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Comprehending the concept of AML risk management: From *ostrich policy* to number one priority

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Comprehending the concept of AML risk management:
From *ostrich policy* to number one priority

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List of Abbreviations

AML- Anti Money Laundering

CDD- Customer Due Diligence

CEO- Chief Executive Officer

C&I - Corporate & Institutions

EU- European Union

KYC- Know Your Customer

ODD- Ongoing Due Diligence

R1-R9- Respondent 1-9

SARS- Suspicious Activity Reports

Abstract

Title: Comprehending the concept of AML risk management: From *ostrich policy* to number one priority
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Purpose: Regulators are combating money laundering through legislation and banks work intensively with AML related activities. The purpose of this report is, therefore, to understand how the public and regulatory environment affect how a Nordic bank conducts risk management practices and organize to mitigate risks connected to violating AML legislation. By providing such knowledge, the research further seeks to explain the consequences in terms of achieving both business- and compliance objectives.

Theoretical framework: The theoretical framework should lay the ground for conducting analysis. First, theories related to risk management practices are described which is followed by a literature review related directly to AML and regulatory compliance. This is further followed by theories connected to corporate governance covering concepts such as accountability and how imposed regulations affect organizational structure. Lastly, Institutional theory is used to explain how the current institutional setting affect the implementation of AML risk management within the case bank. The institutional theory of competing logics is used to understand how the two logics, i.e. AML and business logic, manifest themselves in the bank and how they are managed.

Methodology: In order to answer the main research question, we seek in-depth knowledge based on human organizational experience under the interpretive paradigm. To do so, we have chosen to conduct a case study within a Nordic bank. The primary data has been collected through semi-structured qualitative interviews with a total of nine respondents within the bank. We have chosen to use semi-structured interviews since it enables the gathering of in-debt knowledge in relation to the purpose. Furthermore, in order to understand potential internal conflicts that can arise and different perspectives within the bank, we have interviewed respondents that work specifically with AML but also respondents from the business operations working directly with customers.

Empirical findings: In recent years, there has been a drastic change in how the bank views AML risk and how they work to prevent money laundering. The reason for this is two-folded, constituting of an increased public pressure arising from the vast bank scandal in the Baltic market, together with increased regulatory pressure. The way the AML regulations are formed creates a great deal of uncertainty regarding what is considered a sufficient level of control and Swedish banks do not work in a uniform way. AML procedures are time-consuming and require a lot of resources, investments, and time that otherwise could be spent to improve business activities. It also creates frustration among customers that are not used to having to answer extensive questions about their personal finances. In the long run, the potential conflict with customers creates tension between client managers and the AML organization. In order to mitigate this tension, it is viewed as important to have AML personnel with both knowledge and experience about the business operations and vice versa. Furthermore, AML risk shows both qualitative and quantitative tendencies, and managing the risk relies heavily on the measurement together with general business experience.

Conclusion: The findings suggest that a regulatory pressure combined with a public pressure exists that has resulted in that organizational actions have been taken to mitigate AML risk. The current risk-based regulatory framework is identified as challenging which raises the level of uncertainty but allows the bank to form its own practice of managing AML risk. AML legislation is not a new phenomenon but the focus in AML within the Nordic region and in the case bank was insufficient prior to the Nordic bank scandal. The slow institutionalization process results in a pattern of overworking AML which advocates a homogenization achieved through regulative support and greater collaboration between Nordic banks. We argue that the immense pressure related to AML today has shifted the priorities within the bank. To enable adherence to both the AML and business logic, the situation can be described as what we call a *forced merger*. Both logics prevail through negotiation but the AML logic is commonly favoured. The centralization has been vital to ensure and enable adherence to the AML logic. Although decisions have not entirely moved upwards in the organization, a shift sideways is identified, meaning that decisions regarding clients are today deeply influenced by the AML organization, indicating that AML has gained organizational authority. The organizational impacts are significant and the focus in AML has in one sense changed the bank from within and is today considered a top priority. Lastly we identify valuable aspects in the AML process that the bank should make use of.

Key words: AML, Governance, Competing logics, Risk management, AML regulation, Nordic bank scandal.

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1 INTRODUCTION

The introductory section of the report will present the current background of the chosen subject which is further problematized in the problem discussion. The research question is then presented which is followed by the purpose of the study. The structure of the report is then presented.

1.1 BACKGROUND

Money Laundering is not a modern phenomenon and legitimizing illegal proceeds has a long history. Banks have a central role in money laundering since "*dirty money*" needs to pass through the financial system, which by definition includes banks. This is the reason why the banking sector is in the center of initiatives related to mitigating money laundering (Morris-Cotterill, 2001). Money laundering is defined as the process of legitimizing money that is obtained through crime, thus hiding its criminal origin (Booth & Bastable, 2011) Money laundering is not only sponsoring harmful criminal activities, it also threatens the economic and financial stability of countries. These illegal activities can discourage foreign investments and disrupt international capital flows resulting in inefficient economic activities and, in the long run, welfare losses (IMF, 2017).

In the year of 1990, the European Union developed its first Anti-Money Laundering (AML) policy to counteract that the financial system was used for money laundering. Entities affected by the policy shall conduct customer due diligence to certain requirements when participating in a business relationship. These requirements include activities such as report and monitor suspect transactions and to know the identity of clients. A more modern regulatory framework was formed in 2018 and today's focus is mainly on enhancing the transparency to reduce money laundering (EU 2018/1673). Despite these efforts, 18 of the 20 of Europe's largest banks have been fined due to violations of money laundering legislation (Willum, 2019). By violating money laundering legislation, the number of investigations arises and the banks should expect to face higher reputational, operational and financial risk (Marion, 2019).

As a result of the emerged intensified regulatory environment, both operational and financial risk management practices have been affected. Preventing money laundering is a key element of operational risk management (Suresha & Varadachari, 2004). Failing in operational risk management can cause severe financial losses but sometimes the aftermath of operational risks turns out to be even more harmful than the actual fine imposed. This is due to the negative effects that these events turn out to have on the reputation of the organization (Perryer, 2019; Sturm, 2013). This is something that was evident during the recent Nordic bank scandal. The allegations of money laundering in the Nordic market not only led to sharp share price reductions for the banks at the center of the accusations but also affected other banks in the market negatively (Hoikkala & Pohjanpalo, 2019). The good reputation of the Nordic countries and overall rankings in world indices contributed to that, people, corporations and society as a whole were astonished when the news of the vast Nordic bank scandal involving money laundering activities, reached the attention of media and financial markets. As put forward in The New York Times by Ewing (2019): "*So it has been a shock to see Scandinavian banks mired in a growing money laundering scandal, accused of helping Russian oligarchs, corrupt politicians and organized crime lords send hundreds of billions of ill-gotten dollars to offshore tax havens*"

1.2 PROBLEM DISCUSSION

The growth and development of risk management practices have often emerged as a response to a crisis. These crises can either be on a systemic level, where the most recent financial crisis is a good example, or on a corporate level such as an inside fraud or pure corporate failures (Mikes, 2011). Failure in the prevention of money laundering or compliance with the AML-legislation can be placed in the latter category due to its local scope. In previous research, Mikes (2011) focuses on two banks, both of which are subject to increased regulatory pressure and whom each had a substantial loss related to a UK credit deficit respectively a Russian bond crisis. Mikes (2011) shows that these banks respond differently in terms of organizational structure, governance techniques and responsibility allocations. The different responses to risk can be explained by different risk cultures among organizations (Mikes, 2009). Furthermore, Mikes (2009) suggests that future explorative research should uncover how organizations mobilize risk practices to reduce uncertainty.

Compliance and risk management are closely aligned, but it is important to note the difference between them. In our research, the most important difference is that to comply with rules and regulations do not necessarily lead to value creation. Rather, it is more often a *box-checking* procedure in order to ensure that the organization follows prescribed rules and regulations (Riskonnect, n.d.). There has been several regulations and enforcement actions taken place recently, regarding money laundering, and for the banks it is a very costly and time-consuming procedure that puts pressure on the organization as a whole and on the AML and compliance function more specifically. According to Hunley (2013), a former chief of compliance at Santander N.A, this creates a situation where product line/department abandonment can be the end result because of the risk and costs involved in it. Thus, the fact that compliance risk management may not be translated into value creation can create situations where the business logic of a company stands in contrast with the compliance function of the same (Broome et. al, 2013). According to Bevan et. al (2019), most senior managers at banks feel more comfortable with regular risk management, such as credit risk, than their control of compliance risk. The reason for this is that there is yet no best approach to handle it, thus no consensus on which organizational approach that is appropriate and the business ownership of compliance risk is weak (Bevan et. al, 2019).

Furthermore, one percussive result from published reports by The Financial Action Task Force (FATF), is that financial institutions within the Nordic region fail in the implementation of money laundering preventive measures that are proportionate with regards to their current risk (FATF, 2019). On the other hand, a problematic aspect of the implementation is that high costs are related to complying with the AML directives in the form of monitoring and integration of systems and ever ongoing regulatory changes that result in significant organizational challenges. AML legislation has been argued to be burdensome for the banks and connected to costs and efforts that have not been proportionate with the impact of money laundering prevention (KPMG, 2014; Geiger, 2007; Bruun & Hjejle, 2018). A trade-off exists in terms of resources put in achieving corporate goals and what is required to comply with regulation (Kaplan & Mikes, 2016). Furthermore, the imposed task of monitoring clients may not be aligned with general corporate goals (Verhage, 2011). Activities related to AML procedures have an effect on how organizations choose to structure governance mechanisms. The regulatory pressures have resulted in that many organizations choose to centralize the ownership of regulatory risk to specific compliance departments. This centralization shifts the power of making business decisions upwards in the organization (Tsingou, 2018; Prorokowski & Prorokowski, 2014; Andrews et al, 2009). Wahlström (2009; 2013) argues that imposed regulation to some extent requires centralization. This may interfere with the current culture and create organizational struggle. The cultural premise and control system in organizations undertaking a decentralized setting is based on trust, thus not relying on centralized control systems. Early research identified that "Nordic values" influence organizational and individual behavior (Jönsson, 1996). For instance, Nordic banks have historically favored a decentralized approach to control, autonomous decision-making, and low hierarchical influence in comparison to other countries (Nielsen et al, 2003). Wahlström (2009) suggests that future research should examine how organizations respond to imposed regulation. Furthermore, front-office personnel is often burdened with tasks connected to detecting and reporting suspicious activity. This may not be well connected to their current skill-setting and it interferes with their central task of conducting business with clients (Verhage, 2009; Bruemmer & Alper, 2013).

The implementation of AML procedures with regards to imposed legislation seems challenging for Nordic banks. It is therefore of interest to examine how a Nordic bank organizes and how it works with AML and compliance in setting priorities and allocating responsibility to mitigate money laundering, but also to achieve increased efficiency. The public and regulatory pressure affect financial institutions and should have implications on risk management practice and governance structure. Previous research highlights the need for explorative research related to risk management practices (Mikes, 2009). The related costs, requirements in processes, and, tensions between business- and compliance logics make risk connected to money laundering an interesting approach in examining the adoption of risk management practices in the glance of public and regulatory pressure. In relation to this, the conducted research is a case-study within a Nordic bank.

1.3 RESEARCH QUESTION

How do the intensified public and regulatory environment affect risk management practices and governance structures, and what does it mean in terms of organizing, allocating responsibilities, and establishing priorities?

1.4 PURPOSE OF RESEARCH

Regulators are combating money laundering through legislation and banks work intensively with AML related activities. The purpose of this report is, therefore, to understand how the public and regulatory environment affect how a Nordic bank conducts risk management practices and organize to mitigate risks connected to violating AML legislation. By providing such knowledge, the research further seeks to explain the consequences in terms of achieving both business- and compliance objectives.

1.5 STRUCTURE OF REPORT

The report starts with an introductory chapter that presents the current background of the study, problem discussion, research question, and the purpose of the study. The second chapter consists of the theoretical framework that covers research in the field, theories, and concepts. Furthermore, the third chapter explains the chosen research method, motivates the chosen case bank, respondents, the applied research approach, and the design of the research. The analysis process is also explained in this chapter. The fourth chapter describes the empirical findings of our data gathering process. The fifth chapter will cover the analysis and discussion based on the empirical findings in relation to chosen theories. The sixth and final chapter of the report consists of conclusions. This chapter aims to summarise relevant findings and present them with regards to the research question, describe the contributions of the research together with suggestions for future research.

2 THEORETICAL FRAMEWORK

This section of the report presents the theoretical framework of the research based on the literature review. Firstly theories related to risk management practices are described which is followed by a literature review related directly to AML and regulatory compliance. This is further followed by theories connected to corporate governance covering concepts such as accountability and how imposed regulations affect organizational structure. The chapter finishes with a description of institutional theory and institutional logics. A summary of the theoretical framework presented in the end of the chapter.

2.1 RISK MANAGEMENT PRACTISES

The term risk is wide and considered a modern scientific concept (Hacking, 1990). Garland (2003) describes that risk demands action because ”*when risk is identified actions are taken to reduce and manage its potential adverse consequences*”. Risk management within organizations has received a lot of scientific attention and constitutes the central tool in dealing with organizational uncertainty (Power, 2007). Regulation affects corporations’ risk management practises. Research provided by Mikes (2011) describes that risk-related activities are managed differently in banks. Risk management and measurement in banks should result in control and the ability to manage the future (Power, 2007). This ambition has led to that risk management in banks focus more on increased internal controls and new risk categories. The development has increased the demands on control and decision-making, which has created new professions and changed the work of others. Risk management routines within banks are much more widespread now than it was in past years (Wahlström, 2011). Mikes (2009) identifies four ideal types of risk management. They differ in terms of focus and purpose but all of them are enterprise-wide in their scope.

Type 1, Risk Silo management

Risk silo management can be described as the treatment of various possible risks in an isolated manner rather than an integrated way. It is connected to risk quantification and the risks are often divided into different categories such as market risk, credit risk, insurance risk and operational risk. Among the advantages, risk silos allow companies to manage risks specialized to a particular business unit (Bugalla & Narvaez, 2014). Though, the risk is that these different units can become their own sphere with their own risk culture and practices, (Bugalla & Narvaez, 2014).

Type 2, Integrated risk management

Integrated risk management is connected to risk aggregation, the development of economic capital as the common denominator measure for market, credit and operational risk gives firms the possibility to aggregate their quantifiable risks into a total risk estimate. Economic capital is an estimated amount of capital that is needed to cover all liabilities that are collected as a going concern which includes market, credit and operational risk. The technique has gained legitimacy by regulatory bodies in the banking sector. (Mikes, 2009)

Type 3, Risk-based management

Risk-based management is connected to risk-based performance measurement. It has emerged as a result of developments in risk silo and integrated risk management but it is distinguished as having a strong shareholder value focus. The idea is to connect risk management with performance measurement and being able to calculate shareholder value. (Mikes, 2009)

Type 4, Holistic risk management

Holistic risk management focuses on the avoidance of risk silos, rather it aims to cover all activities within a company. Thus, it is a framework that considers the risk of the firm in its entirety. Mikes (2009) emphasizes the focus on the inclusion of non-quantifiable risks into the risk management framework. It can, in the best case, provide senior management with a strategic and holistic view of risks within the company. Though there are several challenges with an efficient implementation, such as that specialization may hinder a holistic understanding.

Mikes (2009) suggests that systematic variations of the four ideal risk management practices exist in the financial services industry. She examines two different banks, that each has a risk management mix that consists of a mixture between the four ideal types of risk management. Growth and change in risk management practices often occur as a response to failures. These failures can either be on a corporate level or more systematic failures like the financial crisis in 2007- 2009 (Mikes, 2011). Earlier processes and principles aimed to manage risk were not sufficient to mitigate an extensive risk-taking behavior (Soin and Collier, 2013). As a result, the organizational approach of having an isolated compliance function separated from the overall business operation has received criticism (Van der Stede, 2011). As an aftermath of the financial crisis, stricter regulations related to risk management practices were imposed (Wilson et al., 2010). Banks have mobilized to address potential flaws in processes connected to risk management systems and risk governance structures. Crisis fosters change in the practice of managing risk through improving coordination among risk activities and the business, tightening of controls and challenging the behavior related to risk among employees. As a result, new insights have arisen related to that the capacity to measure, monitor, identify and control risk from a broader view should be the central governance objective of banks. This should result in more informed organizational decision-making (Schlich and Prybylski, 2009).

Central to risk management is the concept of risk culture which can be described as to the extent that managers and employees promote risk-taking. Determinants of risk culture can be connected to the level of internal control, reward systems, level of formalization and organizational structure (Bozeman & Kingsley, 1998). Defective risk cultures require regulatory interventions that should affect managerial decision-making (Palermo, Power & Ashby, 2017). Power (2004) argues that the continuing evolution of risk management drives risk measurement to areas where human judgment is best suited with a result he deems as ambivalent or even dysfunctional. This statement was later tested by Mikes (2011) who shows that the culture in the organizations that favor quantification and risk measurement affect weather or not the results are contingent with Power's (2004) statement or not. Mikes (2011 p.1) states: *"While the risk functions of some organizations have a culture of quantitative enthusiasm and are dedicated to risk measurement, others, with a culture of quantitative skepticism, take a different path, focusing on risk envisionment, aiming to provide top management with alternative future scenarios and with expert opinions on emerging risk issues".*

In later research by Power (2007), he argues that the alternative logic of calculation serves different roles. Mikes (2009) conceptualize this and defines it as different calculative cultures, which serve as the crucial element of the fit between organizational context and managing risk. As mentioned, Mikes (2009) considers that firms are either quantitative skeptical or quantitative enthusiasts. This refers to the level of the computational role that the risk managing techniques have. In a quantitative skeptical organization risks that are not necessarily quantifiable are included in the risk analysis, while in a quantitative enthusiastic organization, risks that are quantifiable are acknowledged. The success of a control system is dependent on the alignment between the control system itself, the cultural premise and the preferences of the employees within the system (Bhimani, 2003). Furthermore, Mikes (2009) identifies that a risk management technique might be successfully adopted in a certain cultural setting and fail in others. The anticipated calculative culture shape the use and limitation of a certain risk management practice. Lastly, from an organizational point of view Mikes (2011) deems that risk functions that focus on measurement and quantification drew boundaries between what they did and the downstream consequences, resulting in that risk measures that extended beyond normal and measurable circumstances were not their responsibility. Contrary, risk functions who were more quantitative skeptical and included non-measurable risks into the risk management function, expanded their areas of responsibility and anticipated business experience and intuition.

2.1.1 Operational Risk

Operational risk can be defined as "*the risk of losses that stem from issues connected to systems, internal controls, people and external event*s". Legal risk which consists of exposure to penalties or punitive damages related to supervisory actions or private settlements due to violation of regulations is also included in the definition (Basel Committee on Banking Supervision, 2005). Operational risk within financial institutions has received the attention of regulators since the 90:s due to several examples of extensive losses related to operational risk events. These events lead to the awareness of the importance of dealing with operational risk. Losses due to operational risk keep occurring and in times of such crises, risk management and its practices get affected (Sturm, 2013). Factors resulting in losses triggered by operational risk, usually involve unique individual or organizational action that lead to failure. Such actions are often scrutinized by media and the public even when the financial losses or penalties related to the event are relatively small (de Fontnouvelle & Perry, 2005). The definition of operational risk is often debated since the wide nature of operational losses results in vague lines between operational risk and other kinds of business risk (Moosa, 2007).

2.1.2 Reputational Risk

The aftermath of operational risk events may sometimes be more serious and harmful than the direct effect of losses or penalties. It is generally acknowledged in the corporate society and scientific literature, that losses caused by operational risk events can affect the reputation of corporations and financial institutions negatively. These negative effects may pose a very large risk (Sturm, 2013). The adopted definition of operational risk excludes reputational risk. The Basel Committee on Banking Supervision does acknowledge and define reputational risk separated from operational risk as " *risk arising from negative perception on the part of customers, counterparties, shareholders, investors, debt- holders, market analysts, other relevant parties or regulators that can adversely affect a bank's ability to maintain existing, or establish new, business relationships and continued access to sources of funding*" (Basel Committee on Banking Supervision, 2009, p. 19). Managing reputational risk is of special importance in banks. The banking industry's affairs rely heavily on trust and reputation constitutes a key asset (Fiordelisi, Soana & Schwizer, 2014).

2.1.3 Money Laundering and its Relation to Operational and Reputational Risk

Money laundering is *"the process of legitimizing money that is obtained through crime, thus hiding its criminal origin*" (Booth & Bastable, 2011). Money laundering is sponsoring harmful activities and also poses a risk to society and the financial system in terms of threatening economic and financial stability (IMF, 2017). Besides being a market and societal risk, Money laundering is also an internal organizational risk considered central to manage within banking institutions. Failing in managing this risk could be related to penalties but also negative effects on the reputation of the banking institution (Mclaughlin & Pavelka, 2013). In a risk management context, money laundering risk itself arises when failing in assessing customer risk (Isa et al, 2015). Extending this risk management context de Wit (2007) defines different types of risk that financial institutions face as a result of money laundering. Among these risks, operational and reputational risk are prominent in causing direct financial losses, legal processes and detriment the trust of stakeholders. The link between being associated with money laundering and other risks is distinct due to reputational risk followed by potential operational losses (Bergström & Helgesson, 2011).

2.2 REGULATORY COMPLIANCE

The compliance with AML regulation relies heavily on a regulatory regime that is formed on a national, regional and international level (Tsingou, 2018). In the year of 1990, the European Union developed its first AML policy to counteract that the financial system was used for money laundering. A more modern regulatory framework was formed in 2015 and today's focus is mainly on enhancing the transparency to reduce money laundering (EU 2018/1673). Regulatory compliance signifies that corporations need to comply with legislation, norms, and standards. The mechanisms in which an organization is managing actions that aim to reduce the chance of violating regulations are defined as compliance management. These mechanisms can include activities related to operations, practices and general business processes (Ghirana & Bresfelean, 2012). The intensified focus on regulatory compliance has been fostered by increased complexity in financial regulation together with increased regulatory scrutiny (Miller, 2014). Following the global financial crisis, regulatory reforms and pressures have resulted in a mandatory adoption for financial institutions (Prorokowski & Prorokowski, 2014). In addition to the large regulatory pressure, financial institutions are operating in a globalized business world, governed by cross-sectional bodies of law formed by different jurisdictions (Scott, 2012).

The more complex business arena for financial institutions offers opportunities but also changing risks. Regulators approach this risk through legislation which adds complexity to the market (Calvo & Mendoza, 1999). To approach more complex regulation and market practices, financial institutions devote extensive resources to compliance operations in an effort to comply and mitigate risk (Lin, 2016). The diverse risks connected to violating regulation are creating pressure for a compliance function that can detect and manage risks of relevance. The ownership of compliance risk within organizations is central in the forming of the compliance structure. Commonly, financial institutions appoint specific departments for the ownership of regulatory risk, which affects how organizations approach regulatory compliance-related issues (Prorokowski & Prorokowski, 2014). This has resulted in new types of professionals devoted to keep up and comply with regulation, such as compliance officers and AML officers that should carry out monitoring, investigatory, and reporting tasks (Verhage, 2011). Homogeneity has been promoted in terms of investments in AML infrastructure and skill-setting to comply with regulation (Liss & Sharman, 2015). Complying with regulatory frameworks is a risk management mechanism (Tsingou, 2015). AML activities challenge the tradition of quantifying risk within financial institutions. AML compliance steered by regulation focuses on assessing and mitigating risk in the form of deeper knowledge about customers and their business relationships (Tsingou, 2018). This knowledge about clients may improve the financial institution's customer profiling and general assessment of customer risk (de Goede, 2012).

Previous research states that a pattern exists of focusing on preventing something bad rather than obtaining something good when conducting AML compliance. Beck (1992) argued that mitigating reputational damage and financial losses outweigh the actual prevention of money laundering. He further discussed that financial institutions work with AML compliance from a defensive approach. Verhage (2009) elaborates on this topic by arguing that as part of risk management, AML compliance aims to prevent large risks with the potential chance of mitigating smaller risks as well. The most significant task is to show regulators that the financial institution complies, rather than disclose actual money laundering, which can be seen in terms of that procedures are designed to cover against money laundering allegations. Other literature refers to this phenomenon as means-ends decoupling, which is when a gap exists between actual practice and organizational goals (Bromley & Powell, 2012). Further research suggests that means-decoupling in compliance is a result of standard rules and practices that do not fit the local variety (Wijen, 2014).

Lastly Bruemmer and M. Alper (2013) write that the board of directors should set the conditions and culture for a successful AML compliance function. They use the term "tone at the top", with this they emphasize that the board is responsible for ensuring that senior management and other employees understand the importance of AML and that the compliance function has the right qualifications, resources and status within the company to carry out its duties.

2.2.1 The Banks Role as the Law's Extended Arm

In general, when authorities tackle crime, the task of combating and being in the frontline is conducted by the enforcing authority. In contrast, the important task of battling money laundering has been transferred to private actors which create a need for observing and implementing regulation. Financial institutions compose the utmost tool for combating money laundering since they are responsible for reporting and detecting activities among clients that can be connected to illegal activities (Verhage, 2011). Alexander (2001) identified that the reasoning behind this approach was due to the financial institution's possession of the required information capital. De wit (2007) further elaborates and concludes that financial institutions are the owner of the required information to prevent money laundering. But to retrieve such information, a vast amount of funds invested in human capital, training, and systems are needed which still not result in full protection. As a direct result of the transfer of responsibility, common actions have included compliance teams focusing on AML, investments in AML training and development of compliance software (KPMG, 2014). Costs related to activities that have been imposed due to AML legislation has been argued to be burdensome for banks and other financial institutions. A perception among some actors has been that the impact of money laundering prevention has not been proportionate in terms of costs and efforts (Geiger, 2007). Kaplan and Mikes (2016) argue that financial institutions must make a trade-off in time and resources among goals that go beyond what is required to comply with regulations. Transferring the responsibility of conducting AML could result in a paradoxical role. The task of monitoring clients that are imposed by AML legislation may not be well suited to the financial institution's commercial interests (Verhage, 2011). Martin et al. (2009) argued that actively being engaged in surveillance of clients on behalf of the government is connected to reputational risk if it affects the relationship with clients negatively. In relation to this, early research emphasized that financial institution's common rationality is to maximize revenues and reduce costs. AML legislation incurs costs through required physical and human investments and can also affect customer relationships negatively in terms of confidentiality due to the need to retrieve extensive information (Masciandaro & Filotto 2001).

2.3 CORPORATE GOVERNANCE

There is no single definition of corporate governance. The narrow view focuses on the restricted relationship between the company and shareholders. The broader view on corporate governance describes a wide range of relationships between the company and its different stakeholders. These relationships form the governing structure. From a broader perspective, one could define corporate governance as the "*system of internal and external check of balances, which ensures that companies discharge their accountability to stakeholders and act in a socially responsible way in all areas of its business activity*" (Solomon, 2007). The most essential aspect of corporate governance is the utilization of effective controls within organizations. These controls should ensure that accountability and transparency are achieved. The external scrutinizing of internal organizational coherence is constantly present which makes risk management and corporate governance increasingly intertwined and interdependent (Bhimani, 2009).

Central to corporate governance theory is the relationship involving principals and agents. These relationships emphasize the need for principals to hold agents accountable for their actions (Woodward et al. 2001). This result in that the control of accountability is based on contracts between principal and agents. Monitoring and control activities are required to align agents with general corporate goals (Luo, 2005). The need for control is based on the assumption of self-interested agents. Monitoring and control activities should result in the establishment of confidence in the relationship between principals and agents, thus leading to accountability (Helgesson, 2011). Power (1994) identified that the need for control is increasing due to a lack of confidence in the persons and systems that control agents. Imposed AML regulation has an impact on the principal-agent relationships which affect existing control practices and systems (Helgesson, 2011).

2.3.1 Accountability

The term accountability can be defined in numerous ways but in corporate governance, the concept relates to acknowledging responsibility for decisions within the role of an employee, which emphasizes the need to report and be answerable for potential consequences (Williams, 2006). This definition explains the internal accountability of an organization. Another perspective of accountability relates to when organizations are held accountable to an external party. Edwards and Hulme (1998) define this type of accountability as to when organizations or individuals report to authorities, and as a result, are held responsible for their actions. In relation to internal and external accountability, Cornwall et al. (2000) explain that the concept of accountability is not only centralized on being held answerable for actions but also to actively taking responsibility. The question regarding responsibility is relevant for the compliance function. The design of the AML system creates a need for self-protection which leads to the transfer of responsibility to others in the same organization. Furthermore, front-office employees are burdened with the responsibility of detecting and reporting suspicious activities and can also be held responsible if suspicious activities are not detected (Verhage, 2009). Employees are taking responsibility through operational involvement and decision-making (Lenssen et al, 2010). Within corporate governance, there are two central dimensions: power and scope. Power can be explained by how stakeholders such as employees can influence corporate decision making and scope refers to how powerful the actual outcome of decision making is (Money and Schepers, 2007; Burchell and Cook, 2008). Organizations coordinate individuals and allocate decision power in terms of assessing and managing risk in which they are accountable for. When regulators impose new regulation, organizations need to allocate decision rights with regards to utility maximization and efficiency affecting which employee within the organization that can be held accountable (Bamberger, 2006)

2.3.2 Regulation and Organizational Structure

The control system of an organization is deeply embedded in it how it is structured (Terrien and Mills 1955; Caplow, 1957). The organizational structure refers to an organization's pattern of authority, communication, and relationships (Thompson, 1967). Structural dimensions such as the level of centralization, formalization, and complexity affect the process of decision making within the organization (Fredrickson, 1986). The level of centralization is determined by the hierarchy of authority and the degree of participation in decision making which have an impact on the distribution of power (Carter and Cullen, 1984; Glisson and Martin 1980; Hage and Aiken 1967). The hierarchy of authority relates to that the power of making decisions is focused on the upper level of the organizational hierarchy, while participation in decision making refers to the extent that staff can be involved in decision making or the determination of an organizational policy. A centralized organization will show tendencies of a high level of hierarchical authority and low levels of participation in decision making, whereas a decentralized organization is characterized by low hierarchical authority and staff involvement in decision making (Andrews et al, 2009). Centralization or decentralization affects the organizational structure, which forms the foundation of control and coordination within an organization. The organizational structure constrains the behavior of employees that should result in a desired organizational outcome (Hall, 1982).

When regulation is imposed on banks it results in that new systems or new work procedures for employees are required, thus leading to change in practice and control which affect the organizational structure (Wahlström, 2009). Research has shown that decentralized organizations struggle with adapting to imposed regulation and that the regulation itself can demand more centralized controls (Wahlström, 2009). A study of Swedish banks concluded that using a decentralized management structure is traditional in terms of decision making and that imposed regulation that to some extent requires centralization have an impact on the organizational structure. Banks with a more centralized structure may have an easier path to adapt to imposed regulation (Jönsson, 1995; Wallander, 1999). A centralized organizational structure results in that the hierarchy of authority becomes stronger, shifting the power of making decisions upwards in the organization and the degree of staff involvement in decision making is reduced (Andrews et al, 2009) When the power of making decisions is shifting, the responsibility described by Lenssen et al (2010) as involvement and decision making is changing within the organization. Power (2009) concludes that organizational governance and structure is deeply influenced by raising concern of risk. Imposed regulations related to money laundering contribute to raising challenges in relation to reputation, financial and operational risk (Mclaughlin & Pavelka, 2013). The relation between concerns of risk and the organizational structure affect governance in terms of responsibility. The allocation of responsibility and decision rights has a significant impact on employee accountability (Wahlström, 2013).

2.4 INSTITUTIONAL THEORY

Institutional theory can be used in research to explain organizational behavior and understand how and why companies tend to become more homogeneous over time (Runesson, Marton & Samani, 2018). The early institutional theory originates from the beliefs that organizations are driven less by functional considerations and more by symbolic actions than the theories at the time assumed (Meyer & Rowan, 1977). Meyer and Rowan (1977) emphasize that institutionalization is a social process in which people form a common view of social reality. This affects the organizational structure since organizations incorporate these institutional rules into their formal structure due to pressure from the institutional environment. These institutional rules function as myths that organizations incorporate to gain legitimacy and enhanced survival prospects. Since organizations are adapting to the institutional environment they tend to become more alike over time which leads to isomorphism in the formal structures of organizations. (Meyer & Rowan, 1977).

DiMaggio and Powell (1983) extended Meyer and Rowan's (1977) focus on isomorphism from the societal level to the level of organizational fields. They put emphasis on coercive, normative, and mimetic sources of isomorphism. They term this as the new institutionalism, the fundamental difference is how the new institutional theory focuses more on the institutionalized organization's relationship to the outside world, and how this relationship affects how the organization develops and changes. Thus, organizations will respond to other organizations and their environment, which leads to the homogenization of organizational fields without necessarily lead to increased performance or efficiency (DiMaggio & Powell, 1983). This mean that the rationale for early adopters to keep up with the innovations within an organizational field is usually driven by performance improvement, but laggards, on the other hand, seem to settle for adaptation to a certain level in order to gain legitimacy rather than achieve performance improvement. Beckert (1999) further argues that the core aspect of the institutionalization process is to reduce uncertainty and that deviations from the institutionalized behavior may raise the level of uncertainty that organizations seek to avoid if it is not connected to potential benefits. Child (1972) argues that organizational structures and strategies are fundamentally shaped by the institutional environment. The deviation from the institutional structures and strategies may be strategic. Rational actors rely on screening the external and internal environment and make decisions to achieve goals with the experienced institutional pressure operating as a constraint to eligible decisions (Wheelen & Hunger, 1992; Vanberg, 1994).

2.4.1 Institutional Logics Theory

Institutional Logics theory derives from the work of, for example, Friedland and Alford's (1985, 1991) and Thornton and Ocasio (1999). It shares the approach of the institutional theory that cultural rules and structures shape organizational structures but the focus is no longer on the isomorphism. Rather, institutional logic focuses on the effects of *"of differentiated institutional logics on individuals and organizations in a larger variety of contexts, including markets, industries, and populations of organizational forms"* (Thonton & Ocassio, 2008, p.3). Institutional Logics was first introduced by Alford and Friedland (1985) to describe the contradictory practices and beliefs that are inherent in the institutions of modern Western societies. In the article, they explain that institutional logics are meant to describe beliefs and contradictory practices that are central in institution and that shape organizational and human behavior.

Later, Friedland and Alford's (1991) developed the theory to explore interrelations between society, organizations and human beings. Friedland and Alford (1991) recognize that the core institutions of the society, i.e. the capitalist market, the bureaucratic state, families, democracy, and religion, consists of individuals organizations and society. Each of them has a unique central logic that constrains the actions of the individual, thus, the contradictions inherent in the different sets of institutional logic also work as a source of agency and change. (Friedland & Alford, 1991, Thonton & Ocassio, 2008). Further developed definitions by Thornton and Ocasio (1999) includes rules that create meaning of existence and social reality. Definitions vary, but institutional logics are a meta-theory used to study both organizational and individual behavior (Thornton & Ocasio, 2008).

2.4.2 Multiple and Potentially Competing Logics

Multiple Logics

The institutional theorist has argued that organizations have multiple logics. Although, several logics may exist within the organization one logic is presumed to be the dominant one (Thornton & Ocasio, 1999). These logics also plays an important role in institutional change, institutional researchers define institutional change as a movement from one dominant logic to another (Hoffman, 1999). Early studies, DiMaggio and Powell (1983), found that several logics existed simultaneously for a certain period of time until one of them became the dominant logic in the field. When a new logic enters the field, the challengers will most likely support the new logic while the incumbents supports the old one. Hence rivalry between the actors is likely to happen, the two logics co-exist for a while until one side wins and the field reform around the winning dominant logic (DiMaggio & Powell, 1983). Later studies, however, suggest that several different logics may exist simultaneously within an organization/field over a longer period of time (Lounsbury, 2007, Reay & Hinings, 2009). According to Carlsson-Wall, Kraus, and, Messner (2016), an important question emerges from this argumentation which consists of weather different logics are compatible or incompatible with each other. If they are compatible with each other, e.g. a certain action is both desirable for the economy and the regulations, there is no tension and the organization doesn't have to worry about it. On the other hand, if a certain action is conflicting with one of the logics there is tension between them, i.e. they are incompatible. In such a situation the question arises regarding how to deal and manage the competing logics (Carlsson-Wall, et. al, 2016).

Competing Logics

Carlsson-Wall, et.al (2016), presents three different ways to manage tensions between logics. These are *decoupling, structural differentiation* and, *compromise.* Decoupling means that the organization is driven by one dominant logic while the other logics are adopted only to a symbolic level. Structural differentiation means that an organization should be divided into different subunits, each of which can act independently and according to the requirements of "their" institutional logic. Lastly, compromise implies that the organization gives up the possibility to fully adhere to a specific logic in order to partly fulfill the demands of the other logics (Carlsson-Wall, et. al, 2016).

Further, Reay and Hinings (2009) also emphasize that when a new logic is introduced in an organization, the challenger and incumbent may not always be able to determine a winner and a loser. Thus, competing logics can co-exist during a longer period of time. They suggest that *"when competing logics co-exist in an organizational field, actors guided by different logics may manage the rivalry by forming collaborations that maintain independence but support the accomplishment of mutual goals"* (Reay & Hinings, 2009, p. 645). Their findings further show that within this collaborative relationship, it was important to maintain their own established identity. The overall outcomes where better when the two groups remained separated but were encouraged to challenge each other.

2.5 SUMMARY OF THEORETICAL FRAMEWORK

The theoretical framework should lay the ground for conducting the analysis. The sections *risk management practices* should contribute to understanding the current change in AML risk management practice and to outline how the bank manages risk related to money laundering. Thus, it is primarily used to analyze the internal mechanisms of dealing with AML risk. The section *operational risk, reputational risk*, and its relation to money laundering provide the fundamental knowledge about risks connected to money laundering. It helps the reader to understand the complex nature of AML and enables an analysis of the current AML risk management practice. Furthermore, the section *regulatory compliance* should outline the current regulatory environment and current research in the field of AML. This is central in problematizing AML and forms an analysis that links the combined coercive and public pressure and its implications for the case bank. The section is used for analyzing how the bank forms its governance structure to reduce uncertainty and manage AML risk, where relevant theories are described in section 2.3. In section 2.4 we draw on *institutional theory* to analyze the current challenges in the institutional setting. Lastly, we use the *competing logic theory* that stems from institutional theory and is used to analyze how the bank manages conflicting logic to achieve both business and AML efficiency.

3 METHODOLOGY

The methodology section of the report presents the current methodology used for conducting this study. We first describe and motivate our research approach and design followed by a description of our collection of data. This is followed by how the data analysis is conducted, a discussion about research quality and lastly a brief discussion on research ethics.

3.1 RESEARCH APPROACH

Our study aims to explore how regulatory and public pressure affect risk management practices related to AML within Nordic banks, and what it means for the governance structure. The conducted case study should contribute to understanding based on insights from employees at different levels within the case bank, which makes us assume the interpretivism paradigm. The interpretive ontological assumption is based on the belief that reality is subjective and not objective. The reality is formed by our perceptions (Smith, 1983). Interpretivism focuses on exploring the complexity of a phenomenon to get interpretive knowledge rather than measuring it. Research, based on the interpretive paradigm is derived from qualitative approaches (Collis & Hussey, 2013). As described by Eriksson and Kovalainen (2015) the qualitative methodology approach is useful when the aim is to understand an identified question and the complexity that surrounds it within a certain context. Bryman and Bell (2015) argue that the qualitative methodology approach is best suited when you seek to understand subjective perceptions and interpretations of a certain phenomenon. This implies that it is essential that the research is based on in-depth knowledge to fulfill the purpose of the study.

Furthermore, Goia et al. (2013) emphasize the importance of capture concepts related to human organizational experience. The traditional approach of constructs, abstract theoretical formulations of a situation of interest is most commonly formulated around measurability and tend to focus too much on describing existing phenomena. A strong scientific tradition exists in using qualitative data to provide and develop grounded theory (Glaser & Strauss, 1967; Lincoln & Guba 1985). This approach is argued by some scholars to not meet the required standards for scientific rigor (Goia et al, 2013). Our research approach is not focused on neither grounded theory or measurability. Instead, we base our research on existing theoretical frameworks, secondary data and personal knowledge that form the scientific foundation. We do not start our research from a blank page with the sole goal of theorizing. Instead, we want to put the human organizational experience in a theoretical context. We seek qualitative rigor through combining existing theoretical frameworks with a large focus on the respondent's actions, intentions and thoughts. This approach may result in new theory and/or deem certain theories appropriate or not for understanding the organizational behavior in relation to the research question.

The study's process is described step by step in figure 1 below.

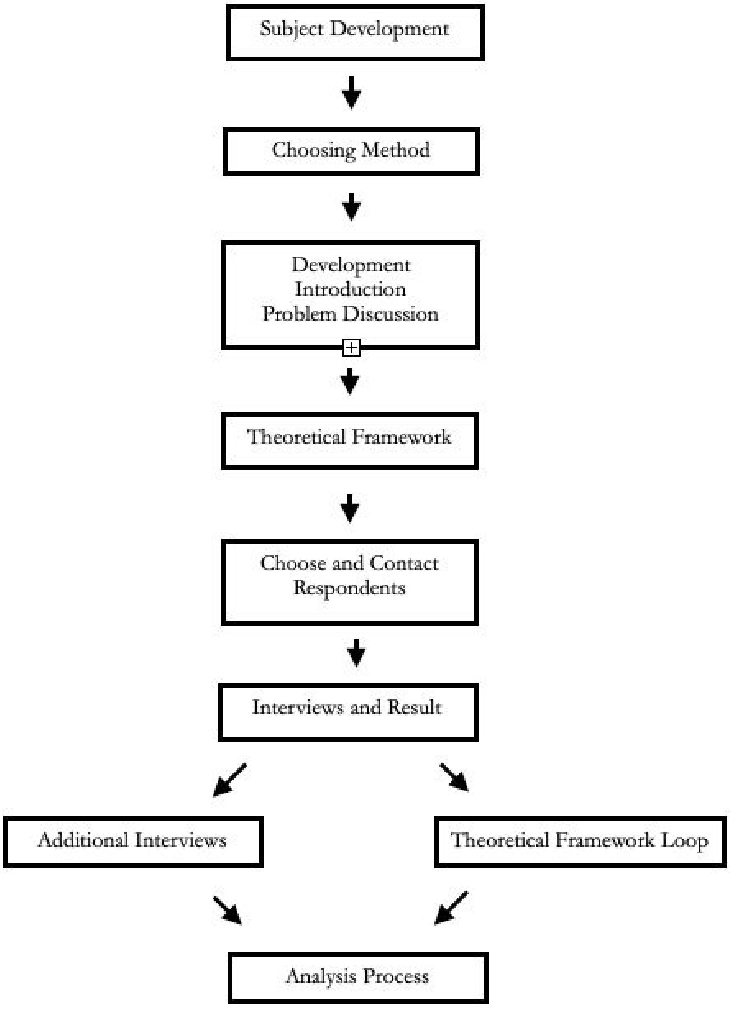

Figure 1.

3.2 INITIAL SEARCH OF LITERATURE

The process of searching and reviewing literature should be conducted after the research topic has been identified. The literature search is a systematic process of identifying existing knowledge in a certain field of research (Collis and Hussey, 2013). We started the process by examining existing literature that is central to the purpose and the research question of the study. We have used Google Scholar and the databases provided by Gothenburg University to find valuable and credible resources. The review has focused on literature related to risk management, bank regulation and more specifically AML regulation, compliance, and corporate governance. This has been done to establish a theoretical framework, that should provide knowledge and context to the gathered qualitative data. The theoretical framework is not static and can be updated throughout the process of collecting primary data. To determine if the resources can be considered credible, we have looked at aspects such as the number of citations and if the literature is peer-reviewed. We noticed that risk management and governance research in relation to specific risks connected to money laundering is rather limited. Most such literature is newly published, which affects the number of citations. The reviewed literature consists of scientific articles, books, news articles, and published reports. We have to the possible extent, tried to focus on current research but also used more established research to understand the fundamentals of the theory.

3.3 RESEARCH DESIGN

To answer the research question and fulfil the purpose of the research, we seek in-depth knowledge based on human organizational experience. To do so, we have chosen to conduct a case-study which Collis & Hussey (2013) consider an appropriate method under an interpretive paradigm. It is a methodology that may be used to explain a certain phenomenon that constitutes the actual case with the aim to obtain in-depth knowledge. The central aspect of a case study is to investigate the phenomenon in-depth within a real-life context and focus on many variables of interest rather than single data points. The method relies heavily on triangulation, ie multiple sources of evidence and benefits from that development of theoretical frameworks may guide the analysis and data collection (Yin, 2009). Furthermore, Ryan et al (2002) explain four different types of case-studies were our research is defined as what they call an explanatory case study. This type of case-study uses existing and established theories to understand and explain a certain phenomenon within the case company. In our case, we use the theoretical framework to seek understanding and analyze the current situation in relation to the purpose of the research.

We motivate the use of a case study by acknowledging the strengths of the method. The method reduces bias through the use of different sources, enables a deep understanding in a real-life context together with obtaining knowledge about dynamics that are present in a single setting (Bonoma ,1985;Collis & Hussey, 2013; Kvale & Brinkmann, 2014). The source of data is interviews conducted with representatives from different levels and departments within the case bank that are affected by imposed regulation and work with AML in different ways. Collis & Hussey (2013) mention that one significant drawback of the method is that it is time-consuming. We argue that this negative aspect does not pose a problem in our research. Due to rather unique access to the case bank, we have enabled an efficient gathering of data. Furthermore, using a single case-study enables us to focus on the organizational mechanisms that exist within a single setting and the challenges that arise. This is why we have chosen to present the empirical findings based on if the respondents work within the business operation or directly with AML. This enables internal comparability that should highlight that personal perceptions exist of how regulatory and public pressure is experienced and what implications it gets. An organization's perception of a certain phenomenon must be the sum of the individual's. We acknowledge that it would be interesting to compare the results with another bank, but truly focus on in-debt knowledge in a single setting may enable and outline a foundation for future comparative studies for the current research. The unique access to the case bank and the current time-constraint made us realize that it would be most rewarding to focus on a single case bank.

3.3.1 Selection of Case Bank

Our case study focus on one major Nordic bank and their perceptions in relation to the purpose and research question. When determining the sample in an interpretive qualitative study, there is no need to choose a random sample because the gathered data will not be statistically analyzed. Generalizations based on the sample to the overall population will not be central in the research (Collis and Hussey, 2013). The case bank was selected based on two fundamental reasons. Firstly, the availability and access to interviews are crucial to retrieve the desired qualitative data. Secondly, we wanted to choose a bank that has been significantly affected by the public and regulatory pressure in relation to money laundering. The latter reason is what Collis and Hussey (2013) define as purposive sampling, which is when experience and knowledge are the reason for determining an object of the study. This is supported by Bryman and Bell (2015) that argue that affected actor's opinions and experiences are of great value when the aim is to clarify and analyze a certain phenomenon. Focusing on one bank allows more interviews with employees at different levels in the organization, which is essential to understand how risk management practices and the governance structure are affected. The sample size needs to be sufficient so that the data can support a theoretical foundation. A too large sample size can affect the analysis negatively, thus leading to that it is difficult to answer the purpose and the questions of the report (Bryman & Bell, 2015). This is also supported by Collis and Hussey (2013) that explain that the scope of the study should not be limited due to the collection of too large volumes of data. An interpretive study should focus on in-debt understanding. Furthermore, the case bank is one of the largest banks within the Nordic region with employees working solely with compliance and AML related activities together with being active in a wide arrange of business segments which we argue may increase the rigor of our research compared to conducting the same research in a significantly smaller bank.

3.4 DATA COLLECTION

The collection of data has been divided by primary and secondary data. The primary data has been collected between March and April in the year of 2020 through semi-structured telephone interviews. The choice of conducting the interviews via phone was not preferred but due to the outbreak of COVID-19 and the bank's current policy for external meetings, telephone interviews were the only choice at hand. In combination with the primary data, we have to a minor extent used secondary data in form of reports published by the bank together with news-articles mainly to seek an understanding of the current organizational setting and to study the recent Nordic bank scandal. The secondary data has been studied throughout the research process but mainly in advance of the interviews. Collis and Hussey (2013) describe that the chosen methods of data collection are complementary to understand and interpret a certain phenomenon. Important to notice is that the empirical findings are mainly focused on primary data.

3.4.1 Primary data

The primary data has been retrieved by conducting semi-structured qualitative interviews. Qualitative interviews should result in knowledge regarding what the respondents think, do or feel and explore data on opinions, understandings, attitudes, and feelings (Collis & Hussey, 2013; Arksey & Knight, 1999). Kvale and Brinkman (2014) deem that qualitative interviews enable the identification of valuable subjective patterns. Interviews can be conducted from a structured, semi-structured or unstructured approach which relates to how the questions are formed and the level of preparation before the interview (Collis & Hussey, 2013). In terms of research based on the interpretive research paradigm, Easterby-Smith, Thorpe, and Jackson (2012) argue that semi-structured or unstructured interviews are useful. Especially when it is important to interpret personal ideas or concepts based on beliefs and opinions and when the logic of the phenomenon being researched is not clear. It is not possible to predict the retrieved answers using qualitative interviews. Another important aspect that we bear in mind as described by Collis and Hussey (2013) is the risk of bias as a result of interpretation. The study's result relies heavily on the interpretation of retrieved answers from respondents (Kvale & Brinkmann, 2014). Interviews are conducted with employees that operate on different organizational levels, which may influence interpretations. We acknowledge this and try to mitigate this present risk by conducting the interviews in pairs and compare our personal interpretations guided by theory.

We have chosen to use semi-structured interviews. Since the aim of the report is to get in-debt knowledge in relation to the purpose, the interview questions are kept open. The option of choosing from predetermined answers is not available. It also enables the researcher to explore the received answers to a greater extent (Collis & Hussey, 2013). In a semi-structured setting it is also plausible to answer new questions throughout the interview (Bryman & Bell, 2015). Flexibility is central and the order of questions is not fixed and all prepared questions might not need to be asked if relevant information has been retrieved from previous questions (Collis & Hussey, 2013). The open questions should create the possibility for the respondent to answer as truthful as possible. It is also important that the researcher does not lead the respondent to a desired answer. Doing so may affect the validity and credibility of the report negatively (Patel & Davidson, 2011). We have also identified that the respondents will bring different perspectives in relation to the research question. The questionnaire is adjusted to match the respondent's background.

The presumption that there is no correct answer results in that the deductive approach is not suitable. An inductive or abductive approach is more versatile when gathering data with qualitative interviews (Patel & Davidsson, 2011). Eriksson & Kovalainen (2015) describes induction as using empirical research to produce theoretical results. The abductive approach is a combination of deduction and induction. We have chosen to use the abductive approach allowing to alter between the theoretical framework and empirical findings which may enable a deeper understanding with the purpose of the research. The abductive approach allows theory to be complemented after the gathering and analysis of data. This enables knowledge about the researched topic to successively evolve.

3.4.2 Identification and Selection of Respondents

As mentioned previously, the case bank was chosen based on several aspects such as availability and that it has been affected by imposed regulation and the current bank scandal. Furthermore, the case bank is one of the largest banks in the Nordic region which implied that they had employees working fully with AML. The distinction between employees working directly with AML and the business operation is essential to understand potential internal conflicts that can arise and different perspectives within the bank. Collis & Hussey (2013) describe that in qualitative interpretive study, there is no need to choose a random sample since the purpose of the research is not to generalize to the whole population. The data is based on personal experiences and thoughts. With this in mind, we chose preferred respondents. When identifying the respondents, we seeked to find a balance between employees active within the AML organization and the business operation. We argue that the AML employees deep knowledge in the field together with employees that have the business perspective provides an interesting basis for analysis. Employees within the business operation are today deeply involved in AML activities but do not have it as its primary task. Furthermore, we wanted to speak with employees at different organizational levels, since perceptions may vary and that it would provide relevant perspectives. The table below states all respondents.

	Respondents
R1	AML Executive Personal Banking
R2	AML Manager Personal Banking
R3	AML Manager Business Banking
R4	AML Implementation Manager Business Banking
R5	AML Manager Corporate & Institutions (C&I)
R6	Manager within Private Banking

R7	Executive within Business Banking
R8	Branch Manager Business Banking
R9	Client Relationship Manager C&I

3.4.3 Interviews

Nine semi-structured interviews were conducted to obtain the empirical data required for the analyze which is stated in the table below.

	Respondents	**Time**	**Date for interview**	**Type**
	AML Respondents			
R1	AML Executive Personal Banking	Pre-Interview: 45 min Interview: 1h	2020-03-01 2020-03-10	Telephone
R2	AML Manager Personal Banking	1h	2020-03-11	Telephone
R3	AML Manager Business Banking	50 min	2020-03-18	Telephone
R4	AML Implementation Manager Business Banking	1h	2020-03-18	Telephone
R5	AML Manager Corporate & Institutions (C&I)	50 min	2020-03-19	Telephone
	Business Respondents			
R6	Private Banking Manager	45 min	2020-03-23	Telephone
R7	Executive within Business Banking	1h	2020-03-18	Telephone
R8	Branch Manager Business Banking	1h	2020-03-12	Telephone
R9	Client Relationship Manager C&I	40min	2020-04-22	Telephone

All interviews were done by telephone as described earlier with regards to COVID-19. Even though this version of interviews was not the preferred choice, telephone-interviews are commonly used and offers some advantages. It reduces the cost and time of travel and at the same time allow personal contact (Collis & Hussey, 2013). Several of the respondents are not located in the same geographical area, so the method reduced the time-constraint in the interview process. All interviews were done with one respondent at a time with both researchers present. Most of the interviews were conducted within March and we made an additional in April to supplement our empirical research.

We contacted all respondents except Respondent 1 (R1) by E-mail of whom we had contact with in advance of the research process. R1 was our main contact in the bank and helped us to reach out to the appropriate respondents in relation to the purpose. We did a pre-interview with R1 primarily to explain the purpose of the research in which the respondent shed light on the topic and identified other respondents. We later conducted a second interview with R1 according to our questionnaire. Our aim at first was to start with more senior employees in the respective organization (AML & Business Operation) and work our way ”downwards” to easier identify discrepancies between senior employees and less senior. We did that to some extent with the respondents within the AML organization. Due to that the respondents had a rather full schedule, we needed to adapt to their preferences of when the interview could be conducted. To be able to point out and analyze such differences, and differences between the two organizations we decided to transcribe all interviews. We ensured that we were allowed to record the interviews. Kvale and Brinkmann (2014) argue that it is of great importance to explain the purpose of the study for the respondents. Some of the respondents were satisfied with what we described when we contacted them while some required additional information which we provided them with. Throughout the actual interviews, we experienced that the respondents had understood the purpose and all respondents provided useful insight in relation to the purpose of the research.

Furthermore, the sometimes sensitive nature of the subject resulted in total anonymity. The organization wishes to be anonymous which per se, results in that all respondents are anonymous. The practical implications of anonymity in research are further briefly discussed in the section *“Ethical Deliberation in Brief”*.

3.4.4 Questionnaire Process

We developed a questionnaire (Appendix 1) which was used throughout the interviews. The questionnaire was based primarily on the developed theoretical framework, secondary data in the form of published information about the case bank together with news-articles and insights from the preliminary interview with R1. As mentioned we used what Collis & Hussey (2013) defines as a semi-structured interview in which we developed the questionnaire according to. We formulated open-ended questions with regards to the theoretical framework, secondary data, and preliminary interview. Collis & Hussey (2013) further elaborate that in a semi-structured setting the interviewer may ask additional questions not stated in the questionnaire as discussed in 3.4.1 ”*Primary Data*”. We followed the questionnaire to the possible extent and experienced that relevant information was sometimes provided which resulted in that we did not have to ask all questions for all respondents. We also conducted what Bryman and Bell (2015) defines as follow-up questions when needed to increase clarification.

We have used what McNamara (2009) defines the" *General Interview Guide Approach*". The strength of the approach is that the researcher can ensure that the general areas of information are collected from each respondent. This approach is more structured than the "*Informal Conversational Interview*" outlined by Gall et al. (2003), which relies entirely on the spontaneous generation of questions in a natural conversation. McNamara (2009) argues that the general interview guide approach allows a more focused interview but still enables a high level of freedom and adaptability to the current situation. Turner III (2010) elaborates that "*the general interview guide approach allows the researcher to remain in the driver's seat, but flexibility is presently based on perceived prompts from the participants*". This approach is useful in our research since it stems from theory and has affected how we formed the questionnaire. To provide a fruitful result and analysis, we consider it important that the questions were developed according to theory and other gathered data to at least steer the research in some direction. The semi-structured setting and open-ended questions still allow the respondents to provide important and useful perspectives that may not stem from chosen theories.

Kvale & Brinkmann (2014) argue that questions should not have a leading character so that respondents are not being influenced which was avoided during the interviews. Furthermore, Kvale & Brinkmann (2014) elaborate that the researcher needs to adapt questions to the respondent's relevant background and knowledge. We did this, by developing two separate questionnaires for respondents active in the AML organization or the business operation. The questionnaires are not entirely different but adapted to retrieve the most valuable information. For instance, respondents within the business operation may have deeper insight regarding the practical implications of the imposed regulation generates when dealing with customers. On the other hand, AML respondents may have a much clearer view of process-related topics. We did this distinction which also is the present structure in the "*Empirical Finding*s" chapter to acknowledge general differences between the two organizations which form an important part of our analysis.

3.4.5 Secondary Data

Before the primary data gathering, we checked reports published by and about the case bank together with information on their website to increase our background knowledge. This background check increased our perceptions of how the bank has worked with AML risk in the past. Furthermore, we looked at news articles covering the Nordic bank scandal, reports related to AML regulation and the current AML directives that banks are supposed to comply with. Collis and Hussey (2013) emphasize the importance of being prepared before interviews and understand the background of the respondents and the organization they represent. The use of secondary data has been in a supplementary manner conducted to enhance our ability to interpret and understand retrieved answers from the interviews. In our research, the use of secondary data is not the most central aspect due to that we seek in-debt personal knowledge which is retrieved by interviewing the respondents. The empirical findings rely heavily on the primary data gathered from conducted interviews.

3.5 DATA ANALYSIS

Criticism of the rigor in terms of qualitative data analysis emphasizes that it is difficult to estimate how the researcher has summarised the qualitative data to arrive at findings and conclusions (Bryman, 2003). Morse (1994) further outlines that the actual process of qualitative data analysis is poorly described. In relation to this, the data analysis started with that we transcribed all interviews. Kvale and Brinkman (2014) argue that it is important to establish rules when transcribing to enable consistency and comparability. We decided to transcribe the interviews word by word, ie we have transcribed exactly what has been said without adding any element of interpretations in the transcription phase. In cases were difficulties occurred in terms of what they are saying, we chose to neglect such occasions from the transcriptions. We have constructed an analysis model (Appendix 2) that is derived from the qualitative analysis model presented by Gibbs (2018).

To make sense of the gathered data Gibbs (2018) describes a qualitative data analysis model that presents open coding, axial coding, and selective coding. Open coding refers to when the text is read reflectively to identify categories. Axial coding refers to when categories are refined and interconnected. Selective coding refers to the overall central category within the theory together. The concept of open coding is to conduct it with an open mind with little preconceptions and is often used in grounded theory. Gibbs (2018) acknowledges that no one starts with no ideas at all, but the point is that one should try and pull out data and not impose interpretation based on pre-existing theories. At first, we manually conducted the coding by carefully read the respondent's answer to each question in the questionnaire. Gibbs (2014) advocate the use of both paper-wise and software coding. We have used the *Envivo Software* supplementary, especially focusing on word-count. For instance, it was useful to identify differences between respondents from the AML and business operation. A prominent example is that we identified that customer trust was only put forward by the business operation identifying a difference in perceptions of risks connected to AML etc.

As discussed earlier in the method chapter we are not conducting the research with the starting point in grounded theory. Instead, we wish to use established theories to analyze and describe organizational phenomena and perceptions as a response to regulatory and public pressure related to AML. Nevertheless, open coding enables us to identify thematic categories by letting the transcriptions speak for themselves without being particularly influenced by the theoretical framework. In the axial coding, we refine and make connections between the thematic categories which then is selectively coded into core categories. The point of having this approach is to provide data that is strongly rooted in the personal thoughts of the respondents. We seek in-debt knowledge of organizational actors that can be analyzed through established theory rather than provide biased data with the aim of finding *"proof"* in used theories. This is why we have chosen to structure the empirical findings focused on the axial coding categories describing in detail what was outlined through the open coding. The empirical section is held as precise as possible as the responses retrieved from the respondents and it motivates the number of quotations. This is also why we choose to structure the empirical findings divided by respondents in the two organizations (AML & Business Operation), to enable an understanding of potential differences in perceptions. The analysis will be focused on linking the theoretical framework precisely with the detailed, personalized empirical findings.

3.6 RESEARCH QUALITY

To evaluate the research quality in a case study is difficult and there exist several methods described in a wide range of literature that can be used (Eriksson & Kovalainen, 2015). In terms of research quality, we choose to draw upon research by Lincoln and Guba (1985), which argues that trustworthiness is central in determining quality. Their research focus on four different criteria; credibility, transferability, dependability, and confirmability which should ensure trustworthiness.

Credibility is achieved by establishing truthfulness (Lincoln & Guba, 1985) Validity is connected to credibility and refers to that a study reflects the particular concept that the researcher aims to measure (Bryman & Bell, 2015). We ensure validity by confirming the results with participants so that interpretations are precise. Ryan et al (2002) describe that validity needs to be considered or all parts of the results and that it is useful to compare findings with results from other research. We establish validity by comparing the results from our report with examined literature. Interviews are also compared with each other to identify patterns that we can connect to our interpretations. Credibility can be established through the use of triangulation. Triangulation is the use of more than one approach in research (Heale & Forbes, 2013). We have utilized different sources of literature including scientific articles, books, and reports. We also interview employees at different organizational levels, that should provide different perspectives. Being two researchers help establish analyst triangulation. The analysis is also discussed with our supervisor, which should mitigate potential blind spots.
As mentioned previously, the gathered data will not be statistically analyzed and generalizations to the overall population are not the central focus of the research. We only examine one organization in our study which of course limits the extent, to which the result can be generalized. The research should instead contribute to a deeper understanding of the research question, thus provide useful results for future hypotheses that can be tested and generalized. Transferability as described by Lincoln and Guba (1985), is when the findings can be transferred to other contexts. In our research, transferability is established through

real insights from employees that explain how and why public and regulatory pressures affect risk management practices and governance structures. Making experiences made transferable for consideration in new situations by adding to previous established insights, represented by general theories and previous research in the area.

Dependability is fulfilled if the research can be repeated and yield the same results which are closely connected to reliability. In qualitative research, and especially in an interview-situation that is based on social interaction, an exact reconstruction of the study is hard to conduct (Lincoln & Guba, 1985; Bryman & Bell, 2015). One way of ensuring dependability is to have an outside researcher that examines the process of data collection, analysis and the results of the study. Since we have a thesis supervisor, dependability is present throughout the study. If there were major flaws in our research, the supervisor would intervene, which should result in that dependability is achieved.

Confirmability is considered fulfilled when researchers do not affect the results of the research. The study's findings should be based on the participant's experience and not being influenced by researcher bias (Lincoln & Guba, 1985). Confirmability has been established by recording and transcribing the interviews. Since we are two researchers, we discuss and interpret the retrieved information together, which should contribute in mitigating potential bias. Furthermore, we acknowledge that our background and the studied literature review may influence what we believe will be the result. It is therefore of utmost importance that we do not steer respondents into certain answers that match our personal hypothesis. By acknowledging that this risk exists, and take action accordingly, we mitigate bias which should result in confirmability. We further establish confirmability through keeping the empirical section rather "raw" with a minimum level of personal interpretations.

3.7 ETHICAL DELIBERATION IN BRIEF

Ethics are defined as principles and values that form a code of conduct. Research ethics focuses on how research is conducted (De George, 1987). The researcher must at all time respect the integrity of the respondent. Bell and Bryman (2007) describe several principals that the researcher must apply to. The researcher needs to avoid potential harm that the respondent can endure due to participating in the study and the researcher should avoid causing anxiety or discomfort. It is of utmost importance that the integrity of the participants is protected. Respondents will, therefore, be anonymous which results in that they will not be able to be connected to any of the expressed opinions. In interview situations, anonymity offers the respondent to speak more open and freely. Bell and Bryman (2007) describe the importance of informed consent which means that researchers need to ensure that that consent of participating exists. Kvale and Brinkman (2014) argue that it is required to explain the purpose of the research to ensure that the respondents have the chance to consider the potential consequences of participating. The informed consent is established through explaining the purpose of our research. We acknowledge that informing participants of the purpose can have effects on the validity of responses. The anonymity may mitigate the potential invalidity in responses since the respondents can not be connected to the research and thus, speak more freely.

4 EMPIRICAL FINDINGS

The chapter covers the collected empirical material and is divided into three separate parts. It starts with an introduction covering the general information about the case bank and the organizational setting. The succeeding two parts are based on the retrieved answers from respondents seperated by in which function they operate in. The findings from AML-respondents are first presented followed by the findings from respondents within the business operation. The results are presented and structured according to the questionnaire. The empirical findings presented in this chapter are based on the conducted primary data collection in the form of interviews. The analysis and discussion of the empirical findings will be presented in the next chapter.

4.1 INTRODUCTION

The studied bank is one of the largest financial institutions within the Nordic region and is present in a large number of countries. The bank is offering general banking services together with other services such as wealth management, real estate, leasing services, life insurances, pensions, etc. Furthermore, it serves personal, business, Corporate and Institutional customers (C&I). The bank is considered one of the most systemically important banks within the Nordic region. In terms of governance structure, the Board of Directors has the overall responsibility for the strategic management of the bank. The Executive Management is responsible for the day to day operations, and the enacting on directives set by the Board of Directors.

The organizational setting for AML is divided into the three main segments of personal, business and C&I customers. For personal and business customers, a categorization is made into low, medium or high-risk segments based on certain parameters which determine the extent and frequency of the ongoing control. C&I customers are not classified since the nature of the business from an AML-perspective is considered high risk per se. The controlled parameters differ among customer segments since it is an distinct difference between larger corporates compared to single private customers. Parameters of interest may include foreign payments, politically exposed persons, region of operation, cash handling, owner structure, etc, that raise the risk of potential money laundering. The AML process constitutes both an initial control of new customers and the ongoing control of existing customers. The bank is according to the current legislation using a *three-lines of defense approach*. The *first line* consists of the centralized AML organization together with the decentralized business operation. The *second line* constitutes the compliance function and the *third line* is the internal audit function. The bank operates a global AML organization with country-specific presence together with national legal and compliance departments, that adapt internal directives locally, based on global and local regulatory requirements.

The AML organization is structured in a similar manner for personal and business customers but separated from each other. One part of the AML organization is responsible of the actual control of customers such as gathering information and follow-up on previously gathered information. This task is supported by the business operation were client managers need to provide the AML organization with requested and needed information. The contact with customers is conducted by both client managers and centrally from the AML organization. The AML process is based on "Know Your Customer" (KYC) standards that require Customer Due Diligence (CDD), which is the initial control when onboarding new customers and Ongoing Due Diligence (ODD), which constitutes the continuous control of customers. The CDD process and the ODD process are separated into different teams within the AML organization. The other part of the AML organization deals with processes and implementation of new directives mostly based on regulatory changes that require action. This part of the organization is in charge of releasing changes in operational practice and implement required actions. It is also responsible for educating the AML personnel in the regulatory interpretations that the compliance function has conducted. Local AML risk managers are present in each country that the bank is currently operating in. They focus on educating personnel in AML and regulatory interpretation and continuously support the business operation in AML related matters. Even though the business operation is included in the AML process, the most tasks directly connected to AML are conducted centrally within the AML organization. This is connected to that a significant portion of the AML activities includes continuous monitoring of customers.

C&I include the largest customers within the bank that usually have an international presence. The AML organization within C&I is fully global and serves all current countries. The rules, processes, and routines that C&I develop is valid for all countries. The AML organization within C&I is enacting on the internal directives set by the compliance department, and subsequently, develop adapted instructions for C&I and control that the customers meet the requirements. The AML organization within C&I has certain AML officers that deal with the communication with customers in AML-related matters. The separation from other parts of the AML organization is done to raise the level of professionalism when dealing with large corporations. The AML function does support C&I in business decisions that are connected to AML risk and conduct ongoing risk-assessments on customers.

The compliance function within the bank consists of employees with legal expertise, or other specialized knowledge in AML and has the overall responsibility of interpreting and complying with the current AML regulatory framework. Compliance is monitoring changes in regulation and provide the directives that the AML organization should implement that subsequently affect the business operation. Compliance is also responsible for controlling that the AML organization is operating according to the internal directives, which should ensure compliance with the current regulation. It should also ensure that the AML organization is able to develop routines and processes that are aligned with the current regulation. The compliance organization is operating globally but also has specific knowledge in local legislation.

4.2 EMPIRICAL FINDINGS AML RESPONDENTS

4.2.1 Regulatory and Public Pressure

The regulatory and public pressure is two-folded. Firstly, the legislation today places great demands on the bank and new regulations are being dealt with continuously, which requires that the bank has the resources available to be able to comply with the changing regulations. Secondly, the increased perceived public and regulatory pressure relates to the Nordic bank scandal crisis in the Baltic market. Respondent (R) 1 and R3 admit that although the regulations have grown in scope lately, they have certainly been in place for a long time, but Swedish banks have generally been poor at understanding the regulation's practical implications.

"The money laundering directives came in early, though I think the Nordic banks have been very late in applying them or getting to know what they actually meant in terms of both work effort and organizational impact" R1 AML Executive Personal Banking

Procedures for managing AML existed but was held on a very basic level. The Nordic bank scandal made the bank realize the consequence of not having an effective AML process together with the increased regulatory pressure. These factors are highlighted as the main reasons why AML has gained an increased authority and status within the organization. R4 emphasizes that, while other departments have stopped recruiting, the AML departments continue to hire new employees to enable compliance with the regulation. The problem is, rather, to find people with specific competence in AML.

Implementation of Regulation

Respondents within the AML function argue that the current risk-based approach of the regulation results in that the bank needs to decide how to conduct AML based on interpretations of the regulatory directives. R 1-5 consider that the regulation is challenging due to ongoing changes. Changes in the regulation affect the AML process significantly in terms of required updates of systems and processes. A large part of the AML process constitutes examining, identification and interpretation of changes in the directives which get organizational consequences.

"*The bank has not yet fully implemented the fifth regulatory directive and the sixth directive is almost finalized. You are always one step behind and constantly need to adapt processes and routines to new directives which is costly and may create frustration within the organization.*" - R4 AML Manager Implementation Business Banking, 2020

Furthermore, a common view among the AML-respondents refers to that the regulators lack the understanding of the practical consequences of the regulation and that a recurring issue relates to that the collaboration with the concerned authorities is inadequate. This results in a more demanding interpretation and adaption of the legislation. Particularly, R2, R4 and R5 highlight that the concerned authorities should undertake the role as a partner and contribute to discussions. The lack of collaboration between the bank and its regulatory stakeholders results in a large administrative burden that demands resources and is connected to high costs. R1 and R4 also emphasize that the bank experiences little collaboration between Nordic banks. When regulatory directives change, banks within the region interpret and choose to structure differently, which hamper efficiency and potential synergies. All AML-respondents agree that the present reputational, financial and operational risk has made the case bank and other Nordic banks very cautious with the regulatory pressure. This cautiousness leads to a deep fear of making mistakes. R4 stipulates that as a result of this uncertainty, inefficiency arises because of overworking and over-analyzing the regulation. The risk of not being compliant is so high that is regarded better to be on the safe side, thus leading to inefficiency as explained:

"If you are supposed to jump one meter, it is highly inefficient to jump 2 meters, since resources are lost on the way. This is the case in all major Nordic banks. The banks within the region is "going home" and conduct their own interpretations of the regulation with little to none collaboration. This is not efficient ." - R4 AML Manager Implementation Business Banking, 2020

Furthermore R1, R2, R3 and R4 also consider that this partly explains the frustration among customers. It is not uncommon that the customers have arrangements with different banks, and without collaboration, the banks end up requiring different information and ask different questions due the risk-based regulatory framework. This is identified as problematic and may create tension between the bank and its customers. R5 from C&I agrees that there are major differences in the required information from different banks, but that the international and large clients they work with are used to the AML process and to some extent understand that banks may require different information.

Perception of Transfer of Responsibility

The authorities have transferred a large responsibility in terms of detecting and reporting money laundering to the banks. All AML-respondents agree that banks should be responsible since they are the owner of the required information for conducting AML practice. The general perception is that the products and services that the bank provide are the central tools for laundering money, thus the question of liability comes naturally. However, they emphasise that a greater level of clarity in the regulatory directives is eligible. It is highlighted that the lack of support and collaboration with authorities makes it hard to shoulder the role of the law's extended arm which results in frustration and inefficiency. R1 emphasizes on the perceived frustration:

"I think that the regulators have made a quick-fix to the money laundering issue by pointing fingers towards the banks in these matters. If we are supposed to spend huge amounts of money to operate as the law's extended arm, then we should at least expect the authorities to be a discussing partner that has the resources to deal with what we are reporting." - R1 AML Executive Personal Banking

4.2.2 AML risk practices

Identified Risks

The overall risk with failing in mitigating money laundering is that criminal funds pass through the bank's system which subsequently results in that the current regulation is violated. The effects and connected risks to such events are widespread. The empirical findings show that all respondents within the AML organization raised that the legal risk is significant due to the high punitive damages that the bank face if AML legislation is violated. These fines can be imposed from both international and national legislators and be of significant magnitude which may result in severe monetary consequences. It is the shareholders that eventually need to pay, which is something the bank in all cases seeks to avoid. Furthermore, a real threat is the sanctions imposed by US legislators regarding USD-clearing explained by R1:

"Violating these legislations can jeopardize the bank's mere existence. The imposed sanctions, if the AML is regulation is violated are significant with noticeable monetary consequences. The potential risk of losing the USD clearing would be devastating since it is a central part of being able to operate an international bank." - R1 AML Executive Personal Banking

On a national level, respective authorities within the countries that the bank operates in can withdraw its bank charter. In practice, this would mean that the bank loses its right to provide its financial services, which eventually should result in the liquidation of operations in affected markets. The financial risk connected to violating AML legislation is two-folded and constitutes of the imposed fines by regulators together with the potential downturn in business, followed by reputational damage. The risk related to trust and reputation is present at all times as highlighted by all AML-respondents. The business model of a bank relies heavily on the trust of your customers. Failing in your risk-mitigation of money laundering gets direct reputational damage. The effects of a damaged reputation are that the bank loses its customers which results in direct financial consequences. Furthermore, when failing in the prevention of money laundering R1 and R2 acknowledged that the potential exposure of criminal money will be greater. Being naive in AML processes seeks the attention of criminals who aim to exploit these deficiencies. The historic level of naivety in the

Nordic region combined with next to non-existent AML processes and routines can partly explain why the Nordic bank sector recently has been affected as highlighted by R2:

"I guess that these recent issues stem a lot from the mentality in the Nordic countries. We trust people to a greater extent than other countries. For instance, I feel rather comfortable leaving my bike unlocked in my backyard. I do not believe a neighbour will snatch it. This is the mentality that has been present in the Nordic banking sector with regards to AML. This has resulted in severe consequences and I believe that this naivety has attracted criminals. " - R2 AML Manager Personal Banking

The empirical findings also outline that operational and process-related risks connected to AML exist. R1, R2, R4, and R5 implied that the regulation itself creates rather hard conditions to conduct AML. The regulatory pressure and ongoing changes in the regulation make it hard to on an ongoing basis have processes that is aligned and compliant with the regulation. Regulatory changes require system updates and education of employees. The time-lag between a change and the full implementation is significant. Furthermore, R2 and R4 argued that since the thorough work with AML started a few years back within the Nordic region, employees have not yet accumulated sufficient experience. The AML legislation is complex and employees may lack the legal background required to conduct AML in a sophisticated manner. The level of competence is central to ensure a secure AML process, and the lack of AML specific knowledge within the organization poses a major operational risk. The present struggle with implementing the imposed regulation together with rather low competence levels pose a threat to enable efficient mitigation of money laundering, which subsequently can harm the bank's reputation and financial situation.

AML Risk Measurement

The bank emphasizes the importance of acknowledging and act upon AML risk. As mentioned by all AML respondents, the current public and regulatory pressure have put AML as a top priority within the bank. Internal and external communication by country Chief Executive Officers (CEO) and the group CEO is focused on that AML should be central in the bank's business model and strategy. The bank's strategy is called "Priority 0" with the goal of having no criminal customers and no events of money laundering. To achieve the strategy, the bank needs to be totally compliant with legislation, which practically means that everyone within the organization needs to contribute. Providing processes, guidelines, and control is centralized within the AML and compliance function, but all employees must always act according to the internal AML directives.

The AML process relies heavily on measurability due to the large number of customers and the vast amount of information that the bank is required to gather. The AML risk-rating model used for classifying customers as either low, medium or high risk, is based on a scoring system. Parameters and aspects that need to be controlled are included in the internal AML directives based on regulatory requirements. The scoring system is built on highly standardized fact-based information and parameters that determine the risk-classification. R4 stipulates that the AML risk assessment of customers should always be supported by standardized system-generated information. For ODD, the bank uses a system that observe customer's behavior, thus identifying what is considered normal behavior for individual customers. Deviations from normal patterns result in warnings from the system, or that the risk-classification of the customer is increased. It is rather complex, automated and sophisticated systems that conduct transaction monitoring which identifies the deviations. When warnings occur, the bank needs to follow-up and investigate the reasons behind the change and determine if the transaction should be considered normal or suspect. If considered suspect, a Suspicious Activity Report (SARS) is established. The risk scoring system and the transaction monitoring system is mainly handled centrally within the AML organization. The systems are fundamental in monitoring the AML risk. For low-risk customers, the whole AML process is standardized and mechanical with little to none human intervention.

The current legislation provides a so-called risk-based approach that is required by the bank to adopt. The regulation explains that you should know the customers and their business. The practicalities of doing so are to a great extent left to the bank to decide. The bank uses its internal AML systems and decided parameters to review the large bulk of customers. Respondents from the AML functions emphasize that central AML systems may not mitigate AML risk entirely. R5 summarizes this:

"*Certain aspects are not possible to measure, such as human behavior and highly advanced business arrangements. The client manager's and employee's long-term experience in the business organization is essential to identify and question suspect behavior among customers. Employees facing customers pose an important role in AML risk management practice since they own important information in terms of knowing the customers, and may easier identify deviations from standard behavior.* R5- AML Manager Corporate & Institutions

Furthermore, for complicated AML issues or clarifications, client managers are to a great extent involved. A present struggle constitutes that the methods of laundering money are constantly changing. Employees that work with clients face these methods, and their experience is needed to detect such activities. A general conception among the AML respondents exists that the centralized knowledge within the compliance and AML functions, combined with business knowledge contributes to effective mitigation of AML risk.

"We have different knowledge in the AML organization and the business operation. I believe that the knowledge that we have built centrally regarding AML together with the customer knowledge that exists within the business operation is essential and something valuable." - R3 AML Manager Business Banking

Changing Perceptions of Risk

Previously, the bank focused almost solely on credit-risk, ie the potential loss when customers are not able to meet its loan and contractual obligations. Credit risk is important today as well when evaluating present and new customers. A good credit score results in an appetite for the bank to provide loans and other credits, which is central in making profits. All respondents from the different AML functions consider that the big difference today is that a poor classification from an AML risk perspective is substantial and could result in that the bank neglect the potential new customer or close current customer's arrangements. The AML risk is to a large extent included in the general analysis and risk-assessment of customers which adds another dimension to the customer's risk profile.

"Assessment of credit risk has been central for a long time in terms of customer's risk-profile and AML risk is today to a greater extent included. Clients need to be creditworthy together with fulfilling the AML-requirements. We look at the total risk of the customer and if it is not plausible, we reject or block customers."- R2 AML Manager Personal Banking

Ownership of AML risk

Theoretically, R4 and R5 argued that the highest responsible for AML within the entire organization is executive management together with the board of directors. The Nordic bank scandal has highlighted this since many senior executives have been held accountable when money laundering activities have been detected. Senior executives are responsible for the bank's overall strategy which includes AML prevention measures. R2, R4, and R5 also discussed that the AML strategy also outlines that all employees within the bank need to contribute to mitigating AML risk and this is the formal way of looking at the ownership of AML risk within the bank.

The empirical research highlights that the respondents had diverse perceptions in terms of whom within the organization that practically owns the AML risk. R2, R3 and R4 argued that the ownership is divided between the compliance, AML function, and the business operation. Compliance is responsible to ensure that the bank complies with AML regulation which is primarily done through the interpretation of a regulation that is transcribed in internal directives. The AML organization needs to align processes according to these directives and conduct large parts of the AML control. The control of customers together with internal quality controls that the AML organization conducts is central in managing the AML risk. The AML organization owns processes and routines which eventually affect the business operation. A large part of the overall process is centralized within the compliance and AML function which respondents argued poses partial ownership of the risk.

"In my opinion, all employees have a responsibility for these questions. Defining whom that actually owns the risk is hard. It is a complex question. I mean the client managers have the responsibility for their customers and AML risk is a customer-specific risk. On the other hand, the competence within AML is rather centralized within AML and compliance. I think that we have a common responsibility." -R2 AML Manager Personal Banking

Furthermore, the bank has decentralized ownership of the customers. All respondents agree that the business operation and client managers have the utmost responsibility for their customers. R1 claims that AML risk is directly connected to customer activity, which per se, results in that the business operation should be responsible for AML risk. R1 and R5 consider that the business operations required involvement in the AML process and the ownership of the customers results in the final ownership of AML risk. The business operation can for instance, disregard recommendations provided by the AML organization. In practice, this means that if the business operation and AML organization disagree, the business operation may through decisions made by senior executives, still onboard or keep customers that the AML organization recommends declining services. This is highlighted as an uncommon situation but the final saying or decision is made within the executive management within the certain business segment. In these cases, the AML organization disclaims all responsibility.

"Even though compliance has the task to ensure that we are compliant, which the AML organization enacts on, customer-related risks are always owned by client managers and the overall business organization. I consider that this directly results in that they also have the final ownership of AML risk." - R1 AML Executive Personal Banking

R2 and R4 argue that this view may be inappropriate, due to that the specialized competence in AML is centralized within the compliance and AML function. The perception of practical ownership of risk is for several respondents within the AML function considered hard to grasp since it is dependent on situation-specific parameters. For clients that have little to no contact with client managers, the AML process is solely conducted within the AML organization. For clients with advanced arrangements, the client manager takes a more active role in the AML process. The level of engagement in the AML process from the different parts of the organization is situation-specific but does not change the underlying perception that the business operation has the utmost responsibility for its customers.

4.2.3 Organization and Governance

Accountability

Accountability stretches up to executive management when mistakes are made in the AML process. This has been the case within several Nordic banks when systemic deficiencies have been identified. Organizational accountability is somewhat situation specific due to when mistakes are made in the process. R1, R4 and R5 describes that the compliance function needs to conduct correct interpretations of the regulation since it permeates the entire AML process. The AML organization and the business operation can not be held accountable for inaccurate interpretations. Furthermore, large parts of the process are centralized, and the AML organization is responsible for retrieving minimum required information according to determined interpretations of the regulation. If this internal control is inadequate in terms of failing procedures and processes, the AML organization is held accountable since it should uphold the overall internal quality of the AML process. In such cases, client managers are not involved or responsible since the mistake is centralized within the AML organization. It is the client manager's responsibility to ensure that the customers provide the required information. R4 summarizes the practical process:

The centralized AML organization may have direct contact with the customers, but for larger clients or more advanced arrangements, the client managers are more involved to secure a good service towards the customers. The client managers are responsible for providing the required information for conducting a review of the AML risk. Mistakes and the followed accountability may occur centrally and in those cases we are accountable. But the client-managers should be accountable when customers do not meet the established requirements and the fault is not located centrally. - R4 AML Implementation Manager Business Banking

The majority of the AML respondents argue that the client managers should be accountable and has the final accountability when customers do not fulfill current AML parameters. Respondents that work within the AML organization emphasized that even though client managers are educated in AML, the deep knowledge is centralized within the compliance and AML functions. They argued that the accountability question is problematic, since the business operation has the final accountability, despite not being specialized in AML specific risks. The present and common view that the bank undertakes is that risks related to customers are always the business operation to be accountable for.

Organizational Implications

The AML organization of the bank has seen a drastic change in a relatively short period of time. This is both in terms of the number of personnel and investments made. For instance, customer welcoming, the department of the bank that is responsible for conducting KYC and ODD on new corporate customers had five people employed prior to the Nordic bank scandal. Today, they employ over 100 persons only in their division. The same pattern can be seen in the AML organization as a whole. R5 who has been working with AML full time since 2007 explains:

"When I started working on this (AML), I was basically alone in the whole bank and now there are probably over 1000 people working with it." R5 AML Manager C&I

Because of the extensive requirements imposed on the banks regarding the collection of information and documentation, the AML function considers that the requirements are too extensive to be managed in isolation within the business operation. R1, R2, R3, R4, and R5 agrees that a centralized AML organization is required to manage and monitor the regulations. It is viewed as a prerequisite for ensuring that the organization can quickly adapt to new requirements and regulations but also be able to work uniformly throughout the organization. However, R1 emphasizes there must be room for different national interpretations as the rules differ between countries. Further, R5, mentions that the growing AML functions cause new dilemmas for the bank. With more people involved, inertia within the AML organization is perceived when it comes to implementing new regulations and processes.

"Since the requirements are so great, we are so many who work on this, and sometimes it is more difficult to implement the requirements, that the legislation sets, quickly. There are so many people involved to be educated, but at the same time it is a priority area within the banks so it is prioritized." R5 AML Manager C&I

Proactive work is necessary in order to achieve effective implementation of new regulations. In addition to increased human knowledge, new systems and processes must be developed to meet regulatory changes. R2 explains that in the bank this is achieved through close cooperation between the AML and compliance side. The compliance unit is responsible for collecting and interpreting rule changes while the AML organization is responsible for implementing the new regulations. R2 explains the importance of the close collaboration with the compliance department:

"It is great because now we can work proactively. It was not like that in the beginning. At that time it was a little more like "just so you know, the regulations have changed and its start from tomorrow". This meant that the implementation was not good at all. One should bear in mind that changes do not only affect human knowledge, we also have systems that are adapted to certain parameters. Changing these parameters means that we have to make system changes etc. which can take time, so it really is important to work proactively."-R2 AML Manager Personal Banking

AML and its Implication for Decision-making

R1, R2, R3, R4, and R5 considers that the AML organization today has an increased authority within the bank. They recognize that the bank realizes the consequences of now having a well-functioning AML process and therefore view the AML organization as highly prioritized. The AML organization has also been given greater responsibility in terms of decision making. There are exceptions, but in general, the decision to onboard a new customer is taken centrally separated from the business side. However, R4 tells us that there are cases when the bank chooses to onboard a new customer and accept some "higher" risk, even if the central AML department advises against it. This only applies in exceptional cases and is not something that occurs on a daily basis.

Another aspect highlighted by R3 is that from the bank's point of view, the centralization and to some extent separation of decision rights protects the bank from any biases that might come as a result of the client manager being too focused on pleasing the customer and conducting business, and therefore do not carry out required controls thoroughly enough. In the business operation, you might be satisfied with roughly understanding what client argues if you personally feel that the answer is valid. But in AML there is no room for such gray zones, and you really have to understand the customer's finances and the financial flows.

4.2.4 Value Creation

The respondents within the AML function acknowledge that the resources required to uphold an efficient AML process are enormous in terms of head-counts and investments. Firstly, R1 argues that activities related to AML constitute new significant cost-items that need to be covered and that unfortunately results in a cost carried by the customers.

Furthermore despite the high costs, R2, R3, R4 and R5 identify that there is organizational value-creation in the AML process. The process requires a thorough understanding of customers business together with a methodic and standardized aggregation of customer information. The more detailed information is considered a valuable resource from a business perspective. Information that previously was unavailable since you did not have any reason to ask certain questions, is now naturally available and contribute to an enhancement of understanding customers. R2 and R3 argued that the AML process is specifically valuable in the onboarding process of customers since it provides the business operation with information that can be used for examining business opportunities. More information results in a deeper understanding of customers needs and how they aim to make use of the bank's services. This makes it easier to adapt and tailor solutions to the customers.

"Client managers should take the time to analyze the retrieved information in the AML process since it is valuable information that can support substantiate business opportunities. You will to a greater extent understand the full picture of the customer which will be valuable in the long-term perspective. The required deeper information about our customers will also make us as a bank feel safer with our customers and that we do not have any crooks in our system." - AML Manager Business Banking

4.2.5 AML and Business Efficiency

The AML process is often perceived as frustrating for the business side as it delays and complicates the way business is done. For instance, R4, explains that the AML function has the authority to centrally block customers which creates friction between the AML organization and the business operation. The AML respondents experience that the business operation understands the importance of AML related questions. It is therefore important to a greater extent include internal stakeholders and create a fruitful dialogue to reduce tensions related to faults in terms of information sharing. R3 argue that ideally, one should work in the regular banking business to get experience on how to handle customers, get to know the customer flows and value chains before starting to work directly with AML. Thus, if not handled in an efficient and professional way, information-gathering can affect the relationship with customers negatively, which subsequently affect the opportunities to conduct business in the long run. The potential tensions with customers may result in internal tensions between the AML organization and the business operation.

Today there is, in general, a greater understanding among the customers that the bank has to ask these questions but friction still exists. The understanding is perceived differently in the bank's different customer segments. For personal customers, aspects such as age, access to IT infrastructure or how long time they have been customers of the bank affect the attitude to provide required information. A large portion of personal customers mainly conduct their daily banking activities online. The information sharing is easier for such customers and reduce the level of agitation. There is perceived differences for corporate clients as well. Larger corporates with a more established and well developed economy function tend to have a better understanding and can more easily produce the required information and documents, while smaller family- and private owned corporates are not as familiar with the procedure. For the largest corporations in the bank, i.e. the C&I customers, the client managers are supported by centralized AML officers that are included in the client team. The corporations within this segment tend to be international and is experienced with current AML legislation. They have standardized procedures to provide required documentation, so the potential tensions from the AML process for these clients are considered low.

Thus, to find a way to be able to conduct efficient business and still comply with the AML directives is the million-dollar question and is something that the bank has worked and still works with. The process of streamlining the process is shown in several ways. For example, R5 explains that every business segment has its own AML-unit. This is because it is not possible to have the same solution or the same questions for all customers. It is important that the customers understand why the questions are being asked and why they are relevant. Questions and processes need to be adapted to the characteristics of the customers.

"We cannot have the same solution or the same questions that we ask for all customers. There is a big difference between a small company or a large listed company. It is very important for the customer to understand why we ask about certain things, and then it becomes very strange if we ask questions that are not adapted to the customer's business." R5 AML Manager C&I

Furthermore, R3 mentions that som efficiency loss will probably occur. For instance, corporates who actually are legitimate and honest can be affected by the extensive onboarding process. They may be denied arrangements because they have a too complicated organizational structure, complicated cash flows, or anything else that makes the bank unable to ensure that they understand their business. This is highlighted as an efficiency loss both for the bank but also from a societal point of view.

4.3 EMPIRICAL FINDINGS BUSINESS RESPONDENTS

4.3.1 Regulatory and Public Pressure

R6-R9 from the business operation emphasizes that the Nordic bank scandal has resulted in public and regulatory pressure that affects conducting business. It increases the demand for examining customers, especially for customers operating internationally or in certain sectors. The current regulation requires client managers together with AML to ask much more direct and concrete questions to customers. This was not done before to the same extent. As discussed under *AML Risk Measurement*, the regulation itself shifts the focus of risk-assessment of customers. The previously rather narrow credit-risk focus is now widened which results in a much deeper analysis of customers. R7 stipulates how the business side of the bank is affected by the regulation:

"The regulation requires that we know our customers and how the ownership is structured. We need to investigate and follow-up. It is today a core aspect to understand the customer's arrangements, payment-flows, etc. The regulation certainly requires us to obtain an in-depth knowledge of our customer and their business. " - R7 Executive within Business Banking

Implementation of Regulation

R9 explains that the regulation does not only outline that they should report actual money laundering, they also need to motivate and clarify cases were legitimate business is taking place.

"Just because clients are active in Russia or Balticum, it does not mean per se, that they are affiliated with money laundering. In one sense it does not matter if it is criminal activity or not, the bank is always responsible for describing and motivate its clients and its business." - R9 Client Relationship Manager

Furthermore, R6 and R8 explain that the regulation results in internal directives that affect the business operation significantly. The AML question was actualized previously but has intensified. The regulation affects the work-flow towards customers. R8 also problematizes regarding that the regulation itself changes on an ongoing basis which has been problematic:

"The constant changes in the regulation which affect the internal directives have really been a challenge. These changes get direct consequences when conducting business at the local branches. Previously, these changes could happen on a monthly or even daily basis due to the challenge of interpreting the regulation centrally. This made it rather confusing because one

AML-routine was fine one week but not the other. This was frustrating but I think we are more agile organizationally now, mainly as a result of that we organizationally work in the same direction now due to better widespread competence than before to meet the demands of the current regulation. ” - R8 Branch Manager Business Banking

Perception of Transfer of Responsibility

The respondents within the business operation argue that it is valid that banks should be responsible for monitoring, detecting and reporting money laundering. However, the task requires a large commitment and is considered to be isolated from the AML prevention measures conducted by the current authorities. R6, in particular, argues that the authorities lack the resources to monitor AML-related activities, which results in that they push the responsibility to banks.

”If banks are supposed to do this effort, we should at least expect them to put the resource and efforts required to follow-up and prosecute the cases we report.”- R6 Manager within Private Banking

4.3.2 AML Risk Practises

Identified Risks

All respondents within the business operation R6-R9 argue that the most present risk with not mitigating AML risk is connected to reputation and trust and the financial losses connected to losing the trust of customers. R7 describes the importance of having a good reputation:

“Corporations, in general, rely heavily on their brand and reputation. This is valid for banks as well. If we aim to survive and continue to do business, it is essential that customers perceive that the bank is connected to good values.”- R7 Executive within Business Banking

R7 also emphasized that the potential exposure of criminal funds will be greater when having deficient AML procedures since criminals will identify and exploit this. R8 argued that the financial losses as a result of a damaged reputation can be of enormous proportions even though it is impossible to be 100% protected. AML is complex and there will always be people and businesses that try to exploit the financial system.

“*The risk connected to trust and reputation is central in AML because trust is the core in conducting business with clients. Several Nordic banks have learned the hard way in these questions and it gets devastating consequences in terms of trust and reputation. It is not possible to be 100% protected from money laundering activities. Human mistakes are present in the overall AML process but systematic errors must never be accepted. The challenge poses in that small mistakes in the process can result in severe consequences that harm reputation and trust ”* - R8 Branch Manager Business Banking

R6 and R8 raised that the naivety in the Nordic region has been central for explaining the current bank-scandal, which has started the process of identifying and working with AML risk in a more sophisticated manner. The ambition of fast growth in certain markets has been top-priority for Nordic banks which poses a risk itself. When expanding to new regions and markets, it is of great importance to understand the possibilities of securing a sophisticated AML process locally. Some regions and countries do not have the same resources, legal frameworks or infrastructure to support a valid AML process that raises the risk related to AML. Furthermore, R8 also raises that there exists process-related risk. The AML process itself requires a significant amount of resources in terms of employees with the correct competence. This can pose a problem since banks to a large extent have emptied the market of personnel with AML specific competence. This has and still poses a threat to the integrity of the AML process which increases the process-related risk.

AML Risk Measurement

The respondents within the business operation explain that they are involved and that their customer experience is an important part of the AML process. Client managers are more involved in complicated AML related cases. Client managers are in such cases involved in retrieving required information and have an ongoing dialogue with the AML organization and the customer. In these cases, the customer experience of client managers is essential to support the centralized AML organization. R6, R8 and R9 consider that a large part of the general AML process is standardized and centralized, mainly through internal systems focusing on parameters such as volumes or abnormalities connected to the customer's risk profile. R6 argues that the business operations knowledge and experience about customers and their activities are most valuable in the on-boarding process of customers and at the beginning of a customer relationship. The follow-up and continuous monitoring of customers are rather standardized and centralized within the AML organization. R7 argues that customer-experience is essential to discover and question suspicious activities. This is hard to do centrally within the AML organization. Furthermore, R7 and R8 consider that the combination of having employees that are specialized in interpreting and complying with regulation, relying on standardized systems together with business experienced employees mitigate AML risk.

Changing Perceptions of Risk

The respondents from the business operation consider that AML is to a greater extent included in the overall risk assessment for individual customers today compared to just a few years back. The required initial analysis and information from an AML perspective are determining if a business relationship may be established. The previous rather narrow focus on credits has shifted and a deeper risk assessment of customers is conducted. R9 argues that AML-risk just as other "new" risks such as sustainability-related are closely connected to credit-risk. R7 further explains the current customer risk assessment:

"We need to make sure that the business opportunity is sound from both an AML perspective and a credit-risk perspective. We even include risks connected to sustainability today when assessing the current business of clients. It is a whole other level of information gathering that we did not do before" R7 Executive within Business Banking

Furthermore, the focus on finding profitable business opportunities is still a top priority, but the AML risk significantly affects the business mindset due to the large negative consequences the bank face if not able to mitigate this risk. The deeper analysis and new ways of approaching the total risk of the customers have had significant impacts on the business organization. It is argued by the respondents within the business operation that the need for gathering more detailed information about the customer's activity to support the deeper risk-assessment, affects current business-decisions. Client managers and analysts may today come to other conclusions than before since other parameters than pure financial are included in the risk assessment. The combined AML risk and credit risk assessment is considered central for establishing long-term customer relationships as presented by R8:

"*Even though the focus on risks related to credit is central today, the AML assessment adds another dimension to the customer's overall risk profile. The combined AML risk and credit risk assessment are vital for establishing long-term customer relationships. This may result in business decisions that take another turn than what it should have done in the past.* " -R8 Branch Manager Business Banking

Ownership of AML Risk

Dispersed opinions exist among respondents within the business operation regarding the question of ownership of the AML risk. R7 and R8 claim that it is the business operation that is the final owner of AML risk. Client managers are responsible for their customers and that the bank is retrieving the required information and fulfill the current AML directives. The respondents highlighted that indeed, they are not the experts in questions related to AML but have the utmost responsibility since AML risk is directly connected to customer activity. Centrally located specific competence is important to uphold an efficient AML process together with supporting client managers in its AML related activities. R8 argues that the AML functions should operate as the bank's "auditor" in these questions and be responsible for the overall quality in the process, while client managers and the business organization as a whole is responsible for the client and subsequently the AML risk. It is also acknowledged that if they disagree with the AML organization, they may override central decisions and undertake full responsibility.

We cannot neglect that we have the utmost responsibility for our clients and hide behind that AML is not our area of expertise. We have responsibility for our clients. It is as simple as that. - R8 Branch Manager Business Banking

R6 is not sharing the straightforward opinion that the business operation owns the AML risk and considers that AML together with compliance finally owns the risk. Compliance is conducting the interpretations of the regulation and AML implements AML procedures based on the internal directives. If the business operation does not fulfill the requirements, actions need to be undertaken to make sure that directives are followed. R6 explains:

I would say that compliance and AML own the risk. The actual enactment of the AML risk is pushed to the business operation and if we do not comply, they will point that out and we need to do something about it." - R6 Manager within Private Banking

R9 is not depicting a clear view on the ownership of risk and argues that it is a shared ownership between compliance, the AML organization and the business operation and that you rather own certain aspects related to processes of the full AML risk.

4.3.3 Organization and Governance

Accountability

The respondents within the business operation consider that client managers are always accountable for activities related to customers. The question of accountability is considered closely connected to the ownership of risk, but that faults in the overall AML process may occur in different stages in the process, which affects whom within the organization that should be accountable. Risks connected to AML other than centrally made mistakes in interpretations of processes end up as the client manager's responsibility and accountability. R8 explains:

"We are more used and comfortable in dealing with AML risk today than we were before in the business operation. We have the responsibility for our customers, thus we should also be accountable for faults related to our customers." - R8 Branch Manager Business Banking

Organizational Implications

Firstly R6, R7, R8 and R9 recognize that there has been a centralization of the AML process and that it is necessary in order to achieve efficiency in the AML work. R7 mentions that it would be impossible for client managers that work in the local branches to undertake full responsibility to uphold an efficient AML process. In order to gather information and ensure an even and sufficient level of AML procedures throughout the organization, a centralized AML organization is needed.

"To get efficiency and get a good structure on this, it needs to be centralized and so does the employer I' work for now. We have our own AML unit that only works with the Swedish Private Banking customers, the customer flow goes through them." R6 Manager within Private Banking

Though, the new regulations and directives also have a significant impact on the business organization. R6, R7, R8, and R9 highlight the KYC process and the ODD process as major consequences that have arisen from recent AML regulations. Even if dealt with centrally, the information gathering process takes a lot of time from the front line personnel.

"On new customers, there are basically A4 pages running text with information, sampling is done continuously and we have an (AML) person who is only dedicated to our entire customer base and who sits with the advisors weekly and goes through the customers. So there is no lack of resources or (AML) work on the customer base. It is a very extensive work linked to our customers." R6 Manager within Private Banking

Furthermore, all respondents mention the comprehensive documentation that is required to ensure compliance with the regulation as the biggest change that AML has brought about in their professional role. People are different skilled at documenting which sometimes leads to that the information is insufficient and what actually is sufficient documentation has not always been clear. R8 finds that there have been different requirements for what is required from one time to another. R8 considers that this is linked to the fact that the bank itself has had to start from scratch with these questions and that the bank is and has been in a learning process. But in general, R8 thinks it has progressed lately and that there is a better process flow today.

AML and its Implication for Decision-making

The centralization of the AML process has also had an effect on the decision rights regarding customers. Although the final decision right remains on the business side, the AML organization is involved to a large extent. Thus, the decisions right has not been reduced but it has been pushed aside. The centralization of the AML- process means that some decisions that were previously made locally in the business operation, are now conducted at a central level. As a responsible client manager, this contributes to that decision regarding your clients or prospect ends up beyond your control which from the business side is described as frustrating. R8 explains:

"It should be added that in general, AML and compliance have an incredibly large influence on how a bank is run today, so even though we do not lose decision-making right over the customers, AML and compliance units indirectly reflects how we handle customers." - R8 Branch Manager Business Banking

R6 describes it as a constant struggle between the AML unit and the business unit. There is an understanding but at the same time a frustration as it may not be perceived as necessary because they feel that they have sufficient knowledge about their customers without intervention from the AML organization. R9 does not share this view that it creates frustration and explains that the AML side has gained authority which affects decision-making but that for C&I clients, the employees working with AML are somewhat included in the client team.

4.3.4 Value Creation

The AML process is demanding resources and is connected to high costs and the empirical findings show opinions of varying character within the business operation in terms of value-creation within the AML process. Firstly, R6 claims that it is hard to see value creation from a financial perspective.

"*I must say that I find it hard to see this as value-creating from a financial statement perspective. In the long-term, this may get positive financial effects since it is a trust-based business we operate in. But I would say that this is more about survival rather than value-creation in terms of positive impact on the financial statement. We need to comply, it is a must-do.* - R6 Manager within Private Banking

R7 emphasized on the importance of societal value in the long-term and that banks fulfill an important function in society through helping businesses to grow. AML procedures mitigate criminal activities and are central for banks to fulfill their gatekeeping role in the financial system.

"The most significant creation of value as a result of the AML process is connected to societal value. A firm and efficient AML process should result in that less criminal money gets laundered, which in the long-term should make it very difficult to launder criminal proceeds. This should reduce the incentives to engage in criminal activities which is good from a societal perspective." - R7 Executive within Business Banking

R8 claims that the AML process allows client managers to ask more detailed and thorough questions, which provides information that may be valuable from a business perspective but it may take time from other value-creating activities. This information was not available before to the same extent because you did not have any legal reason to ask such questions. Today, clients are obliged to provide information regarding questions that the bank needs to ask from an AML perspective.

"*The imposed regulation requires us to in a more examining manner, focus, and understand the client's business-model and whom they are doing business with. Detailed required information from an AML perspective may be valuable from a business perspective as well. But in my opinion, the time spent on these questions is definitely taking the time that we could spend on more value-creating activities. So yes, there is value-creation in the process but it may be at the cost of other activities."* - R8 Branch Manager Business Banking

Furthermore, R9 argues that the AML process is costly and that the formal version is that the vast information-gathering should result in an infinite number of business opportunities. The respondent is skeptical regarding this but acknowledges that it is value-creating to have more information about your customers.

"The value-creation that comes out of it is certainly not of gigantic proportions but it is always good to have more aggregated information about your clients"- R9 Client Relationship Manager C&I

4.3.5 AML and Business Efficiency

The increased regulatory pressure affects the bank's way of conducting business with customers in several aspects and there are contradictions between the AML organization and the business organization arising from this change. First, it affects the need for resources and the cost level. Funds that are currently being spent on AML management and development is money that previously could be spent on activities that are considered more value-creating for customers. As highlighted previously, if handled the correct way, the AML process could lead to value creation since the bank gets more knowledge about its customers and thus can offer more tailor-made solutions and see new business opportunities. This is a view that is not fully established within the business organization. Only one out of the respondents from the business side, R8, named this as an opportunity arising from the extensive AML work.

Furthermore, even if it is managed centrally, it takes a lot of time from the business side as they have to ask questions and gather information from the customers. R6, R7, R8, and R9 experience that the requirements in terms of documentation are huge and that it will continue to be until a reasonable level of required documentation is achieved. The business side of the bank has not been involved in the development of the AML process and solely acts upon the decided internal directives. The ongoing changes in the internal directives are perceived as rather problematic and decrease the efficiency in terms of the time they need to spend on AML related matters. This affects the efficiency of conducting business with clients, as R7 explains when asked if the business becomes more ineffective as a consequence of the internal AML directives:

"We conduct business, we trust each other. We have one of the world's most efficient banking systems in Sweden (...) In the US for example, where they are not as effective, they do not trust each other and it may be naive to do so but it goes slower when you do not trust each other so it automatically becomes slower". - R7 Executive within Business Banking

Another aspect highlighted by R8 is to ask the questions in the correct way. Customers must be able to keep their integrity while at the same time the bank requires extensive information. The correct way to ask questions varies depending on which customer you ask and how they view their relationship with the bank. R8 considers it important to have people with business and customer knowledge on both sides, i.e. on both the business and AML side, to mitigate this tension.

"It is imperative to get people with experience and customer expertise into the AML process. You can not just hire people from other industries or recent graduates. It does not work and does not become effective. There must be an understanding

of customer flows and value chains and that you can not ask exactly same questions to customers. It does not create credibility between the customer and the bank" - R8 Branch Manager Business Banking

R6, R7, and R8 argue that the frictions between the units are palpable in the onboarding process of customers. Client managers are requesting this part of the process to be fast and agile to provide a qualitative initial service to new customers, but it is also a highly important and resource-demanding part of the AML process. Client managers and AML officers may have a different view of what constitutes a reasonable lead-time. Tensions in this stage are tried to be mitigated through dialogue and prioritizations. R9 agrees that the on-boarding process and all processes towards customers must be efficient, but really large clients are used to that matters related to AML takes time. These clients are usually customers in several banks and understand that banks may require different information and that it is required according to the regulation. This reduces the potential conflict with clients that subsequently reduces the internal conflict between the business operation and the AML side.

Another issue that may increase potential tensions between the different units, is that the AML and business functions have different objectives. The AML organization's priority is to secure a prominent AML process. The business operation also emphasizes the importance of having customers that are not involved in money laundering activities. But the overall objective for the business operation is to conduct business that generates income and the reduced pace as a result of the required intervention from the AML function may create organizational tension in specific situations. R8 highlights that when there is a discussion about customers between the business and AML organization, problems sometimes arise due to the lack of competence in the AML organization or to some extent communication deficiencies. It simply becomes too complicated for AML employees to understand the business perspective which complicates the opportunities for an efficient process.

"It is difficult if you have never worked for a customer and understand what a transaction means and it was probably a giant journey for the bank to ensure sufficient competence and experience. Today we see that people who have historically worked for customers now work within the AML organization, which of course contributes to an important perspective by understanding the business and what processes etc. actually mean in practice" R8 - Branch Manager Business Banking

R6 and R8 also mention another aspect of this aspect which is that the ongoing conflict between AML and the business organization might be necessary from an AML perspective. R8 tells us that there is always a risk that you as a customer manager will end up "too close" to the customer and end up in a dependent position. You might not be aware that you end up in such situations but it can happen if you work very closely with customers. R8 explains that this is certainly not a situation to strive for, especially not from an AML perspective. The intense AML process and the ongoing conflict between the AML organization and the business operation naturally mitigate these situations.

5 ANALYSIS AND DISCUSSION

The chapter presented below will analyze and elaborate on the most important findings from the empirical result. The analysis will link the theoretical framework to the result of the study. The chapter is structured by first analyzing and discussing the result from institutional and competing logics theory with distinct connections to the organizational implications. Analysis directly connected to risk management theory is then presented.

5.1 UNCERTAINTY AS A RESULT OF A SLOW INSTITUTIONALIZATION PROCESS

The institutionalization of an organization and its incorporation of institutional rules affect the formal structure to fit the institutional environment, thus leading to homogeneity among organizations as a response to reduce uncertainty (Meyer & Rowan, 1977; Beckert, 1999). Drawing on the sources of isomorphism described by DiMaggio and Powell (1983), a coercive pressure exists taking the form of a rather complicated and strongly enforced regulation and to some extent the experienced public pressure. In general, coercive forces tend to form the ground for an institutionalization process based on the concept of isomorphism, which results in that organizations structure and react in a similar manner. The result implies in several ways that the institutionalization process concerning the imposed regulation and public pressure is slow. First of all, respondents emphasised that the constant change in the regulation creates an ongoing ”state of flux”, uncertainty regarding what should be done, and the establishment of required action or direction. The present uncertainty catalyzes the enormous machinery of employees working directly with AML and compliance to adapt the organization to changing directives. This demands vast resources and is connected to previously not experienced costs. Furthermore, another aspect that makes the institutionalization process slow is related to that little to none collaboration with enforcing authorities and other banks seems to occur which respondents highlighted as something to strive for. The result indicates that minor interest exists among the authorities to guide the bank in what actions need to take place in order to fulfill the requirements of the regulation. Respondents from both the AML and business organization shed light on that current forums and arenas of discussion for the Nordic banks, have not proven successful in sharing experiences and establish a ground for collaboration in process-related issues of AML. This results in that the case bank and other banks within the region tackle the constant status of change in a heterogeneous manner. This creates room for inefficiency and a pattern of overworking required actions with the imposed AML regulation due to uncertainty. A visible example of this is that customers with arrangements in different banks may be required to provide different information with little alignment between the banks. We identify that the lack of support and collaboration raise the level of uncertainty within the organization. The apparent slow institutionalization process in the Nordic banking industry is not contributing to a harmonization that may reduce the level of uncertainty within the bank. It hampers potential synergies and reduces efficiency. The empirical findings also suggest not only that the constant changes in the regulation are problematic. The risk-based approach of the regulation that the enforcing authorities have undertaken also poses a problem. The always present interpretation aspect of the regulation raises the level of uncertainty which feeds the pattern of overworking AML because the fear of making a mistake in the process is evident. The risk and consequences of violating the legislation are considered so severe that it is always better to be on the ”safe” side.

The combination of a slow institutionalization process, changes in regulation, together with the regulation’s rather open setting of interpretation and implementation raises the level of uncertainty that contributes to that the bank experiences a resource-demanding and costly AML process.

5.1.1 Homogenization to Reduce Uncertainty

Liss and Sharman (2015) concluded that homogeneity has been promoted in terms of investments in AML infrastructure to support a valid and secure AML process. A strong coercive pressure exists, but the result implies that clarity in interpretation and communication shows weak tendencies, which are not currently fostering what might be considered a healthy institutionalization of processes and activities connected to AML. The organizational homogeneity as a result of institutional pressures described by Meyer and Rowan (1977) and the concept of isomorphism explained by DiMaggio and Powell (1983) do not seem to be strongly present in the industry’s strive to tackle the imposed AML regulation and the managing of AML risk. We do not seek to determine or assess if obtaining homogeneity through institutionalization in general, should be considered great or poor from a business perspective. But referring to Beckert (1999) that argues that the institutionalization process should reduce uncertainty, and that the empirical findings show that the high level of uncertainty is the central aspect of the problematization of the AML process, should advocate actions that enhance the institutionalization process. Furthermore, the choice of deviating from the institutional environment if possible, thus undertaking actions in a heterogeneous manner is usually connected to the rationale of making decisions to achieve certain strategic goals. (Child, 1972; Wheelen & Hunger, 1992; Vanberg, 1994). We argue that this presumption of deviating from the institutional setting and operating heterogeneously should be put in a competitive context implying that it is indeed valid when an organization aims to attain competitive advantages. The result indicates that few competitive advantages may be obtained in the AML process. Instead, the uncertainty surrounding the AML process is considered stressful and result in costs and the expenditure of resources. These aspects should increase the incentive of enhancing the institutionalization process to obtain homogenization rather than establishing heterogeneous conditions that nevertheless is not essential to achieve goals through the attainment of competitive advantages.

The main aspect related to this reasoning is connected to that AML risk must be considered different compared to several other types of risks. Especially in terms of that the banks should not choose a certain level of AML risk. The risk should be mitigated to the possible extent to avoid violating the imposed regulation. As emphasized by DiMaggio and Powell (1983), the homogenization of organizations does not necessarily lead to increased performance or efficiency. For risks such as credit risk or propriety risks, there may be business incentives to manage it differently. For instance, a risk-rating model may under certain circumstances be superior to another, which motivates the managing of that risk differently to others. In terms of organizational structure, an organization can strategically choose to structure differently to obtain competitive advantages. In relation to AML, there should be few competitive advantages other than being cost-efficient and at the same time uphold a secure AML process, which we assume that all banks within the Nordic region strive for. This favors potential industry homogenization. In addition, all Nordic banks should want to reduce money laundering as the result identified that it harms the financial system. In our research, the result indicates that inefficiency and the large demand in resources connected to managing AML risk stem from the weak tendencies of interpretation and communication, that could be bridged through greater collaboration between banks and with enforcing authorities. The inefficiencies in the AML process and the connected high costs should advocate and incentivize collaboration which could foster a more intense institutionalization process.

Furthermore, an almost total transfer of responsibility to banks has taken place in the struggle in combating money laundering due to the bank's ownership of required information to detect and disclose money laundering. The transfer of responsibility creates a need for observing and implementing the current regulation (Alexander, 2001; De wit, 2007; Verhage, 2011). In relation to this, all respondents agreed that indeed it is valid that the bank should be responsible for monitoring, detecting, and reporting money laundering. The task itself does not seem to be the issue. Instead, the respondents emphasized that the lack of collaboration between banks, guidelines, change in regulation and conducting AML preventive measures in isolation from authorities, is central in explaining the struggle of interpretation and implementation of the regulation. In addition to this, the result indicates that the bank is not necessarily protectionistic in terms of how to conduct AML, which may stem from that the bank only has conducted extensive AML preventive measures since the recent Nordic bank scandal. This implies that a more supportive and active regulatory body would be well received. For AML, a regulatory framework that is easier to interpret seems to be requested. A deficient dialogue with the regulators together with the struggle of interpretation to find a sufficient level to legally comply, raise the level of uncertainty. The AML regulation, the current coercive source of isomorphism as outlined by DiMaggio and Powell (1983) is not weak itself, but more supportation from the regulatory bodies could accelerate the institutionalization process, thus contributing to institutional stability. In contrast to regulatory intervention that occasionally is met with skepticism, the issue at stake does not depend upon the bank's unwillingness to comply or adapt. It may be the case that it is easier for regulators to undertake a rather "vague" approach, transferring the practicalities to the bank, compared to providing regulatory support. The result disclosed that the regulatory authorities seem to lack the resources to follow-up on reported suspicious money laundering. In relation to this, the required resources to understand the complex organizational challenges within Nordic banks should be vast for regulators to enable a more supportive process. Regulators should need to be a part of what we argue would be a valuable institutionalization process, but the currently available resources within the authorities do not point to a direction of change.

The extensive work with AML is rather new in the case bank and in Nordic banks in general, which may explain why the institutionalization process is slow. It is evident that common actions, collaboration, and dialogue together with regulatory support/or improvement, can create conditions under which clarification and homogeneity can be achieved, that should reduce the identified uncertainty, loss in synergies, and resources.

5.2 MANAGING CONFLICTING LOGICS

The empirical findings suggest that the imposed regulation creates an immense pressure and demand in processes to support AML activities. All respondents in the research argued that the time spent on AML related activities has practically exploded in the last couple of years. Longer lead-times and an extensive documentation requirement create friction between the AML organization and the business operation. The frictions usually stem from that customers demand efficient and agile services, which the AML process in some cases hamper. The common objectives in the organization are to uphold a secure AML process together with being efficient and profitable. Even so, it is evident that being business efficient and conducting AML may pose two different logics that are not always compatible, i.e. they conflict with each other. The occasional incompatibility constitutes that the business operation's priority is to conduct profitable business while the AML organization is responsible for upholding AML quality. Drawing on institutional logic theory by Friedland and Alford's (1985) and the further developed concept of multiple logics presented by Thornton and Ocasio (1999), we identify how the case bank tries to manage these present conflicting logics.

Institutional theorists argue that organizations have multiple logics and later studies suggest that these logics may exist simultaneously over a longer period of time (Thornton & Ocasio, 1999). From this emerges the question of whether these logics are compatible or incompatible with each other (Carlsson-Wall, Kraus & Messner, 2016). Drawing on Carlsson-Wall et. al (2016) and Reay & Hinings (2009) studies we identify that there exist two logics, i.e. the business- and AML logic, that at times are incompatible with each other. On the one hand, the bank seeks to be efficient towards customers and be profitable, and on the other hand, the bank always needs to be compliant with the current AML legislation. This creates tension between the two logics and the organization must decide how to deal and manage these two competing and at times conflicting logics. From the empirical material, we identify what we choose to call a *forced merger* between the AML logic and the business logic which is described in detail below. As a result of the regulation, there is no room for neglecting AML which makes the AML logic as prevalent as the business logic. It was not until after the crisis that the bank realized the actual impact of the AML regulation and the severe consequences of the risk connected to violating it.

Relating to Carlsson-Wall et.al (2016) three different ways exist to manage the tension between logics. The case bank has gone from a situation that can be described as *decoupling.* The business logic was dominant in the past and even though AML practices existed it was very brief and basic in nature. Bromley and Powell (2012) refers to decoupling as showing regulators that you comply on a symbolic level rather than practical. As highlighted by several respondents, the actual AML function constituted not even a minor fraction of the current organization in the years prior the Nordic bank scandal. This indicates, that the bank was in the past steered by the dominant business logic and that AML preventive measures were kept at a symbolic level. The step of moving from managing the two logics in a decoupled setting were AML activities engaged a small number of employees, to conduct an AML process involving thousands of employees, distinctly illustrate the immense changing impacts of a crisis, and the effects of a strong coercive and public pressure. The last 4-5 years have seen a dramatic change and the situation today is challenging to describe using the framework provided by Carlsson-Wall et.al (2016). Even though we identify that the AML logic has grown in importance, the business logic is certainly not held on a symbolic level, hence *decoupling* does not do it justice in describing how the bank manages the two logics. *Structural differentiation* means that an organization should be divided into different subunits, each of which can act independently and according to the requirements of "their" institutional logic (Carlsson-Wall et.al, 2016). This is true to some extent, the AML unit has more focus on the AML logic and vice versa but both sides of the organization highlight the importance of having people with knowledge in both areas. Especially the business units see it as almost a prerequisite to have people with business- and customer knowledge in the AML organization to ensure an efficient process. Therefore one can not say that they work independently from each others logics. This finding partially corresponds with the study provided by Reay & Hinings (2009), in the way that they have separate units that to a large extent operate independently but towards a common goal. The goal of mitigating money laundering is prioritized in both the AML- and business unit. Though, in contrast to what Reay & Hinings (2009) propose, our findings show the importance of having an understanding and knowledge concerning the two logics within both the AML- and business units. The overall outcome of AML and conducting business is better when a mutual understanding of the two logics exist. Furthermore, *compromising*, i.e. giving up the possibility to fully adhere to a specific logic in order to partly fulfill the demands of the other (Carlsson-Wall et al, 2016), might be the term that not exactly, but best describes how they deal with the two logics. The previously soley dominant business logic was fully adhered with little influence from AML preventive measures. For instance, the onboarding processes of customers were not time-consuming due to that the level of documentation and controls were low. Today, the general public and regulatory pressure have changed the bank's perception of AML leading to a situation of a *forced merger* between the logics. This is evident in the sense that the services provided to customers today are not as agile and flexible as before, due to the extensive requirement of information and documentation. The definition of compromising to manage different logics that Carlsson-Wall et al. (2016) describe rely on giving up a possibility to fully adhere to a specific logic in order to *partly* fulfill the demands of another. Managing the two logics, in this case, relies on negotiation of two logics that today is considered of equal importance. It would be impossible to give up on one of the two logics. The bank's priority is still to be profitable and at the same time compliant. We identify that this is a negotiation were the AML logic is usually favoured. The result discloses that the business operation in specific cases may overturn decisions made by the AML organization, which may indicate that the bank is not fully adhering to the AML logic, thus constituting the type of compromise described by Carlsson-Wall et al. (2016). This was argued to be very unique and only occurred in specific cases. We identify that this is as so unusual that it is not representative of the actual way they manage the tension between the two logics. Thus, the situation can rather be described as a *forced merger,* were both logics prevail but were the AML logic is commonly favoured.

We identify that as a result of the Nordic bank scandal, the AML logic is today to a greater extent prioritized together with the business logic. Conducting profitable business and at the same being compliant with AML regulation are considered two core activities within the bank.. The potential conflict between the two logics are dealt with in a manner of negotiation. The recent adherence to the AML logic has had direct organizational implications affecting the overall business operation in terms of not being able to serve its customers in the same flexible manner as before.

5.2.1 How does the Bank Ensure Adherence to the AML Logic?

To manage the increasing regulatory environment, the bank has centralized the AML process which is in line with the findings of Wahlström (2009) and Prorokowski and Prorokowski (2014), which argue that imposed regulation usually requires a certain level of centralization. Relating to Wahlström (2009), Jönsson (1995), and Wallander (1999) all our respondents agree that a centralized AML function is required to be able to quickly adapt and implement, new regulations. The regulations are constantly changing and it would require too much time and effort to be able to share this new knowledge throughout the entire organization. Drawing on Andrews et al, (2009), the centralization of the AML processes together with the increased focus on AML throughout the organization has resulted in that the AML unit has gained an increased authority within the organization. The level of centralization is determined by the hierarchy of authority and the participation in decision making which has an impact on the distribution of power (Carter and Cullen, 1984; Glisson and Martin 1980; Hage and Aiken, 1967). The result suggests that almost total centralization of the AML process has occurred constituting of the AML and compliance organization. The business operation has not been involved in developing work procedures and seemingly lacks the possibility to influence the AML process. The distribution of power concerning AML and interpretation of the regulation is deeply centralized. This has had an effect on decision rights. Decisions have not entirely moved upwards in the organization, i.e. the business operation has not lost the ownership of its customers. Instead, the decision making power has moved sideways leading to that that decisions regarding clients and prospects are deeply influenced by AML measures and may end up beyond your control and sometimes cause delays. The AML function's increased organizational authority certainly imbue decisions connected to customers. Within the business operation, this is described as understandable but at the same time frustrating. Relating to Bamberger (2006), the imposed regulations have required the organization to allocate decision rights that maximize utility and efficiency for both the AML and the business units. In other words, the main question is how to manage and maximize utility and efficiency for both the AML- and business logic. A trade-off exists and it is is most obvious in monetary terms. Investments made in AML processes is money that could have been spent on business operations and vice versa. For instance, when the business operations has not been allowed to hire more personnel, the AML organization continues to hire which is a clear signal of prioritization made after the Nordic bank scandal. Though, this trade-off is also visible in the way they organize and conduct business. For AML efficiency, this separation of decision rights that is described above protects the bank from any biases that might come as a result of the client manager being too focused on pleasing the customer and conducting business and therefore do not conduct sufficient AML controls. In addition, the AML organization has the final saying in many cases and together with the banks priority zero vision it leaves no room but to adhere to the AML logic.

In light of this, the AML regulations inevitably have a negative impact on the business logic since it inhibits business efficiency. The most prominent example is that honest customers might be denied arrangements if the AML unit does not understand the financial flows, owner schemes, or if they have a too complicated organizational structure. But this efficiency loss is also visible on a daily basis. The more demanding KYC and ODD processes are major changes that stems from the recent AML regulations that cause disruptions for the bank. It is a costly, tedious, and time-consuming procedure (Geiger, 2007; KPMG 2014; Verhage, 2011). The result suggests that the internal tensions and the conflict in logics commonly stem from the external relationships with customers that are affected by the AML process. Actively monitoring customers and the need for retrieving extensive information on a regular basis can affect the relationships with customers negatively (Masciandaro & Filotto, 2001; Martin et l., 2009). It is therefore of value to ask only questions that are of relevance to the customer, unnecessary or obvious questions are the most prominent source of irritation among the customers. In a way to streamline this process and mitigate this tension, the bank has chosen to allocate a separate AML unit for each business segment. Though, in addition, to ask the *right questions,* it is important to ask the question the *right way.* Customers view their relationship with their bank differently and it is important to understand how they view their relationship with the bank in order to raise questions in a respectful manner that allows the customer to keep their integrity. This is identified as something that can be hard without any customer experience or knowledge. Thus, to have employees with business knowledge in the AML unit, and vice versa is central to be able to mitigate potential tensions that arise between the two units as a result of negatively affected customers. This has been a challenge for the bank. The last 4-5 years' focus on AML among Swedish banks has left the labor market in imbalance resulting in that a lot of the newly employed are graduates without the sufficient customer experience. Therefore, the last couple of years is and has been a learning phase for the whole bank regarding how to approach, interact, and evaluate customers. This is essential to reduce tensions between the bank and customers which should reduce internal frictions between the business operation and the AML organization.

Imposed regulations also have an impact on accountability, ie whom within the organization that can be held accountable for mistakes made (Bamberger, 2006). Both the business and AML-unit considers that the business unit should be held accountable for activities related to customers. But in practical terms, the question of who should be held accountable is not that one-dimensional. The compliance unit is responsible for interpreting and gather information about new regulations. Once they have done that it is up to the AML organization to implement the regulations within the bank. Other than that, risks connected to AML, apart from centrally made mistakes in interpretations of processes, end up as the client manager's responsibility. The client managers are held accountable for providing the required information and for ensuring that customers meet the requirements. The concept of accountability relies on operational involvement and decision-making. The power and scope determine the extent that employees can affect decision making (Cornwall et al., 2002; Lenssen et al, 2010; Money and Schepers, 2007). Furthermore, Bamberger (2006) argues that organizations allocate decision power in assessing and managing risk in which they are accountable for. The business organization only support the AML process, and seemingly lack the ability to influence the AML process due to the strongly centralized setting. The actual control is conducted in the AML organization. Even so, the business organization is mainly accountable as a result of the nature of AML risk. The risk is directly connected to customers. Concerning the presented theory, it is interesting to notice that the power and scope in the process are centralized, while the connected accountability is decentralized, which raise questions regarding if it is adequate that employees that are not specialized in

AML, should be held accountable if the process fail. In the end, the business operation only enacts on the centrally provided directives.

5.3 FROM "*OSTRICH POLICY*" TO TOP PRIORITY

Change in risk management practices often occurs as a response to failure. Earlier processes connected to extensive risk-taking are commonly changed or replaced. Desired change may be steered by regulation and through organization's acknowledgment of stricter controls of employee's behavior in connection to risk (Mikes, 2011; Schlich and Prybylski, 2009; Soin and Collies, 2013). The AML regulation itself is not a new phenomenon, in fact it was established in the year of 1990 (EU 2018/1673). Despite this, the focus in AML within the case bank and other Nordic banks has previously not been prioritized. The recent Nordic bank scandal has led to a large focus on the societal issue of money laundering and has negatively affected the trust in the Nordic financial system. The scandal has created media coverage and negative publicity that caused a public pressure which fostered an evident change in the managing of AML risk within the bank. All respondents acknowledge this change, and that it has had organizational impacts in terms of newly established functions and stricter controls. The AML process is today embedded in the bank's processes and way of conducting business. The change that the bank has undertaken concerning AML, exemplifies the impact of a crisis and public pressure, but also that the regulation itself was not sufficient to ensure desirable organizational behavior, which should constitute the overall goal with regulative intervention.

Furthermore, the recent scandal seems to have raised the awareness of the actual risk of being exposed to money laundering. The empirical findings bring up several angles of understanding risks connected to AML on an aggregated level. The definition of operational risk provided by the Basel Committee (2005) "*the risk of losses that stem from issues connected to systems, internal controls, people and external events*" is embracing the totality of AML risk. The bank tries, through extensive processes mitigate the chance of violating the regulation that may result in punitive damages or the loss of its bank charter, which could have serious financial consequences. Furthermore, it is also emphasized that allowing "*dirty money*" into the bank's financial system harms the bank's reputation. The link between being associated with money laundering and a damaged reputation is palpable and negative reputational effects may well transfer into direct financial risk (Bergström & Helgesson, 2011; Sturm 2013). The reputation of involved banks in the Nordic bank scandal has been damaged. Even though aspects connected to legal, financial, and operational risk are identified as important, the reputational aspect of AML risk is acknowledged as central and should be protected. As emphasized by respondents from the business operation, the fundamental parameter of conducting business is trust, which connects to Fiordelisi, Soana & Scwizer (2014) that argue that trust is the most valuable asset within a bank. We consider that the desired protection of the trust of customers and the bank's reputation is the major force that has fostered the dramatic change in the AML risk practice, which has evolved to a rather sophisticated and advanced process. The importance of proper AML routines seems to have been neglected in the past while it today, is considered a top-priority that imbue all parts of the bank.

5.3.1 Navigating in the Risk Management Landscape

The result implies that a change in the perception of risk has taken place recently. The previously narrow focus on credit risk has shifted to include risk connected to money laundering and other ”new” risks such as those connected to sustainability. Other parameters are today considered that have steered the risk assessment to in a sense evaluating the total risk of the customer. As argued by Power (2007), risk management has evolved and focused on more risk categories which seem to be the case when assessing risks connected to customers. Schlich and Prybylski (2009) argue that crises foster change and the ability to identify, monitor, and control risk from a broader view should be central in supporting organizational decision-making. Even though there is no obvious or evident total integration of AML risk and credit risk, the result implies that the two risks are considered closely connected. AML risk has in the shadow of the recent Nordic bank scandal received attention and is considered important in the process of assessing customers.

Drawing on the framework provided by Mikes (2009), we have identified that the bank's current AML risk management practice is rather difficult to connect to one of the four described ideal risk management practices. But Mikes (2009) argues that systematic variations of the four ideal types are common and exist in the financial industry. The AML risk management practice shows risk silo tendencies, in the sense that the compliance and AML procedures are managed centrally with the support of the business operation. Bugalla and Navarez (2014) argue that this allows in a specialized manner to manage risk in particular business units. The results suggest that the choice of centralizing the management of AML risk has been crucial to be able to comply with changes in regulation and the vast information that needs to be gathered and analyzed. Mikes (2009) further emphasize that holistic risk management focuses on the inclusion of non-quantifiable risks into the risk management framework that considers the risk of the firm in its entirety, i.e. the avoidance of risk silos. AML risk shows both quantifiable and non-quantifiable characteristics in the sense that the actual risk management practice relies heavily on aggregating quantifiable information to support decision-making. On the other hand, an evident aspect of managing AML risk is related to decentralized human judgment, experience, and knowledge about customers. We identify what Mikes (2009) defines as the risk management mix, as a combination of dealing with AML risk in a risk-silo manner combined with a somewhat holistic view of risks related to customers. The result suggested that AML risk affects decision-making. Decisions that previously relied heavily on credit risk, are today to a greater extent influenced by aspects connected to AML. The empirical findings imply that the bank could come to different conclusions today in terms of business decisions when evaluating the totality of the profile of the customer. This shows that the bank in a more sophisticated and holistic manner assess risks connected to customers than was previously done before, even though the actual managing, control, and monitoring of the AML risk occurs in a centralized setting. This change is palpable as a response to the recent Nordic bank scandal.

5.3.2 Comprehending AML Risk Culture

The level of risk-taking, organizational structure, and internal controls is determining an organization's risk culture. Regulators strive to balance the risk control and risk-taking within financial institutions. The current strive for balance and the subsequent regulatory pressure may require more audible and standardized internal processes (Bozeman & Kingsley, Sahlin-Andersson & Engwall, 2002; Palermo, Power & Ashby, 2017). The recent centralization and rise in the number of employees working directly with AML are direct consequences of the strive to reduce the AML risk to a possible extent. The level of promotion of risk-taking as described by Bozeman & Kingsley (1998) stipulates that the organization itself chooses its current risk culture. Indeed, this may be valid for risks related to credit-risk or proprietary risk but the empirical findings suggest that AML risk is somewhat different and unique. The imposed regulation and its risk-based approach allow the case bank to develop own processes and activities that should align with the regulation which could pose developing its own risk culture with regards to AML risk. An identified difference is that the direct risk of money laundering, managing criminal proceeds, thus violating AML regulation must always be kept at the lowest level. Concerning AML risk, no phenomenon such as the promotion of risk-taking exists. The case bank upholds what is called ”Priority 0”, i.e. no cases of money laundering should occur and we identify that the current ”risk culture” with regards to AML is to organizationally structure, invest in processes and human capital to enable the lowest possible risk.

Furthermore, the risk culture gets practical implications for how an organization deal with risk management activities. The calculative cultures, i.e. being quantitative skeptical or quantitative enthusiasts determine the fit between organizational context and the managing of risk. This constitutes the level of the computational role of the risk management technique (Power, 2007; Mikes, 2009). A general result from the empirical findings constitutes that the managing of AML risk relies heavily on measurability because of the large number of customers and the required information gathering. This measurability and assessment of AML risk should be supported by the standardized system generated information. It is also highlighted from respondents in both the AML organization and the business operation that an important aspect of the risk management of AML is the level of customer and business experience. Customer experience and knowledge about customer arrangements pose an important part in discovering and questioning suspicious activities. The combination of centralized processes with decentralized knowledge about customers consisting of human judgement, constitutes the risk management technique and enables compliance with regulation and the mitigation of AML risk. The rather narrow description of being either quantitative skeptical or enthusiastic provided by Mikes (2009, 2011) may not be appropriate to explain the general risk management technique used to manage AML risk in the case bank. The computational role is important, but not self-chosen. It is required to gather all the necessary information to support decision-making and fulfil the requirements in the regulation. Drawing on business experience and intuition also plays an important role in the mitigation of AML risk. It is hard to determine if the case bank is either quantitative enthusiastic or skeptical. A combined approach seems to be the path the bank is undertaking to deal with AML risk which may be explained by the nature of the risk itself. Bhimani (2003) emphasizes that the success of the control system depends on the alignment of the cultural premise and the control system itself. The cultural premise for this risk is ”Priority 0” and to enable that, the case bank needs to rely on a control system based on a high level of measurability together with business and customer experience which allows a certain level of human judgement.

5.3.3 Is it Possible to Achieve Something Valuable of the AML Process?

Compliance as part of risk management is seldom translated into value creation (Broome et al, 2013; Hunley, 2013). Articles and reports published in the field point to that costs have been burdensome and have not been proportionate in terms of costs and effort. This has resulted in that financial institutions must make a trade-off in time and resources among goals that go beyond what is required to comply with the regulation (Geiger, 2007; Kaplan & Mikes, 2016; KPMG, 2014). Concerning this, the result implies that the required resources required to uphold a secure and efficient AML process are enormous both in terms of the number of employees and in investments. Despite the emphasized issue in terms of costs and required resources, respondents from the AML organization acknowledged that value-creating activities exist in the process. The identified value-creating aspects are mainly connected to that the regulation requires the bank to know its customers and in more detail understand customer arrangements. The regulation enables the bank to ask questions that they could not ask before, which consists of valuable information that can support business decisions. This is consistent with Tsingou (2018) and de Goede (2011), that outline that AML compliance steered by regulation focuses on assessing and mitigating risk in the form of deeper knowledge about customers and its business relationships. This should result in a financial institution's ability to assess customer risk. The result indicates that the enhancement of customer information and subsequent customer profiling as a result of an extensive AML process is to some extent considered a valuable resource. Furthermore, only one of the respondents from the business operation brought up the value-creating aspects of AML and a common perception exists that the AML process is reducing the available time spent on other value-creating activities. This implies that the view of the value-creating aspects of AML is not widely recognized and shared within the different functions.

The identified holistically influenced assessment of risk indicates that a shift in moving towards assessing the total risk of the customers has occurred. This together with the partial result of the value-creating aspects of having a coerced AML process in terms of a required larger flow of information, may favor a closer integration, or support between decentralized credit risk assessment and AML assessment. The result implies that the bank has started to think in what Mikes (2009) defines as holistic patterns of including risks other than pure financial when evaluating customers. It is also noticed that a deeper level of information, especially information connected to AML does today support and influence decision-making. It is described that change in risk management practices often occurs as a response to failures, and historic principles of managing risk have not been sufficient to mitigate failure (Mikes, 2011; Soin & Collier, 2013). The fact that the bank acknowledges that a more inclusive assessment of customer risk is conducted points to a current change in managing customer risk. The result suggests that the change stems from the Nordic bank scandal. The current change together with that the business operation lack to identify the value creation in the process may advocate managing AML and credit risk in a more integrated manner. Collectively acknowledging and exploring potential value-creating aspects should contribute to mitigating internal frictions between the AML and business organization. Having a sophisticated AML process is required by the regulation and provides at least some valuable resources that the bank should use to enhance current procedures. The business operation is already to some extent included in the AML process by providing documentation and most importantly knowing their customers. The larger access to useful information should create a strive for greater collaboration between the credit and AML process, by understanding how the two separate processes respectively can enhance each other and result in desirable synergies. It is evident that much of the information that the bank is required to gather, according to the regulation should be valuable when assessing credit risk. The empirical findings suggest that the business organization does not fully utilize the information gathered in the AML process. Deeper information about ownership, organizational structure, foreign arrangements, etc, should enhance the overall ability to conduct a firm credit assessment which must be in the interest of client managers and the business operation as a whole. Vice versa, the knowledge, and information that the credit assessment requires might be considered valuable from an AML-perspective. For instance, a poor credit score may under certain circumstances be regarded as connected to high AML risk. The result implies that the bank has a long experience in credit assessment, an experience that may prove to be useful when implementing current AML procedures.

6 CONCLUSION

In the final chapter, we present our main findings and answer the research question. This is followed by the contributions of the research and the proposal for future research.

In the introduction of the study, we presented the research question: *How do the intensified public and regulatory environment affect risk management practices and governance structures, and what does it mean in terms of organizing, allocating responsibilities, and establishing priorities?* The purpose of the study has further been to understand how the public and regulatory environment affect how a Nordic bank conducts risk management practices and organize to mitigate risks connected to violating AML legislation. We also seek to explain the consequences in terms of achieving both business- and compliance objectives. The previous chapter provided an in-debt analysis of the empirical findings in relation to theory, which has resulted in general empirical conclusions that contribute to the purpose of the research and should answer the research question. The AML legislation is definitely not new but the focus in AML within the Nordic region and in the case bank was insufficient prior to the Nordic bank scandal. The risk-based approach and ongoing changes in the regulation raise the level of experienced uncertainty. The risks connected to violating the regulation are considered so severe, that a pattern of overworking AML is occurring that stems from the uncertainty which results in inefficiency, lack of synergies, and high costs. The slow institutionalization process seems to impede an efficient AML process and stems from a vague regulation together with the lack of collaboration between Nordic banks. With regard to the struggle in implementing AML preventive measures, we have come to the conclusion that homogenization achieved through greater collaboration between Nordic banks, and a more supportive regulatory body would contribute to institutional stability which can create conditions for a more efficient AML process. The rather vague regulation, the apparent lack of resources within the regulatory authorities together with the lack of supportation leaves no explanation for how to practically manage AML risk, which feeds the pattern of overworking AML. Furthermore, the result implies that the bank thinks it is valid that they should be responsible for monitoring, detecting, and reporting money laundering. In addition to this, there are no signs of protectionism in terms of how to conduct AML and few competitive advantages to achieve. These factors should contribute to conditions under which we consider a ”healthy” institutionalization process can be established. We have identified that the AML process is currently connected to the loss in synergies and resources due to experienced uncertainty. In relation to these disclosed issues, we show that institutionalization towards harmonization may have a functional role in mitigating uncertainty. A more intense institutionalization process ought to be experienced positively within the bank, which adds to previous research of institutional pressure on banks.

It is further observed that the common objectives of being efficient and profitable together with upholding a secure AML process are not always compatible. The AML process is time-consuming and occasionally interferes with the business organization's ability to conduct business in an agile and efficient manner. We deem that the immense pressure related to AML has shifted the priorities within the bank. To manage the conflict between AML and conducting business, we identify what we call a *forced merger*, an ongoing negotiation were the AML logic is usually favoured. The results show that, in specific cases, the business operations may overturn decisions made by the AML organization, which may indicate that the bank is not fully adhering to the AML logic, thus constituting the type of compromise described by Carlsson-Wall et al. (2016). We argue that this is so uncommon that it would not be representative for the way that they actually manage the tension between the AML- and business logic. Therefore, the situation can rather be described as a *forced merger*. Both logics prevail but the AML logic is commonly favoured amongst the two logics.

The main reason for this prioritization relates to that AML preventive measures are required by the law but also that the Nordic bank scandal has shed light on the issue of money laundering. We consider that the noticed change in the managing of AML risk is a striking example of the vast impact crisis may have on risk management practices. The current regulation is not new, but it was not until after the Nordic bank scandal that AML got the bank's full attention and is now imbuing all aspects of its actions and processes. A crisis was required to shift the bank's adherence to the AML logic. As discussed by several researchers, centralization is required to adapt to and implement regulative directives (Jönsson, 1995; Wahlström, 2009, Prorokowski & Prorokowski, 2014). The centralization has been vital to ensure adherence to the AML logic. The control and overall responsibility for the AML process are centralized, but the business organization is still held accountable since AML risk is considered directly connected to the activities of customers. Furthermore, the centralization has had a significant effect on decision rights and the distribution of power. Decisions have not entirely moved upwards in the organization, i.e. the business organization has not lost the ownership of its customers. Instead, a shift sideways can be identified, meaning that decisions regarding clients are today deeply influenced by the AML organization, which leads us to the conclusion that AML has gained organizational authority. It is evident that the bank has undergone a major change, moving from sticking the head in the sand and pretending that it rains, to operating a machinery of sophisticated AML preventive measures to manage AML risk. The organizational and governance impacts of this change have proven significant. The focus in AML has in one sense changed the bank from within and is today considered the number one priority. This change is best constituted in terms of investments and the number of employees that work directly with AML or is affected by the managing of AML risk.

We find that an immense regulative AML pressure together with a public pressure exists that has resulted in the described organizational machinery which should catalyze the mitigation of AML risk. An important aspect of the risk management practice connected to money laundering lays in the fact that the risk is different in nature compared to other types of risk. The bank cannot choose a certain level of risk, which implies that AML preventive measures need to ensure full compliance with the regulation. The risks associated with violating the legislation have been evident after the recent Nordic bank scandal, which initiated the vast work with establishing an AML risk management process. Another evident finding relates to that the current risk-based regulation has been identified as challenging which raises the level of uncertainty but also allows the bank to form its own practice of managing AML risk. The result indicated that the required flow of information together with the ongoing monitoring of customers result in large investments in both human and physical capital. The large need for gathering customer information results in that the bank relies heavily on measurability. We identify that the computational role of the risk management technique is central in managing AML risk within the bank. The result also outlined the importance of customer and business experience. The combination of centralized processes together with decentralized customer knowledge constitutes the cornerstones of the AML risk management system. The requirement of aggregating quantifiable information constitutes what Mikes (2009) defines as dealing with risk in a risk-silo manner, but the result also discloses that the bank undertakes a broad view when assessing customer risk. The bank does today in a more holistic manner assess the totality of customer risk than was done prior to the Nordic bank scandal. The managing of AML risk is to some extent translated into value creation in terms of that more information about customers can support business decisions. The coerced AML regulation is not optional neither temporary and the bank has the chance to create value from something coerced. There should be incentives to enhance credit and AML processes by evaluating what synergies can be achieved by exploring a greater level of integration or collaboration between the two processes.

6.1 CONTRIBUTIONS

The study provides some interesting theoretical contributions. In relation to relevant theory in the field of risk management, the study distinctly exemplifies that the nature of risk can vary and gets practical organizational implications. AML risk has proven to show both qualitative and quantitative tendencies which add to and confirm the research provided by Mikes (2009; 2011) that explains that holistic views when assessing risk are starting to be adopted in banks. Another important contribution relates to that it may be hard to adopt risk management theory in a confirmatory manner when trying to explain a certain risk management practice. AML risk has been identified to be different in nature compared to other types of risks in the sense that the bank should not choose a certain risk-level due that the managing of the risk is coerced. This gets practical implications when established theories are used to analyse the current practise. For instance, the framework provided by Carlsson-Wall et al (2016) may not capture the full managing of conflicting logics related to this specific risk. The reality is not as black and white as theory sometimes constitute. Instead, we have put relevant theories in a context of human and organizational experience in the search for new knowledge. The study shows that under an interpretivist paradigm, new knowledge can be attained and add insights to current theory. This type of research in a risk management context should be considered as valuable as for instance, research focusing in quantitatively describing risk models. It supplements quantitative theory with the human perspective of risk management. Furthermore, the presumption of that crisis foster change in risk management practices is strongly supported in our research. The research also exemplifies the strong connection between managing risk and governance structures in terms of how the bank chooses to organizationally structure to secure an efficient management of AML risk. The research further shows how competing logic theory is an useful approach to explain how an organization prioritizes and to understand the concept of organizational change. The study enacts on the institutional theory which contributes to explaining how institutionalization in certain settings, may be desirable when few competitive advantages can be achieved through operating heterogeneously.

The research further presents several practical implications. It provides regulators with an understanding of the regulations from the perspective of the bank. It gives an insight into the practical implications of the regulation. This could provide feedback for future improvements of the current regulatory body or provide operational guidance for current authorities in order to achieve a more efficient AML procedure. Further, it shows the importance of a well functioning regulatory body that has time and resources to investigate the vast majority of the suspected money laundering cases that are reported by the banks. Knowing reported cases are investigated thoroughly would work as a signaling effect towards the bank and provide an extra sense of meaningfulness in their work with AML, thus reducing symbolic preventive measures. Internally for the bank, the study shows the importance of broad organizational knowledge in order to manage and handle both the AML and the business logic. The employees must understand the different aspects of the bank. It is a challenge for the bank to find competent employees to the AML organization since the demand in resources has increased so rapidly. We argue that establishing a trainee program focused on AML could, therefore, be a good approach to provide new employees working with AML the sufficient competences and experiences to enable a holistic understanding of the bank. Furthermore, based on the empirical findings in connection to the value-creating aspects of AML, we suggest that the bank investigates how to fully capture the value of the inevitable increased flow of information from the AML process to enhance other customer-related processes.

6.2 PROPOSALS FOR FUTURE RESEARCH

We believe that there are a number of interesting aspects to investigate further relating to AML risk management, regulation and implementation. Research on AML has gained increased interest because of the distinct impact it has on banks and the overall uncertainty associated with AML. Our study suggests that this uncertainty stems from a regulatory framework that leaves several aspects open for interpretation, together with a low level of collaboration and knowledge sharing between the bank and the regulator. Drawing on this study, future research could examine how the regulatory framework can be adjusted to reduce uncertainty and incentivize a deeper level of cooperation and exchange of knowledge between the banks and regulators. Furthermore, banks within the Nordic region have in the past collaborated in a number of process-related matters. Swedish examples consist of the payment service SWISH and Bank ID. The previous successful common projects, advocate deeper collaboration in the field of AML to ensure efficiency and reduce uncertainty.

We acknowledge that our research consists of a single case study within one Nordic bank which leaves little room for comparison between different banks. It would be of interest to understand, on a macro level, how the implementations of the regulations and the view on the regulation differ between banks. Moreover, the case bank was significantly affected by Nordic bank scandal in the Baltic market which became the starting point for both the bank's investments in- and changing perception of AML and risks connected to it. Future research could, therefore, examine the impact of the crisis by comparing the result with a Nordic bank that has not been affected by the Nordic bank scandal to the same extent. Furthermore, due to that the research identified the immense demand in resources to comply with AML, it would be of great interest to examine how smaller banks with less resources cope with complying to AML regulation and manage AML risk.

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Appendix 1 - Questionnaires

Interview Guide AML Respondents

Introduction

1. Please tell us about your role within the bank?

Regulatory and Public Pressure Aspects

2. What is your perception of the current AML regulation?
3. Are there any problematic aspects of the regulation? If, so please elaborate.
4. Do you believe that increased regulatory and public pressure related to AML exists? If so, what are the consequences of this perceived pressure?
5. What is your perception of that the authorities push the responsibility of detecting money laundering to you?

AML Risk Practise

6. Can you please explain how the bank manages risk related to AML?
7. In what way has the work with AML changed over time?
8. What are the effects of the potential change?
9. Please describe your perception of risks associated with violating AML regulation?
10. Could you please describe if the managing of AML risk is based on standardized procedures or allows human judgment?
11. Please describe if you consider that AML risk is included in the overall risk-assessment of customers?
12. Who within the organization does own the AML risk?

Organization and Governance

13. Who within the organization do you believe should be accountable for AML?
14. Do you experience centralized or decentralized management for the AML risk?
15. How do you organisationally structure to meet the current regulative requirements?
17. What are the implications for organizational decision-making?
18. Do you experience that the AML and Compliance functions have gained organizational authority? If so, please explain.

Value Creation

19. Do you perceive activities related to AML as value-creating?

AML and Business Efficiency

20. How would you say that AML related activities are perceived in the business operation?
21. Do you believe a conflict exists in terms of having an efficient business operation and at the same time comply? If so, please explain.

Ending

22. Is there something else you would like to add?

Interview Guide Business Respondents

Introduction

1. Please tells us about your role within the bank?

Regulatory and Public Pressure Aspects

2. Do you believe that increased regulatory and public pressure related to AML exists? If so, what are the consequences for your organization of this perceived pressure?

3. What is your perception of that the authorities push the responsibility of detecting money laundering to you?

AML Risk Practise

4 How is AML connected to your role?

5. How much time would you say that you spend working specifically with AML?

6. Please describe your perception of risks associated with violating AML regulation?

7. In what way has the work with AML changed over time?

8. What are the effects of the potential change?

9. How do you work within the business operation to identify Money Laundering?

10. Have your risk-assessment of customers changed due to AML related activities?

11. Who within the organization does own the AML risk?

Organization and Governance

12. Who within the organization do you believe should be accountable for AML?

13. Do you experience centralized or decentralized management for the AML risk?

14. How would you say that this affects the organization you operate in?

15. Do you feel that you lose some decision-making authority over your clients?

16. Do you experience that the AML and Compliance functions have gained organizational authority? If so, please explain how it affects you.

Value Creation

17. Do you perceive activities related to AML as value-creating?

AML and Business Efficiency

18. Do you believe a conflict exists in terms of having an efficient business operation and at the same time comply? If so, please explain.

19. How do you perceive that customers respond to AML related activities?

Ending

20. Is there something else that you would like to add?

Appendix 2 - Analysis model