

# Do Yemeni Banks Adhere to Best Practices of Anti-Money Laundering?

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## Abstract

This study intends to confirm whether the banks in Yemen adhere to international laws and procedures on anti-money laundering. We used primary data and descriptive analytical methods. The research encompasses 11 banks located in the Yemeni capital of “Sana’a”. The total number of branches used as study sample is 60. The analysis reveals that most Yemeni banks adhere to international laws and regulations on anti-money laundering. We recommend conducting further studies on the topic including its effect on financial results, the influence of the technological system, further controls needed in the country.

**Keywords:** Anti-money laundering, Yemeni banks, Central banks, Financial institutions, Procedures, Laws

JEL code: G280, K14, E58

## 1. Introduction

Money laundering, ML; is a significant financial problem. The techniques associated with money laundering are continually evolving. It is the capability of destroying financial and economic systems of many countries if left unchecked, and banks are usually where it takes place.

The Financial Action Task Force (FATF), which is working under the supervision of the Organization for Economic Co-operation and Development (OECD), estimates ML to be in the range of \$590 billion to \$1.5 trillion as in 1998. This amount presents around 2 - 5% of the global economic output. While, it is hard to know exactly how much comes from illegal sources for this business, Fundanga (2003).

ML does not affect developed countries only, it affects developing countries as well, in some cases leading to total collapse due to their heavy reliance on their respective financial sectors. On the global financial integrity organization (GFI) report, it is pointed out that the amount of illegal money transferred between 150 developing countries were around \$946.7 Billion in 2011, accounting approximately 13% of all illicit money transactions, (global financial integrity,2011). The increase in the Middle East alone was 31.5% between 2011 and 2012.

A country like Yemen suffers from many economic, social, and political problems, due to the lack of state institutions and role of law, which makes it suitable for money laundering. The Financial System Assessment Team (FSAT), in 2008, concluded that the financial sector in Yemen remains weak, and suffers from money laundering from certain people and groups. Yemen joined the Middle East & North Africa Financial Action Task Force (MENAFATF) in 2005, which is a formal institution that controls the financial sector. As the majority religion in Yemen is Islam, thus, Islam consider money laundering as criminal, Abdul Jabbar (2011).

One of the primary keys to establish a basic knowledge about the customers is apply 'know your customer' (KYC) policy. This policy may allow the banks and other formal financial institutions to know income sources and expenses; some sources need proof such like voucher salary or house rent contract.

In regards to this policy, financial institutions, especially the banks, in most countries are required to identify their clients and the legitimacy of the financial transaction clients, Alexander (2005). Furthermore, it is necessary that formal financial institutions check whether or not their customers are involved in illegal transactions such as ML, or other crimes, also updating the client status to keep them under control, Arasa and Ottichilo (2015). Tuba and van der Westhuizen (2013) pointed out that KYC is sufficient for identifying money launderers, mostly based on their names and profiles. Arasa and Ottichilo (2015) pointed that applying the KYC depends on the banks themselves, that the banks could carry more costs for training and hiring, and small banks may not do the best in the implementation of KYC.

Rahman (2013) recommended that, because the increase of money laundering and related crimes, banking secrecy can be overridden in favor of tracking the source of illegal funds.

Bartlett (2002) pointed that there is a negative effect for the money laundering that impairs the development of the financial sector. (Ihsan and Razi,2012; Khrawish,2014) pointed that anti-money laundering (AML) procedures reduce the impact of money laundering on economic stability. Baldwin Jr (2003) linked the banking transaction with terrorism as one of money laundering purposes. Bosworth - Davies (2007a) addressed that more research should conduct in AML filed. Thus, this subject is not limited to government institutions. Fituni (1998) focused on the Russia as a case of money laundering. The study pointed that the international cooperation with Russia in the minimum, while more cooperation with global institutions could enhance the AML

Efforts in anti-money laundering are ongoing and efficient via the cooperation between countries and financial institutions. While, these efforts rely on the human factor, making it necessary to have available the appropriate environment for selecting and training staff, as per Usman Kemal (2014), who found that employee training affects money laundering in the banking system. Murithi (2013) pointed that bank management should conduct training for the staff to strengthen the Anti-money laundering. Raweh et al. (2017) indicated that more empirical studies should conduct in regards money laundering. Also following the verification of client procedures could help the banks to alleviate illegal transactions.

## **2. The Mechanism of Anti-Money Laundering**

In this study, banking laws and procedures are represented by six factors to determine how these factors could detect and combat money laundering in banks. These factors were selected based on the theoretical background of anti-money laundering (Al-ajezi, 2008). The impact mechanism of these factors on money laundering is summarized as follows;

Procedures for internal controlling (PIC): Internal control procedures allow banks to foresee potential problems that may cause financial losses, thereby preventing or minimizing any future losses and risks. There is an important impact of applying the internal control procedures to detect money laundering operations in financial institutions. PIC affects the nature and extent of crimes about anti-money laundering; such methods are connected to the nature, volume, and risks of banking operations, as well as the philosophy and vision of administration for anti-money laundering process.

Procedures Verification of the Client (PVC): These procedures should be adhered to by the bank employees on every transaction between banks and customers. So, to apply these laws and procedures correctly, the trained employee could do the best on this issue, and new employees should undergo training before starting work. Therefore, will help them determine the customer's characteristics, income sources and wealth. Thus, banks can conduct ad hoc inspections of the accounts to detect accounts that might be used to launder money.

Commitment to policies and procedures (CPP) and circulars issued of senior administration: The procedures published from the banks' board to the executive management are meant to ensure that any transaction is kept at minimal risk levels. By implementing these policies, financial institutions can keep themselves safe from potential suspicious transactions.

Commitment to international laws and central bank instructions (CIL): the international

cooperation between the central banks and other international organizations is essential to work against the money laundering. Furthermore, after globalization, the world has an open financial system, so that any crises in some economies means the others might suffer, so the international experiences among the world are vital to implementing through countries economy. Furthermore, it is essential for government and their institutions to participate all entities in adopting a new regulation, Bosworth - Davies (2007b).

Training and qualifying the staff (TQ) is crucial towards combatting money laundering crimes. Banks should offer training for the employees on AML aspects, such as identifying suspicious activities and using customer identification screening programs.

Protection from collapse and legal accountability (PCL) helps financial institutions protect itself from the money laundering and future risks, such as banks meltdown, as laws and regulations govern it.

It should be pointed out that previous studies on this subject vis-à-vis Yemen are scarce. This research could provide information to policymakers on money laundering in Yemen, while also helping others who have money laundering based elsewhere.

The main objective of this study is to examine if the Yemeni banks adhere to the international laws and procedures on anti-money laundering. From the introduction, we can derive the research question, which is, do Yemeni banks adhere to international rules and procedures on anti-money laundering measures?

### **3. Study Design**

This study used the descriptive analytical method to analyze the collected data from the study sample using a questionnaire. Where the study is concerned with whether the banks adhere the global practices on anti-money laundering from the banker's opinions, thus, the questionnaire is more appropriate for this kind of research

The targeted study population consists of high-level bank managers of banks in Yemen; however, due to the conflict in Yemen, the accessible population was just the banks in the capital, Sana'a. The questionnaire was distributed to 11 banks, with 60 branches and offices. Questionnaires were distributed to top-level management headquarter of the banks (General Manager, Branch Manager, Department Head, Unit Manager, and Auditor). A total of 145 questionnaires were distributed, and 114 were retrieved, after the exclusion five questionnaires due to careless answers. The total questionnaires subject to the study is 109, with a percentage of 75.17 % of the study sample. The Likert scale was used, starting from strongly agree "5" to strongly disagree "1" to evaluate the respondent's answer.

### **4. Empirical Results**

This study focuses on the anti-money laundering and banks' laws and procedures launched by global financial organizations. The questionnaire was used to collect data from the bankers, and the answers were converted from Likert scale to numerical scale in the statistical software for analyses.

#### 4.1 Procedures for Internal Controlling

The results displayed in Table 1 presents the proportional mean for all “Procedures of internal controlling” factor items is equal to 85.34%, which is greater than 60%, and the t-value is equal to 16.77, which is greater than the tabulated value t, which is equal to 1.98. The p-value = 0.00, which is less than the level of significance of 0.05. 85.46% of the respondents agree that there is a commitment of the banks to apply procedures of internal controlling, where they agree that there is a communication between those who are in charge of censorship and between senior management. Senior management practice is controlling the employees to ensure that they apply the procedures. Results show that the views of the respondents are positive in each item of “Procedures of internal controlling” as displayed in Appendix (1). These findings are consistent with Okab (2014) that also concluded that applying internal control procedures is important towards preventing ML operations in Jordanian banks.

Table 1. Proportional mean and T-test of procedures of internal controlling

Mean	Proportional mean (%)	t-Value	p-value
4.27	85.34	16.77	0.00

#### 4.2 Procedures for Verification of the Client

The views of the respondents in this factor items are positive as presented in Appendix (2). The proportional mean for all items of this factor equals 79.73%, as displayed in Table 2, which is higher than 60%, and the t-value, equal to 12.14, which is higher than the tabulated value t (1.98). The p-value = 0.00, which is less than the level of significance of 0.05, where 79.73% of the respondents agree that the banks are committed towards the implementation of the Procedures Verification of the Client, where they agree that there is supervision to check if clients are using fictitious or assumed name or digital accounts. These findings correspond with the results of Arasa and Ottichilo (2015) study.

Table 2. Proportional mean and T-test of Procedures of Verification of the Client

Mean	Proportional mean (%)	t-Value	p-value
3.98	79.73	12.14	0.00

#### 4.3 Commitment to Policies, Procedures, and Circulars Issued by Senior Administration

Appendix (3) shows the views of the respondents in all the paragraphs used under this factor were positive. Where the proportional mean equal to 83.53%, which is higher than 60%, as Table 3 presented, and the t-value is equivalent to 15.14, which is higher than the tabulated value t, which is equal to 1.98. The P-value = 0.00, which is less than the level of significance 0.05, where 83.53% of the respondents agree that there is a commitment of the banks to the policies, procedures, and circulars issued to the senior administration. They recognize that the unit/employee is competent enough to lift periodic reports to senior management, departments, and branches continuously for cases that are deemed suspicious.

These findings are similar to Nikolosk and Simonovski (2012) study; he also concluded that the role of banks management in the system for preventing ML is vital.

Table 3. Proportional mean and T-test of commitment to policies and procedures and circulars issued by senior administration

Mean	Proportional mean (%)	t-Value	p-value
4.18	83.53	15.14	0.00

#### 4.4 Commitment to International Laws and Central Bank Instructions

Table 4 presents the proportional mean of all fourth field paragraphs is equal to 81.25%, which is higher than 60%, and the t-value, is equal to 11.59, is higher than the tabulated value t, (1.98). P-Value = 0.00, which is less than the level of significance of 0.05. 81.25% of the respondents agree that there the banks are committed to international laws and central bank instructions and that the procedures and measures of ML aim to protect FIs, the cooperation and coordination with the Yemeni monetary and banking authority are needed to identify suspicious financial transactions. The results show that the views of the respondents are positive in each item of “Commitment to international laws and central bank instructions” as displayed in Appendix (4).

The study of Chutia (2013) concluded that it is difficult to implement control over ML without the support from all formal institutions.

Table 4. Proportional mean and T-test of Commitment to international laws and central bank instructions

Mean	Proportional mean (%)	t-Value	p-value
4.1	81.25	11.59	0.00

#### 4.5 Training and Qualifying the Staff

The views of the respondents in this factor items are positive as presented in Appendix (5). The proportional mean of all fourth field paragraphs is equal to 85.46%, as displayed in Table 5, which is greater than 60%. While the t-value is equal to 16.4, which is greater than the tabulated value t that is equal to 1.98 and p-value = 0.00 that is less than the level of significance 0.05. Meanwhile, 85.46% of the respondents agree that the banks are committed towards training employees. The administration undertakes employee training at the department in charge for opening accounts, direct relationship with customers, department managers – Branches, the upper levels: Senior Management, the internal audit department, and the rest of the sections’ employees.

These findings are consistent with Murithi (2013) study, which found that majority of banks have effective AML policies than before.

Table 5. Proportional means and T-test of Training and qualifying the staff

Mean	Proportional mean (%)	t-Value	p-value
4.27	85.46	16.4	0.00

#### *4.6 Protection from Collapse and Legal Accountability*

The proportional mean of all the second field paragraphs, which is displayed in Table 6, is equal to 81.45%, which is greater than 60%, while the t-value is equal 14.82, which is greater than the tabulated value  $t$  (1.98). The p-value = 0.00 is less than the level of significance of 0.05. 81.45% of the respondents agree that the banks are committed to collapsing protection and legal accountability and anti-money laundering measures to protect its local and international reputation. Restricting withdrawals and deposits for exorbitant amounts protect the bank from collapse caused by sudden movements of clients. The bank's refusal to receive money from unknown source protects it from collapsing. Also, refusing to accept deposit from anyone other than the account holder protects the bank from dealing with dirty money. These measures are intended to protect the banks. Appendix (6) displays that the views of the respondents for each paragraph are positive.

These findings agree with Al-Rafati (2007), he also concluded that anti-money laundering measures protect Palestinian banks from legal accountability by international parties (governments or banks).

Table 6. Proportional mean and T-test of Protection from collapse and legal accountability

Mean	Proportional mean (%)	t-Value	p-value
4.07	81.45	14.82	0.00

## **5. Conclusion**

This study used primary data to examine whether Yemeni banks adhere to international procedures and laws on anti-money laundering measures by analyzing bankers' response towards questions related to the best practices on anti-money laundering measures.

We confirmed that Yemeni banks mostly adhere to international laws and procedures about anti-money laundering measures.

Furthermore, political issues in Yemen since 2011 affected the adherence to the rule of law. Most formal institutions such as central banks and the Ministry of Finance and other government departments cannot function in an unstable political climate. Furthermore, the individuals or companies are using the banking system to deposits or credits in the limited level as the civil war result. So, the government institutions cannot follow the money sources or targets, and that will increase the money laundering in Yemen economic.

We recommend further studies on the influence of Anti-money laundering on Yemen's economy, financial results, and technological systems in the context of anti-money laundering activities, reasons of money laundering and further controls needed in the country.

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## Appendices

### Appendix 1. Proportional mean and T-test of procedures of internal controlling

No	Item	Mean	Proportional mean (%)	t-Value	Rank	p-value
1	The review process for the movements of large amounts of money which surpasses the authorized index is conducted.	4.4037	88.07	19.957	3	0.000
2	The senior management is provided with reports concerning the results of applying of internal control.	4.4679	89.36	23.197	1	0.000
3	Staff of bank are being monitored in case complicity with money launderers might exist.	4.2385	84.77	19.437	5	0.000
4	Bank applies a clear policy to combat money laundering operations which are authorized by the Governing Council	4.4128	88.26	18.809	2	0.000
5	Internal control procedures include measures related to ascertain the extent of its	4.2018	84.04	14.265	6	0.000

No	Item	Mean	Proportional mean (%)	t-Value	Rank	p-value
	commitment.					
6	Transfers to the customer's account or accounts abroad is being observed continuously.	4.1101	82.20	13.246	8	0.000
7	The completion of the client's registering formats and information related to him Is verified Periodically	4.3853	87.71	20.118	4	0.000
8	The level of control depends on the size of the audit periods and the expected degree of risk of the client.	3.9541	79.09	10.634	10	0.000
9	The internal control systems are being developed updated on a regular basis	4.2018	84.04	13.628	6	0.000
10	The technology used to monitor and follow up various types of accounts is being updated continuously.	4.3853	87.71	19.767	4	0.000
11	Unusual financial transactions, which are made through electronic transfer systems are monitored.	4.1560	83.12	14.953	7	0.000
12	Careless staff in conducting the procedures required is being observed strictly.	4.4679	89.36	17.681	1	0.000
13	The bank's clients with political figures are continuously monitored.	4.0826	81.65	12.363	9	0.000
All field items		4.27	85.34	16.77		0.0

## Appendix 2. Proportional mean and T-test of procedures verification of the client

No	Item	mean	Proportional mean	t-Value	Rank	p-value
1	The client enters into the circle of suspicion in case of dealing under fictitious or assumed name or digital accounts.	4.6789	93.58	30.461	1	0.000
2	Clear procedures are made when opening any kinds of accounts for all clients.	4.4679	89.36	17.061	3	0.000
3	Opening an account for any client or engaging into any banking transaction is refused in case all procedures are not met.	4.5138	90.28	20.031	2	0.000
4	In case of doubt, the identity of the client has to be verified, regardless of the value of the transaction required to be held.	4.3119	86.24	15.404	4	0.000
5	The client enters into the circle of suspicion in case of conducting operations which has no economic justification	3.6606	73.22	6.425	9	0.000
6	The approval of senior management is required to create a relationship with political personalities.	3.8716	77.44	9.176	6	0.000
7	The client enters into the circle of suspicion in case of conducting an operation in unusual circumstances.	3.6422	72.84	6.612	10	0.000
8	Some customers are exempt from special regulatory compliance after getting approval from senior management.	3.2661	65.32	2.347	11	0.000
9	In case of urgent necessity, the bank staff makes field visit to check the nature of the Operations carried out by the client.	3.9541	79.08	10.019	5	0.000
10	Sufficient information about the client's	3.7890	75.78	8.084	7	0.000

No	Item	mean	Proportional mean	t-Value	Rank	p-value
	relationship with other banks are obtained.					
11	There are special forms of deposits which includes the source of the funds deposited when deposit or aggregates surpass certain ceiling.	3.6972	73.94	7.930	8	0.000
All field items		3.98	79.73	12.14		0.0

### Appendix 3. Proportional mean and T-test of commitment to policies and procedures and circulars issued of senior administration

No	Item	mean	Proportional mean (%)	t-Value	Rank	p-value
1	Commitment to policies and procedures and circulars issued, are being followed up.	4.2844	85.69	18.932	3	0.000
2	Audition procedures are conducted in strict confidentiality in order to ensure the verification of the client.	4.1101	82.20	13.755	8	0.005
3	The central bank is notified with any cases targeting suspected money laundering.	4.2752	85.50	15.303	4	0.000
4	There is coordination, identified powers and responsibilities between the inner observer specialist in anti-money laundering and the employee.	4.0183	80.37	11.649	9	0.000
5	The bank puts written supervisory policy that describes the areas of control, timing, responsibilities, and the degree of control.	4.2018	84.04	16.356	7	0.000
6	The unit / employee competent to lift periodic reports to senior management to see the cases discovered or suspicious.	4.4037	88.07	20.679	1	0.000
7	Doubtful reports from employees and departments and branches are received continuously.	4.1560	83.12	15.884	7	0.000
8	Specialized software programs are used to extract the necessary reports.	4.2661	85.32	17.267	5	0.000
9	Developed software program and global database are used to follow-up detect suspicious transactions.	4.2752	85.50	15.494	4	0.000
10	The bank applies preventive procedures to combat money laundering.	4.2202	84.40	19.370	6	0.000
11	Study and analysis of suspicious transactions are conducted and then published to raise awareness and caution.	3.9817	79.63	11.624	11	0.000
12	The unit / employee competent to lift periodic reports to senior management to inform the legal and legislative developments.	4.0000	80	11.191	10	0.000
13	Fully coordination with all local and international banks is made in order to meet the unusual transactions and suspicious.	3.9633	79.27	9.972	12	0.000
14	There is department / employee specialized in anti-money laundering.	4.3119	86.24	14.423	2	0.000
All field items		4.18	83.53	15.14		0.0

**Appendix 4. Proportional mean and T-test of commitment to international laws and central bank instructions**

No	Item	mean	Proportional mean (%)	t-Value	Rank	p-value
1	The bank applies anti-money laundering procedures to avoid boycott.	4.1927	83.85	14.751	3	0.000
2	Cooperation and coordination with the Yemeni monetary and banking authority to identify suspicious financial transactions is conducted.	4.3796	87.59	20.679	2	0.000
3	Documents are saved and retained for five years or more.	4.0826	81.65	12.098	5	0.000
4	Laundering money procedures and measures aim to protect FIs (your personal opinion)	4.5413	90.83	5.173	1	0.000
5	Certain procedures are conducted to make sure of commitment of branches of foreign banks operating in Yemen, to anti-money laundering laws.	3.8716	77.43	10.069	7	0.000
6	There is constant contact with regulators and legal verification of any application procedures and regulations.	4.1101	82.20	11.886	4	0.000
7	Certain procedures are conducted to make sure of the subjecting the branches of foreign banks to operating in Yemen for effective control of central banks	3.7890	75.78	9.332	9	0.000
8	Certain procedures are made to make sure of the correspondent banks commitment (external), which are dealt with anti-money laundering laws	4.0459	80.92	11.535	6	0.000
9	There is no connection and permanent coordination with the competent international, regional and Arab organizations.	3.8440	76.88	10.621	8	0.000
10	The forty recommendations of the International Commission of Financial Action Task Force are applied.	3.7706	75.41	9.768	10	0.000
All field items		4.1	81.25	11.59		0.0

**Appendix 5. Proportional mean and t-test for Training and qualifying of staff**

No	Item	mean	Proportional mean (%)	t-Value	Rank	p-value
1	The Department administration conducts staff training at the following levels: employee with a direct relationship with customers (employees Alter).	4.4587	89.18	23.070	1	0.000
2	The Department administration holds staff training at the following levels: responsible for opening accounts.	4.3211	86.42	18.239	4	0.000
3	The Department administration holds staff training at the following levels: department managers – Branches.	4.3303	86.61	18.314	3	0.000
4	The administration conducts staff training at the upper levels: Senior Management.	4.3211	86.42	7.205	4	0.000

No	Item	mean	Proportional mean (%)	t-Value	Rank	p-value
5	The administration holds staff training at the following levels: the internal audit department.	4.2844	85.69	15.966	5	0.000
6	The administration holds staff training at the following levels: the rest of the sections employees.	4.1284	82.57	14.825	11	0.000
7	Employees receives practical courses and lectures about the process of how to combat money laundering	4.2385	84.77	17.676	9	0.000
8	Employees are defined to all regulations and international laws relating to the control of money laundering.	4.2569	85.14	15.767	7	0.000
9	Bulletins are issued to inform and educate employ of money laundering phenomenon and its negative effects for all dealers with the bank.	4.1193	82.39	13.137	12	0.000
10	Staff has to participate in scientific and professional conferences, events and workshops to entrench culture of anti-money laundering	4.1927	83.85	14.382	10	0.000
11	Specialized experts are used to help training the staff.	4.2752	85.50	17.901	6	0.000
12	Qualified human resources for department or function of the Anti-Money Laundering are highly required and targeted.	4.3761	87.52	19.027	2	0.000
13	The bank makes a specific budget for training and education programs to combat money laundering operations.	4.2477	84.95	17.728	8	0.000
All field items		4.27	85.46	16.4		0.0

#### Appendix 6. Proportional mean and t-test for Protection from collapse and legal accountability

No	Item	mean	Proportional mean (%)	t-Value	Rank	p-value
1	The bank's commitment to anti-money laundering procedures protects it from sudden collapse resulting from control the capitals owners of dirty money.	4.2110	84.22	16.942	3	0.000
2	The conducting of restrictions on withdrawals and deposits for exorbitant amounts protects the bank from collapse caused by sudden movements of clients	4.1651	83.30	17.697	4	0.000
3	Preventing deposits of the accounts holders protects the bank from entering the dirty money.	3.4037	68.07	3.929	7	0.001
4	Bank's refusal to receive money of unknown source protects the bank from collapse.	4.0826	81.65	12.503	5	0.000
5	The bank's fear of international boycott is a factor that causes the bank's commitment to combating money laundering to accept deposits.	4.0183	80.37	13.402	6	0.000
6	The banks' fear of being accused of facilitating money laundering forces the banks to stop some banking operations.	4.1651	83.30	15.216	4	0.000
7	Bank is committed to Anti money laundering, in order to protect its local and international reputation.	4.2294	84.59	19.825	2	0.000
8	You are convinced that the anti-money	4.3028	86.07	19.058	1	0.000

No	Item	mean	Proportional mean (%)	t-Value	Rank	p-value
	laundrying measures aims at protecting the bank					
Total		4.07	81.45	14.82		0.00

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