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What do your customers really know? Bank managers and compliance cost perceptions

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Abstract

In April 2002 new anti-money-laundering rules were enacted in the United States. The new regulations were based on the concept of active collaboration by the intermediaries, i.e. autonomous conduct aimed at reporting abnormal situations in the management of financial flows, using the 'Know Your Customer' (KYC) approach. As Byrne (2000), Bruton (1999), Jackson (2000), Burkhold (2002) and others have pointed out, the KYC approach is the cornerstone of modern regulations designed to combat the money-laundering phenomenon. The objective of this paper is to stress the link between the effectiveness of anti-money-laundering regulations and the characteristics of the relative compliance costs for banks, with particular attention to the bank—customer relationship. A bank's information assets can produce public advantages in the war against money laundering, but only if the regulations take the problem of compliance costs into due consideration. The bank's customers, moreover, must correctly perceive the real features of these regulations. Here, we present the principle findings of an experimental analysis, based on this theoretical approach, comprising a survey conducted in conjunction with an Italian bank present in 11 of Italy's 20 regions. The survey was concerned with how banks perceive the relationship of customers to the obligations imposed by the anti-money-laundering regulations and provides a better understanding of the nature and extent of compliance costs within banking operations.

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