Palestine

For how many years have you been dealing with Bank of Palestine	Frequency	Percentages
1-3 years	15	9.7
3-6 years	50	32.5
6 years or more	89	57.8
Total	154	100.0

5.4 Filter Questions:

This section provides the results of the filter questions used in the questionnaire, the first question was used as a filter question to complete the questioner or not as especially designed for Bank of Palestine customers only, the other filter questions were used to collect more information about our sample.

5.4.1 Are you a customer at Bank of Palestine?

Table No. (5.7) shows that all study sample participants are from Bank of Palestine, participants who responded by "No" were automatically not considered in the study or at completing the questionnaire. That means the study sample is appropriate to draw the most accurate results.

Table 5. 7Are you a customer at Bank of Palestine?

Are you a customer at Bank of Palestine?	Frequency	Percentages
Yes	154	100.0
No	0	0.0
Total	154	100.0

5.4.2 Do you know Anti-money laundering regulations?

Table No. (5.8) shows that only (38.3%) of the respondents know AML regulations, (52.6%) heard of AML but does not have a good idea about it, and (9.1%) never heard of AML regulations.

Table 5. 8 Do you know AML regulations.

Do you know AML regulations?	Frequency	Percentages
Yes, I know pretty well what it is	59	38.3
I have heard of it, but I do not know exactly what it is	81	52.6
No, I have never heard of it	14	9.1
Total	154	100.0

5.4.3 Have you already been asked, by Bank of Palestine, to provide any administrative formalities (invoice, document) linked to AML regulations?

Table No. (5.9) shows that (37.0 %) of the study sample have already been requested to provide documents related to AML monitoring, but (14.9%) of respondents are not sure whether or not, and (48.1%) have never been asked.

Table 5. 9 Have you already been asked, by Bank of Palestine, to provide any administrative formality (invoice, documents) linked to AML regulations.

Have you already been asked, by Bank of Palestine, to provide any administrative formalities (invoice, document) linked to AML regulations	Frequency	Percentages
Yes	57	37.0
Maybe, I am not sure	23	14.9
No, never	74	48.1
Total	154	100.0

5.4.4 What is your profession category?

The questionnaire targets Bank of Palestine customers who perform financial transactions and engage the most with the bank. Table No. (5.10) shows the allocation of the study sample according to the profession category. Noticed that (27.3%) of the study sample are doing "Business", (60.4%) of them are "Employees", (4.5%) are "Worker", and only one case of a retired person.

Table 5. 10 What is your profession category

What is your profession category	Frequency	Percentages
Business	42	27.3
Employee	93	60.4
Worker	7	4.5
Retired	1	0.6
Other than that,	11	7.1
Total	154	100.0

5.5 Data Analysis

One-sample T-test has been used to examine if opinions of respondents in the content of the items are positive (weight mean greater than "60.0%" which is the cut point for comparison clarified in Table (4.2), and the p-value < 0.05 or the value of T-test greater than the critical T value)), alternatively the items are not positive.

5.5.1 Bank customer awareness

The researcher used the One-sample T-test to examine opinions of the participants regarding customer's awareness. Results shown in Table No. (5.11).

Noted from results of all items of "Awareness", that the average mean equal's 2.40 < 3 from (5), standard deviation = 1.09, the weight mean equals 48.05% < "60%", T_{test} equal 6.761 > $T_{\text{critical}} = 1.98$, and the P-value = 0.000 < 0.05. That means the level of awareness the bank customers have on AML regulations is low at significance level $\alpha = 0.05$.

Table 5. 11 Awareness Analysis

Item	Mean	S.D	Weight Mean	T-value	P-value
Awareness	2.40	1.09	48.05	-6.761	0.000

Critical value of t at df "153" and significance level 0.05 equal 1.98

5.5.2 Customer Satisfaction Towards the Bank Services

One-sample T-test was used to examine the opinions of respondents regarding satisfaction towards the bank services. Results shown in table No. (5.12).

From the results, observed that items of customer satisfaction towards the bank services have an average mean of equal 3.28 > 3 from (5), standard deviation = 1.39, weight mean equals 65.65% > "60%", T_{test} equal 2.499 > $T_{\text{critical}} = 1.98$, and the P-value = 0.014 < 0.05.

That means, the level of customer satisfaction on Bank of Palestine services is approximately high at significance level $\alpha = 0.05$.

Table 5. 12 Satisfaction Analysis

Item	Mean	S.D	Weight mean	T-value	P-value
Satisfaction	3.28	1.39	65.65	2.499	0.014

Critical value of t at df "153" and significance level 0.05 equal 1.98

5.5.3 Customer Trust

One-sample T-test is used to examine opinions of respondents regarding customer trust. Results shown in table No. (5.13).

From results, it is noted that items of customer trust towards the bank have an average mean equal to 3.33 > 3 from (5), standard deviation = 1.26, the weight mean equal to 66.50% > "60%", T_{test} equal to 3.182 > T- critical = 1.98, and the P-value = 0.002 < 0.05, that means the level of customer trust towards BoP is approximately high at significance level $\alpha = 0.05$.

Table 5. 13 Trust Analysis

Item	Mean	S.D	Weight Mean	T-value	P-value
Trust	3.33	1.26	66.50	3.182	0.002

Critical value of t at df "153" and significance level 0.05 equal 1.98

5.5.4 Customer Attitude

One-sample T-test is used to examine respondent's opinions regarding customer attitude towards AML regulations. Results shown in table No. (5.14).

From results, all items of customer attitude towards AML regulations have an average mean equal to 3.11 from (5), standard deviation = 1.34, the weight mean equals 62.25% > "60%", T_{test} equals 1.036 < T- critical = 1.98, and the P-value = 0.302 > 0.05.

That means the level of customer attitude towards AML regulations is moderate at significance level $\alpha = 0.05$.

Table 5. 14 Customer Attitude Analyses

Item	Mean	S. D	Weight Mean	T-value	P-value
Attitude	3.11	1.34	62.25	1.036	0.302

Critical value of t at df "153" and significance level 0.05 equal 1.98

5.6 Research Hypotheses Testing

5.6.1 H1: There is a significant relationship between customer awareness and customer attitude towards AML regulations.

The Pearson correlation test was used to examine the relationship between customer awareness and customer attitude towards AML regulations at significance level of $\alpha \leq 0.05$. Results in table No. (5.15) show that the Pearson correlation is equal to 0.605.

That means **accepting H1; there is a significant relationship between customer awareness and customer attitude towards AML regulations** at significance level $\alpha \leq 0.05$.

Table 5. 15 Correlation between customer awareness and customer attitude towards AML regulations

Section	Statistic	Customer attitude towards AML regulations
Customer Awareness	Pearson Correlation	.605**
	P-value	0.000
	N	151

5.6.2 H2: There is a significant relationship between customer satisfaction and customer attitude towards AML regulations.

The Pearson correlation test was used to examine the relationship between customer satisfaction and customer attitude towards AML regulations at a significance level $\alpha \leq 0.05$. Results in table No.(5.16), show that Pearson correlation is equal to 0.634.

That means **accepting H2; there is a significant relationship between customer satisfaction and customer attitude towards AML regulations** at significance level $\alpha \leq 0.05$.

Table 5. 16 Correlation between customer satisfaction and customer attitude towards AML regulations

Section	Statistic	Customer Attitude towards AML regulations
Customer Satisfaction	Pearson Correlation	.634**
	P-value	0.000
	N	151

5.6.3 H3: There is a significant relationship between customer trust and customer attitude towards AML regulations.

The Pearson correlation test was used to examine the relationship between customer trust and customer attitude towards AML regulations at a significance level $\alpha \leq 0.05$. Results in table No. (5.17), show that Pearson correlation equals 0.695.

That means **accepting H3; there is a significant relationship between customer trust and customer attitude towards AML regulations** at significance level $\alpha \leq 0.05$.

Table 5. 17 Correlation between customer trust and customer attitude towards AML regulations

Section	Statistic	Customer attitude towards AML regulations
Customer Trust	Pearson Correlation	.695**
	P-value	0.000
	N	151

5.7 Multiple linear regression (MLR)

The independent variables (customer awareness, customer satisfaction, and customer trust) predict customer attitude towards AML procedures at level 0.05.

To test the impact of (customer awareness, customer satisfaction, and customer trust) on customer's attitudes towards AML procedures. Multiple regression was used to predict a variable's value based on the value of two or more other variables. The independent study variables were used to predict the customer attitude towards AML regulations.

5.7.1 Testing the assumptions of multiple linear regression:

Assumption (1): The dependent variable is measured on a continuous scale.

This condition have been fulfilled.

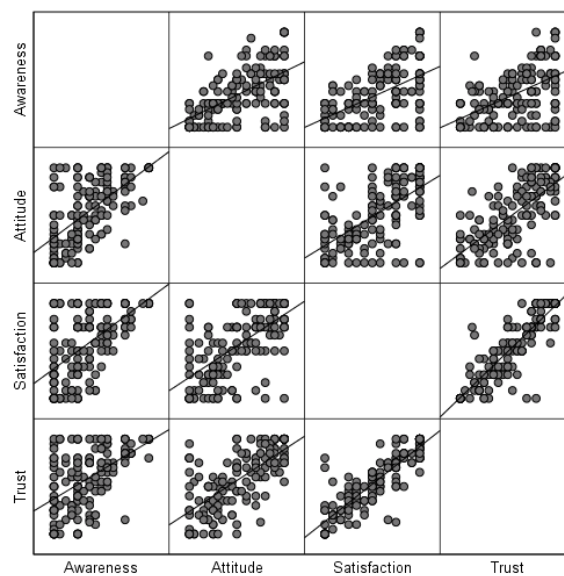
Assumption (2): Independence of observations

Using Durbin-Watson statistic, $DW = (2.038)$, and the lower bound $DL = 1.693$, $Du = 1.774$, ($DW = 2.038 > Du = 1.774$), the residuals are independent (there is no auto-correlation between residuals).

Assumption(3): Linear relationship between the dependent variable, and the independent variables.

The scatter plot below figure (5.1), illustrates that the majority of the points are around the regression line. Concluding that, the there is a **linear relationship** between the dependent and independent variables.

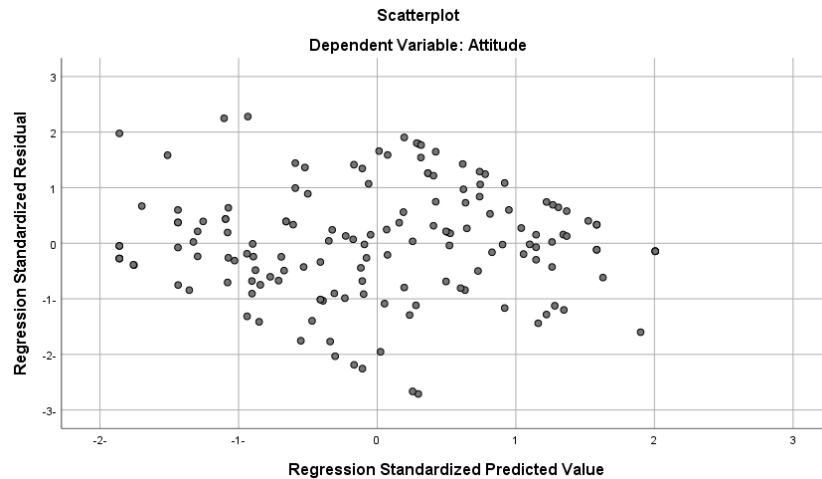
Figure 5. 1 Linearity



Assumption (4): Homoscedasticity.

Figure (5.2) illustrates from the scatterplot that the distribution of residuals is around the zero line. Signifying, no heteroscedasticity.

Figure 5. 2 Heteroscedasticity distribution of residuals



Assumption (5): There is little or no multicollinearity. It happens when independent variables are highly correlated with each other. Multicollinearity is tested by evaluating tolerance, variance inflation factor (VIF) and correlation coefficient. Tolerance should be at least 0.1 or greater to feel comfortable that multicollinearity is not a problem and that is confirmed in table (5.18). VIF should not be greater than 10, table (5.18) illustrates that the VIF for all variables is less than 5, values indicate low correlation among independent variables, and absence of Multicollinearity.

Table 5. 18 Collinearity Statistics

Variable	Tolerance	VIF
Awareness	0.668	1.498
Satisfaction	0.217	4.603
Trust	0.237	4.215

By running the Pearson Correlation test, the results in table (5.19) show the correlation matrix computing Pearson's bivariate correlations among all independent variables. It is disputed that the magnitude of the correlation coefficients is less than (.80)²¹. According to (Dohoo et al., 1997) multicollinearity is certain at level of 0.90 or higher. Still, no certain rules available to determine the significance of multicollinearity in a regression model (Chen & Rothschild, 2010; Pawlicz & Napierala, 2017). However, our research finds it better to be less than (.70) to have more accurate results. Which means the model remarks the existence of multicollinearity between satisfaction and trust. Since there is a correlation between satisfaction and trust, and they are both independent variables, we conclude that satisfaction and trust have the same effect on the customer attitude. If there is a high degree of trust, then there is a high degree of satisfaction. Therefore, to ensure that one of the variables does not cause disturbance, we decided to drop satisfaction out of the model and estimate a regression model for awareness and trust only.

Table 5. 19 Correlations between independent variables

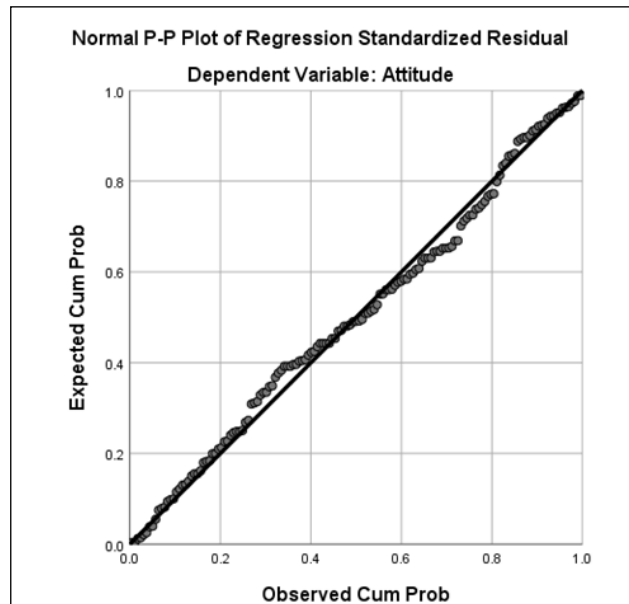
Independent variables		Awareness	Satisfaction	Trust
Awareness	Pearson Correlation	1	.575**	.519**
	Sig. (2-tailed)		.000	.000
	N	151	151	151
Satisfaction	Pearson Correlation	.575**	1	.773**
	Sig. (2-tailed)	.000		.000
	N	151	151	151
Trust	Pearson Correlation	.519**	.773**	1
	Sig. (2-tailed)	.000	.000	
	N	151	151	151

²¹ Richard Williams, University of Notre Dame, <https://www3.nd.edu/~rwilliam/>Last revised January 13, 2015. See also, M. Imdadullah, M. Aslam, & S. Altaf. (2016). Detection of Collinearity among Regressors. The R Journal, 8(2), 495–505.

Assumption (6): Checking that residuals (errors) are approximately normally distributed.

The P-P plot at figure (5.3) shows that the residuals roughly follow a normal distribution.

Figure 5. 3 Residuals Normal Distribution



5.7.2 Multiple Linear Regression.

The F -ratio in Table (5.20) examines the goodness of the whole regression model. $F= 96.218, sig < .001$ (our regression is a good fit for the data).

The significance of each Independent variable can be examined. This test's if the unstandardized (or standardized) coefficients equal zero in the population. If $sig < .05$, we conclude that the coefficients are significantly different at (zero). The t -value and corresponding sig are situated in the "T" and "Sig" columns.

Table (5.20) shows that the **Adjusted R Square** ($adj. R^2$), the proportion of variance in the dependent variable is explained by the independent variables. $Adj.R^2$ equals (0.559) denoting that, the independent variables (customer awareness, and customer trust) explain (55.9%) of the variability of our dependent variable (customer's attitude towards AML procedures).

Results indicates that Awareness and Trust are significant, since the sig = 0.000 < 0.001
 It can be said, if customer trust increased by 1, customer attitude will increase by 0.555, and if customer awareness increased by 1, customer attitude will increase by 0.411.

Table 5.20 Multiple linear regression.

Independent Variables	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	ANOVA results	
	B	Std. Error	Beta			F	sig.
(Constant)	0.280	0.217		1.291	0.199	96.218	.000
Awareness	0.411	0.078	0.335	5.277	0.000	R	Adjusted R Square
Trust	0.555	0.067	0.522	8.224	0.000	.752	0.559

6 Chapter Six: Results Discussion, Conclusion and Recommendations

This chapter presents the study results with a link to the literature review and the qualitative study. Also, it presents the conclusion reached throughout the study, the recommendations proposed, the proposed future reviews, and the study limitations.

6.1 Results and Discussion

From the analysis, customer awareness on Anti-Money Laundering (AML) regulations is low at significance level $\alpha = 0.05$. With average mean equal's 2.40 < 3 on a (1-5) point scale, and weight mean equals 48.05% < 60%.

Most customers did not receive enough information about AML regulations from the Bank of Palestine and are not sure if they received it. It's clear that customer's awareness level is generally low on money laundering and its policies; this can be due to the lack of financial knowledge and education, which determines the awareness level (Yilmaz & Koçoğlu, 2017). Another reason why customers are not aware of money laundering (Qualitative study; Gemmell, 2019; Singh, 2009) because of Bank of Palestine or the Monetary Authority roles (FIU-Mauritius, 2016) in promoting customer education and financial literacy programs to improve customer's knowledge and increase awareness (Xiao & Porto, 2017).

Customer satisfaction on Bank of Palestine services is approximately high at significance level $\alpha = 0.05$. An average mean of equal 3.28 > 3 on a (1-5) point scale, and weight mean equals 65.65% > 60%.

Most customers are satisfied and happy with their experience with the Bank of Palestine. Satisfaction is global and inclusive to all bank services. High satisfaction level could be due to many reasons; including high service quality provided by the bank, as it drives customer satisfaction (Alabboodi, 2019; Qualitative study), other reasons could be due to the high financial performance by the Bank (Fornell, 2016) as it is considered the first bank in Palestine with the most significant market share and range of services. According to the qualitative study, the bank staff's flexibility and speed of service influence's customer satisfaction. Besides, Bank of Palestine (BoP) applies customer is a King policy were complaints (not necessarily in AML context) are treated at the best levels to drive customer satisfaction (Osman, Ugur, Emin, 2005).

Most BoP customers showed high trust to their bank at significance level $\alpha = 0.05$, with an average mean equal to $3.33 > 3$ on a (1-5) point scale, weight mean equals $66.50\% > 60\%$.

Customers high trust could be because customers see the bank as a reliable partner (Morgan & Hunt, 1994), and keeps its promises by providing good financial services (Gill et al,2006). Besides, BoP is the leading bank in Palestine and is well known for deploying regulations and compliance. Customers may trust Bop because they know their interests are well guarded (Nienaber et al., 2014). BoP staff depends heavily on developing personal trust with customers. All of these factors promote trusting the bank.

Customers attitudes towards AML regulations are moderate at significance level $\alpha = 0.05$, with an average mean equal to 3.11 on a (1-5) point scale, the weight mean equals $62.25\% > "60\%"$, and P-value = $0.302 > 0.05$.

Generally, customers' attitudes towards AML regulations are not positive; most customers do not find it smart or right to use AML regulations. Others find it time-consuming to do AML checks.

H1 was accepted; there is a strong positive relationship between customer awareness, and customer attitude towards AML regulations, with a correlation coefficient of 0.605. According to the qualitative study; Singh 2009, and Gemmell 2019 few customers are aware of money laundering, if customers are aware of AML regulations, their uncertainty will decrease, and their attitude towards AML measures will improve. Most of the studies of Ellabban & Abu-Rub (2016); Spitzenstätter& Schnell (2020); Malandrino et al. (2013); Zhu & Xie (2015); Kaakeh et al. (2018); Md Husin&Ab Rahman (2016), agreed that providing customers with information and knowledge will increase awareness, in return change's attitude. The authors highlighted the importance of customer education, learning, interaction, as the more the customer is aware of what is happening, the more acceptable or favorable the customer attitude will be. If we considered the study of Zhu & Xie (2015), in parallel to AML regulation's context, by providing the customer with mixed information of benefits and risks of AML regulations, we find that attitude towards AML is generally negative (risk aspect), it can be explained by the lack of knowledge customers have on AML and fear of privacy violation, if customers are also aware of the benefits (positive aspect) of AML like protecting their interests and decrease the frequency of being contacted by the bank, customer attitude towards AML regulations will be positive.

I would add that, if the customer is aware of the reasons why to follow a particular procedure or to provide some specific documents, the customer will be more cooperative with the bank officers when being questioned for AML/CFT related requests and would show a positive attitude towards AML regulations.

H2 was accepted; there is a strong positive relationship between customer satisfaction and customer attitude towards AML regulations with a correlation coefficient of 0.634. Customer satisfaction is critical when providing a service. If the bank customer is satisfied with the bank services, it is more expected to see a positive attitude towards AML regulations and the bank. The qualitative study and most of the reviews of Maggon & Chaudhry, 2018; Thakur 2005; Garga et al. 2019, agreed that customer satisfaction has a positive impact on customer attitude.

H3 was accepted; there is a strong positive relationship between customer trust and customer attitude towards AML regulations with a correlation coefficient of 0.695.

Trust is essential in the customer-bank relationship. If the bank builds the relationship with the customer on trust, customer's attitudes towards AML regulations will be positive. According to Nienaber et al. (2014), banks can maintain customer trust by deploying regulations. If this can be applied, trust is vital for the bank to receive positive attitudes from customers towards the bank policies, as the objective of law is to set up a system to ensure reliable future behavior (Dirks et al., 2011). In parallel with McCole et al., (2010) study, AML regulations deal with privacy concerns, trust in the Bank of Palestine, and attitudes towards AML regulations become critical. Meaning the relationship between trust in the bank and attitudes towards AML regulations weakens when customers have deeper privacy concerns.

The qualitative study and most of the reviews of McCole et al. (2010); Barriere (2016); Singh U., & Srivastava (2013); Dierks (2007); Van Esterik-Plasmeijer & van Raaij (2017); Garbarino & Johnson (1999), agree that customer trust has a positive impact on customer attitude towards AML regulations. If there is no trust between the customer and the bank, the customer will show a negative attitude towards compliance and may reflect a negative word of mouth about his banking experience.

The multiple linear regression results show that together, customer awareness, customer and customer trust explain (55.9%) of the variability of the customer's attitude towards AML procedures. It can be said, if customer trust increased by 1, customer attitude would increase by 0.555, customer trust affects attitude the most maybe because AML deals with privacy

concerns, which depend heavily on trusting the other partner, and the same can be said about satisfaction, when there is high trust, there will be high satisfaction as well. Moreover, if customer awareness increased by 1, customer attitude will increase by 0.411, awareness is the opening to understand AML regulations by customers.

6.2 Conclusion

The study aimed to formulate a better understanding of the factors affecting the customer attitude towards AML Regulations. The study focused on three factors: how they relate to the customer attitude and the successful implementation of AML regulations. We tried to assess bank customers' awareness of AML regulations and the impact of awareness on the customer attitude towards AML regulations. Then the researcher attempted to examine the level of satisfaction and trust customers have towards the Bank of Palestine services and the impact of satisfaction and trust on the customer attitude towards AML regulations. Besides evaluating customers' attitudes towards AML regulations.

A qualitative study has been implemented to provide insights and reinforce the research hypothesis's development accurately with the literature review's support. A questionnaire was distributed among Bank of Palestine customers to obtain these results. This study confirmed the positive impact of these factors on the customer attitude towards AML regulations.

Finally, this study is considered a unique addition where it has gathered the three constructs of awareness, satisfaction, and trust and has tested their effect on the customer attitude towards AML regulations. This study has combined a positive approach by doing both qualitative and quantitative analysis to reach the best results. The study has been implemented on the Bank of Palestine, where the working conditions and the political situation are like nowhere else. This study is considered an opening where it enriched this topic to the extent that will encourage interested researchers to investigate this field and as a reference due to the scarcity of information on the one hand, and the importance of the research topic on the other hand. In addition, this study has tackled an ethical aspect of the impact of regulations on the financial institution and the society as well.

6.3 Recommendations

The following recommendations were developed carefully from the researcher's personal experience during working at the Bank of Palestine and from the implemented study, the best methods to raise customer awareness, satisfaction and trust can be done through the following:

1- Employee training, employees should be trained annually to ensure that they understand AML regulations and are well updated. When the employee is confident about the information he is delivering to the customer, customer awareness and trust in the bank will increase. Besides, employee training should focus on how to extract information from customers effectively to decrease the frequency rate of getting back to the customer multiple times. If the employee knew how to extract all the necessary information from the customer efficiently, the bank will avoid annoying the customer by several requests later on. This way, the bank can maintain customer's satisfaction and trust.

2- Raise customer awareness on banking confidently and information secrecy to increase customer trust of the bank, by adding the Article (26), chapter 4 ²²of the Palestinian Banking Law on the bank forms, which explains that banks can only expose customer information based on a customer written approval or by an official court order, this way this customer privacy uncertainty will decrease, and the customer won't have regrets or fears of sharing information with the bank.

3- Maintain customer satisfaction through adopting a system based on a risk-based approach, which can provide the bank employee with a calculation of the customer risk score and classification of the customer in a risk category. Based on this, the system will suggest to the employee the expected documents the customer has to provide. Thereby, the bank can save time and decrease offending the customer with several demands, leading to customer satisfaction.

4- The Palestinian Monetary Authority (PMA), conducted the study on Financial inclusion²³ in Palestine (2016), revealing that *"a large percentage of the Palestinian adult population rely on*

²² Palestinian Banking Law No. (2) year 2002: <http://muqtafi.birzeit.edu/pg/getleg.asp?id=14085>

²³ According to the PMA, Financial Inclusion is to promote the access and use of financial services by all groups of society through official channels that suit their needs at reasonable cost and time, protect their rights and enhance their financial knowledge to enable them to take the appropriate financial decisions.

For more information visit : <https://www.financialinclusion.ps/category-11/11.html>

friends and relatives to obtain information on the financial products and services they use" which causes a literacy gap. To raise customers awareness and trust of financial education, including AML regulations, we suggest a partnership between BoP, schools, universities and the Monetary Authority to establish workshops and conferences about financial education.

5- One of the AML pillars is "*Written procedures*", deploying regulations will increase customer's trust and awareness by stating the compliance requirements on the bank forms, which are usually signed by customers. The bank will build the perception of professionalism at work and gain customer trust.

6- Adopting a policy that makes referring to the customer as the last resort, by doing a comprehensive data collection and building a KYC profile based on the customer risk assessment from the beginning of the onboarding process.

7- Segmenting customers by assigning a relationship manager (RM) responsible for some high-risk accounts. The relationship manager will have comprehensive data about his assigned customers and be the best person to deal with them and execute the banking requirements through his relationship with his customers. Building a relationship based on trust between the two parties will enable the AML unit to collect all the data needed while keeping the customer satisfied.

8- Some customers find AML procedures as not smart, that's why the bank should optimize scenarios by decreasing the red flags and false positives. Too many red flags and false positives will increase inquiries, which in turn reduces customer satisfaction.

9- Time spent in performing AML checks can be reduced by adopting a risk-based approach to maintain customer trust and satisfaction, not everything is supposed to be reviewed by AML officer, most of customers can be handled by the customer service and the central operation unit without AML intervention, AML officer can intervene in high-risk cases only.

10- Applying (360-degree view) of customers by collecting all customer's data in one dashboard. From the basic contact information on customers to all past and present interactions with the bank, it will improve customer satisfaction and increase customer's trust of their bank by customizing their data and needs.

11- Employees should be aware of the policies they need to follow and how it affects the customer's attitude. Having employees signing a note that they have read all the administrative procedures is an excellent solution to guarantee that customers are well informed.

12- Raise employees' awareness to avoid committing "Tipping off"²⁴ to keep the bank's customer satisfaction and trust.

13- Assigning Privacy Employees to monitor compliance procedures to ensure conformity to privacy regulations. Besides, privacy employees can help provide transparency efforts to increase customers' awareness and trust by ensuring that their information will not be used outside the scope of AML regulations.

6.4 Future Studies

1- Factors affecting the customer attitude towards AML regulations at the Bureau de change.

2- Factors affecting customer behavior towards AML regulations.

6.5 Limitations of the study

This research is subject to some limitations:

- Lack of previous studies that tackled AML regulations context from the customer angle.
- The study cannot be generalized to all operating banks; the situation of the Palestinian banks is different from any others due to the country's political situation.

²⁴ Tipping off includes a change in customer-bank relationship, informing other individuals not related to the investigation about the suspicions, alerting customer's directly of being under suspicion without assurance.

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8 Appendices

8.1 Appendix A. Criterion Related Validity.

To test the criteria using two methods:

8.1.1 Internal Validity.

By measuring the internal consistency for items. 30 questionnaires were used to test the internal consistency by measuring the correlation coefficients between each item in the construct and its total. As indicated from table A.1 the p-values are less than 0.05. the correlation coefficients are significant at $\alpha = 0.05$. Concluding that the items are consistent and valid to measure what it is intended to measure.

Table A.1 The correlation coefficient between each item in the construct and it's total

Section One: Awareness			Section Two: Attitude			Section Three: Satisfaction			Section Four: Trust		
No	Pearson coefficie nt	p- valu e	No	Pearson coefficie nt	p- valu e	No	Pearson coefficie nt	p- valu e	No	Pearson coefficie nt	p- valu e
1	.911**	0.00 0	1	.897**	0.00 0	1	.959**	0.00 0	1	.847**	0.00 0
2	.904**	0.00 0	2	.829**	0.00 0	2	.927**	0.00 0	2	.912**	0.00 0
3	.881**	0.00 0	3	.954**	0.00 0	3	.960**	0.00 0	3	.935**	0.00 0
4	.394*	0.03 1	4	.920**	0.00 0				4	.911**	0.00 0
			5	.861**	0.00 0				5	.898**	0.00 0

8.1.2 Structure Validity of the Questionnaire.

By examining the validity of each dimension and the validity of the whole questionnaire. Using the correlation coefficient, as shown in table A.2, the P-values are less than 0.01, so the correlation coefficients of all the fields are significant at $\alpha = 0.01$, concluding that the fields are valid to be measured what it was set for to measure.

Table A.2. Structure Validity of the Questionnaire

No.	Section	Pearson correlation coefficient	p-value
1	Awareness	.720**	0.000
2	Attitude	.807**	0.000
3	Satisfaction	.845**	0.000
4	Trust	.835**	0.000

8.2 Appendix B. Split-Half Method

By finding the correlation coefficient between the means of odd questions and even rank questions of each questionnaire construct. Afterward, correcting the Pearson correlation coefficients through the Spearman-Brown coefficient of correction. The corrected correlation coefficient (consistency coefficient) is computed based on the following equation²⁵:

Correcting correlation coefficient = $2r/(r+1)$, r is correlation coefficient.

The usual range of corrected correlation coefficient $2r/(r+1)$ is between (0-1), results displayed in table B.1. Overall reliability for all items equal (0.890). According to the results, the questionnaire has high reliability.

Table B.1 Results of split-half reliability

No.	Section	Person- correlation	Spearman-Brown Coefficient
1	Awareness	0.541	0.702
2	Attitude	0.92	0.958
3	Satisfaction	0.906	0.951
4	Trust	0.866	0.928
	All items	0.802	0.890

²⁵ Eisinga, R.; Te Grotenhuis, M.; Pelzer, B. (2012). "The reliability of a two-item scale: Pearson, Cronbach or Spearman-Brown?". *International Journal of Public Health*. 58 (4): 637–642

8.3 Appendix C. Questionnaire Form



Dear Respondent,

Your participation in this short survey will be highly appreciated to help complete a master thesis in Management Science at Louvain School of Management. We are trying to assess the Anti-Money Laundering Regulations faced by customers at Bank of Palestine.

This questionnaire should take no more than 10 minutes of your time.

The answers provided by you will be treated anonymously and will not be used for other purposes than the above-mentioned research.

Your participation is highly valued, and your time and effort are highly appreciated.

Please carefully read questions and answer them, by placing (√) in the box that it seems appropriate for you in the questionnaire. There are no good or bad answers, just tell what you think. Note that, all the data that will be obtained will be used for scientific research purposes only. Your participation is really appreciated and thank you for your kind cooperation.

Best Regards,

Jad

Filter Questions:

1. Are you a customer at Bank of Palestine?
 - Yes.
 - No.

2. Do you know Anti-Money Laundering regulations?
 - Yes, I know pretty well what it is.
 - I have heard of it, but I do not know exactly what it is.
 - No, I have never heard of it.

3. Have you already been asked, by Bank of Palestine, to provide any administrative formalities (invoice, document) linked to Anti-Money Laundering regulations?
 - Yes.
 - Maybe, I am not sure.
 - No, never.

4. What is your profession category?
 - Business.
 - Employee.
 - Worker.
 - Retired.
 - Other than that.

Please think about your previous interactions with Bank of Palestine (interactions with an employee or visit of the website). Could you please read each assessment below, and give us your level of agreement with each of them.

Section One:

Questions	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Place (√) in the box suitable for you	1	2	3	4	5
1. I think I received enough information by Bank of Palestine about money laundering.					
2. I think I get enough information by Bank of Palestine about the Anti-Money laundering regulations.					
3. I think I received enough information by Bank of Palestine about conformity to Anti-Money laundering procedures.					
4. I never received enough information by Bank of Palestine about Know Your Customer (KYC) policy from the bank.					

Section Two:

1. For me Anti Money Laundering (AML) procedures that Bank of Palestine wants me to follow are:

Wrong: ___ 1 ___ : ___ 2 ___ : ___ 3 ___ : ___ 4 ___ : ___ 5 ___ : Right

2. For me Anti Money Laundering (AML) procedures that Bank of Palestine wants me to follow are:

Reckless: ___ 1 ___ : ___ 2 ___ : ___ 3 ___ : ___ 4 ___ : ___ 5 ___ : Careful

3. For me Anti Money Laundering (AML) procedures that Bank of Palestine wants me to follow are:

Stupid: ___ 1 ___ : ___ 2 ___ : ___ 3 ___ : ___ 4 ___ : ___ 5 ___ : Smart

4. For me Anti Money Laundering (AML) procedures that Bank of Palestine wants me to follow are:

Useless: ___ 1 ___ : ___ 2 ___ : ___ 3 ___ : ___ 4 ___ : ___ 5 ___ : Useful

5. For me Anti Money Laundering (AML) procedures that Bank of Palestine wants me to follow are:

Time consuming: ___ 1 ___ : ___ 2 ___ : ___ 3 ___ : ___ 4 ___ : ___ 5 ___ : Not time consuming

Section Three:

Questions	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Place (√) on the box that is suitable for you	1	2	3	4	5
1. I feel satisfied towards Bank of Palestine's services.					

2. I feel happy with my overall experience at Bank of Palestine.					
3. I am pleased with the services provided by Bank of Palestine.					

Section Four:

Questions	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Place (√) on the box that is suitable for you	1	2	3	4	5
1. Bank of Palestine can be relied on to keep its promises.					
2. Bank of Palestine puts the customer first.					
3. Bank of Palestine usually keeps the promises it made to me.					
4. I count on Bank of Palestine to provide a good service procedure.					
5. Bank of Palestine is a trustworthy bank.					

Section Five: Personal Data:

Tick (√) in front of the answer suitable:

- 1- Gender?
 - Male.
 - Female.

- 2- Educational Level?
 - School.
 - Bachelor/Master.
 - PHD or above.

- 3- Age Group?
- 18-30.
 - 30-40.
 - 40-50.
 - 50-60.
 - Above 60.
- 4- Number of banks you have accounts at.
- One.
 - Two.
 - Three.
 - More than three.
- 5- For how many years have you been dealing with Bank of Palestine?
- 1-3.
 - 3-6.
 - 6 or more.

8.4 Appendix D. The interview guide

Title:

Time of interview:

Date:

Interviewer:

Interviewee:

Position of interviewee:

Thank you for participating in this interview. We are interested in exploring the Customer's perceptions of AML/CFT regulations at Bank of Palestine. We also want to measure the extent to which the AML/CFT regulations affect the customer experience and how the customer reacts to it. Conducting this interview with you, will help us to assess this in a better way. So, we really appreciate your participation in this study.

In the interview, we will be focusing on your experience. There is no right or wrong answer. The interview will take minimum 40 minutes, depending on the conversation we are having. Your participation in this study is, of course, voluntary and everything you say is anonymized. That means, if I share some quotes with my professors, they will not know who said them. Please understand that the use of this data will be limited to this research, as authorized by the Catholic University of Louvain (UCL) in Belgium. Also, the results are hopefully to be presented in formats other than the thesis like recommendations for the Bank of Palestine.

Last thing, I would like to ask you if I can record the conversation. It will not be shared with anyone, just in case I could not take some of the notes you said while we are talking, so I can get back to it later on. The recording will be deleted after I am done from taking the notes.

General Questions:

- 1-Let's start by having you describe your job position or role at the company?**
- 2-Can you describe your work experience in this field? Are you in contact with the customers?**
- 3-What happens to new customer when he opens a bank account or wants to perform a transaction? Can you walk me through that process? In other words, what are the steps that the customer has to go through? What documents does he have to fill?**
- 4-Has the process always worked this way? If things have changed, can you tell me about when that happened and how it went?**
- 5-Are some categories of customers more reluctant to the bank when they are required to follow or show certain documents? For instance, businessmen? Older people? Do they object or they usually comply more than other categories of customers?**

Specific Questions:

- 1-Do you think a large percentage of customers are aware of AML/CFT regulations before they are asked to provide any documents? In case they did know about it before, Dose awareness make the process easier for you? Do you encourage the learning and education of customers about AML/CFT?**
- 2-Do you think AML/CFT regulations affect the customer experience? Do AML/CFT affect the customer onboarding process? How do you describe it?**
- 3-Do you think informing the customers about AML/CFT regulations would make the customers acceptable toward your demands? Or it would not change anything?**
- 4-Has the Bank made efforts to spread the customer knowledge of AML/CFT and increase their level of awareness of why they should comply?**
- 5-Do you think the customer awareness of AML/CFT regulations will make them more satisfied of the organization services? How do you assess the customer reactions before and after awareness?**

Detailed questions:

1-Do some customers find AML/CFT regulations intrusive or they are fixable towards it? Do you have complaints about AML/CFT requests? Formal or informal complaints? How do you assess the customer trust of the organizations before and after customer awareness?

2-As a person who works in this field, do you find AML/CFT regulation as a burden and stressful? For the employee or customer? Do you think customer trust affect satisfaction level?

3-Do you think that awareness of AML procedures and trust toward the bank are related from the customer perspective? In other words, do you feel that if the customers are aware of these procedures and understand them, it would have an impact on their trust towards the bank or not? Is customer bank relationship important? What factors can affect the customer trust in your organization?

4-Do you think the customer trust toward the bank is influenced by the information provided? If yes, dose it led to customer cooperation and compliance?

5-Do you think that AML/CFT regulations influence the customer behavior? Do you think AML/CFT regulations have an impact on the customer satisfaction toward the services provided by the bank?