# GLOBALISATION AS A CATALYST OR CONSTRAINT: EVALUATING THE EFFECTIVENESS OF ANTI-MONEY LAUNDERING AND COUNTER-TERRORISM FINANCING STRATEGIES IN SRI LANKA

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### *Abstract*

Strategies for combating illicit financial flows have evolved with globalisation, presenting serious challenges for developing countries navigating international compliance norms. This study provides an evaluation of how globalisation moderates Anti-Money Laundering (AML) and strategies for Countering the Financing of Terrorism (CFT) in Sri Lanka's licensed commercial banking sector. Utilising responses from 150 risk management specialists, the research uses principal component analysis and multiple regression to yield insights into the legislative, technical, and institutional challenges posed by global integration. Findings reveal that banking professionals perceive strong institutional commitment to AML/CFT compliance and hold positive views on existing frameworks. Transaction Monitoring Systems and Training/Awareness emerge as critical factors in reducing money laundering and terrorism financing risks. The study underscores the necessity of strengthening risk-based approaches, enhancing due diligence, fostering global collaboration, and investing in continuous capacity building to ensure resilient financial crime prevention systems in a globalised environment.

***JEL***: *G18, G28, G38*

***Keywords***: *Anti-Money Laundering, Countering the Financing of Terrorism, Sri Lankan Banks, Financial Crime Prevention, Globalisation*

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## BACKGROUND AND CONTEXT

In an era where globalisation is fundamentally reshaping financial systems, the capacity of licensed commercial banks to mitigate the risks of Money Laundering (ML) and Terrorist Financing (TF) has become increasingly important. Sri Lanka's licensed commercial banks operate within a dynamic environment influenced by foreign financial norms, cross-border capital flows, and evolving compliance requirements. While globalisation enhances cross-border collaboration and technological integration, it simultaneously creates challenges for risk management and regulatory compliance. Controlling ML and TF is essential to preserving international financial stability (International Monetary Fund [IMF], 2025). The United Nations Office on Drugs and Crime (2009) estimates that money laundering accounts for 2–5% of the world's annual GDP. The Financial Action Task Force (FATF, 1990) established guidelines through 40 recommendations to guide the implementation of AML/CFT regimes globally. Nevertheless, it is argued that globalisation, through financial integration, technological development, and market interconnectivity, provides transnational criminals with new opportunities in addition to weakening existing regulatory systems (Ruda & Kraus, 2024).

Sri Lanka is a developing country that remains connected to global financial institutions despite significant ML/TF vulnerabilities, particularly within its regulated commercial banking sector. The National Risk Assessment conducted by the Financial Intelligence Unit (FIU) of the Central Bank of Sri Lanka in collaboration with law enforcement agencies and relevant ministries identified drug trafficking as a major threat, alongside bribery and trade-based money laundering. Sri Lankan banks employ anti-money laundering (AML) measures to combat the financing of terrorism (CFT) aligned with international standards; however, globalisation introduces complications arising from cross-border transactions, digital financial innovation, and correspondent banking restrictions (McKinsey Global Institute, 2017). The increasing reliance on the global financial system presents new difficulties for preventing financial crime. For instance, the rapid technological advancements enabled by globalisation assist criminals in expanding ML and TF activities, making it harder for investigators to trace illicit transactions (FATF, 2021). This complexity represents a major concern for Sri Lanka's licensed commercial banks, which serve as the primary line of defence against such risks.

The existing body of literature has largely overlooked the precise implications of globalisation on the efficacy of AML/CFT strategies across varied national contexts — an understanding that is essential for building robust financial security systems. This study, therefore, examines how globalisation affects strategies for anti-money laundering and combating the financing of terrorism in Sri Lanka's banking system to contribute to more effective mechanisms for minimising ML and TF activities.

This study focuses on ML and TF as phenomena that threaten financial stability, institutional integrity, and national security in emerging economies, including Sri Lanka

(International Monetary Fund [IMF], 2023). The establishment of global AML/CFT frameworks has not fully addressed the vulnerabilities that licensed commercial banks (LCBs) face, as globalisation continues to compound these challenges. Moreover, there is currently a lack of evidence-based discourse on how globalisation affects the implementation of AML/CFT regulations in Sri Lanka's financial sector. While digitised and decentralised financial systems pose additional security risks, existing research does not adequately address the pressures banks face in attempting to meet regulatory standards while maintaining operational efficiency (Truman & Reuter, 2004). Inadequate oversight and enforcement further complicate matters, and policymakers and regulators lack critical data-driven analytical tools for designing effective protective measures. Despite legislative frameworks and international agreements, Sri Lanka continues to struggle with detecting, mitigating, and responding to ML and TF activities, with these challenges exacerbated by inconsistent enforcement among financial institutions, compliance gaps, and inadequate technology integration. The central concern of this study is to determine whether existing strategies are sufficiently robust to address these evolving challenges. Evidence-based research on the relationship between globalisation and the effectiveness of AML/CFT strategies in Sri Lanka could provide recommendations that contribute to greater financial stability, stronger investor confidence, and less exposure to FATF scrutiny.

## THEORETICAL UNDERPINNINGS AND CONCEPTUAL FRAMEWORK

Korejo et al. (2021) define money laundering (ML) as the process of making illegitimate criminal proceeds appear legitimate. It is characterised as the conversion of criminal proceeds derived from illegal activities such as drug trafficking, bribery, corruption, and fraud, with such unlawful operations constituting the most serious threats. Hellvig and Blanaru (2023) argue that the global financial system, which has grown increasingly sophisticated as a result of globalisation, enables criminals to move illicit funds through international transactions and complex financial instruments, while exploiting disparities in national regulatory frameworks. Furthermore, Khelil et al. (2024) revealed that tax evasion and public fund diversion create a significant demand for ML by incentivising criminal behaviour. Consequently, ML activities generate unstable financial flows that endanger global financial systems due to their transnational nature.

While ML and TF share comparable operational channels, Solin and Zerzan (2010) draw a clear distinction between the two. The TF process involves amassing funds from both legal and illegal sources to finance terrorist activities and support terrorist groups. As part of its operations within the global financial system, TF employs cross-border money transfers to fund actions that endanger national and international security. Kyove et al. (2021) note that globalisation's facilitation of international fund transfers creates additional complexities for the detection and interdiction of TF operations.

As financial systems become increasingly interconnected through globalisation, the volume and complexity of cross-border transactions rise, making it more difficult to detect and prevent ML and TF (Kyove et al., 2021). This fragmentation can weaken the effectiveness of domestic AML and CFT frameworks, particularly when regulatory standards vary across jurisdictions. According to Buckley et al. (2024), globalisation-centred technology has inadvertently expanded criminal opportunities by facilitating illicit financial transactions across international borders. The authors argue that individuals and criminal groups are actively drawn to ML because substantial illegal revenues align with their financial objectives, and the globally interconnected financial system provides a degree of protective cover.

At the same time, globalisation also fosters international collaboration, enabling countries to share intelligence, harmonise compliance standards, and strengthen enforcement mechanisms. These cooperative efforts can significantly enhance the impact of AML/CFT initiatives, provided that institutions adapt to global norms and invest in robust compliance infrastructures. Thus, globalisation functions as a double-edged sword, simultaneously introducing both vulnerabilities and strategic opportunities in the effort to counter ML/TF risks (Nuwan et al., 2025).

Sri Lanka's national risk assessment classifies the overall terrorist financing risk as “medium”, indicating that financial system funds could be diverted toward terrorist objectives. To understand financial criminal activities such as ML and TF in the Sri Lankan context, Routine Activity Theory (RAT) has been prominently applied to examine the interplay among motivated offenders, suitable targets, and capable guardians. Gupta and Kaur (2024) note that South Asian politicians, including in Sri Lanka, have been implicated in financial crimes as a result of costly election campaigns and political uncertainty, giving rise to a category of motivated offenders seeking to acquire funds illicitly. Within the RAT framework, motivated offenders are understood as individuals who possess both the capacity and the intent to commit financial crimes — a profile consistent with financially sophisticated actors operating within or alongside the formal banking sector.

Against this theoretical backdrop, five key strategies were identified in the AML/CFT literature as contributing to ML/TF risk reduction. According to the Financial Action Task Force (FATF, 2014), the Risk-Based Approach (RBA) emphasises allocating resources proportionate to the level of risk. Enhanced Due Diligence (EDD), as outlined by the Basel Committee on Banking Supervision (2017), requires deeper scrutiny of high-risk customers and transactions. Regulatory Compliance (RC) refers to adherence to national and international AML/CFT frameworks, including FATF Recommendations and local legislation (Central Bank of Sri Lanka, 2021). Transaction Monitoring Systems (TMS) are technology-driven mechanisms that detect suspicious activities in real time, as highlighted in FATF (2021). Finally, Training and Awareness (TA) involves continuous staff education to recognise red flags, as emphasised by McKinsey Global Institute (2017). Together, these strategies form a comprehensive toolkit for licensed commercial banks in mitigating ML/TF risks.

In line with the above debates, the study integrates Routine Activity Theory (RAT) with global financial frameworks such as the FATF recommendations, thereby contextualising financial crimes within Sri Lanka's political and economic climate. This integration elevates the paper from a purely descriptive compliance study to a theoretically grounded academic inquiry into criminal motivation and institutional guardianship. Building on these theoretical underpinnings, the conceptual framework was developed to examine how globalisation moderates the relationship between AML/CFT strategies and the reduction of ML/TF risks in Sri Lankan licensed commercial banks. Globalisation is explicitly treated as a moderating variable, with hypotheses H1 through H5 (listed below) representing the direct relationships between the five AML/CFT strategies — Enhanced Due Diligence (EDD), Risk-Based Approach (RBA), Regulatory Compliance (RC), Transaction Monitoring Systems (TMS), and Training and Awareness (TA) and the level of ML/TF risk mitigation. Hypotheses H6 through H10 capture the moderating influence of globalisation on each of these relationships.

***Hypotheses***

H1: Enhanced Due Diligence (EDD) positively impacts the mitigation of money laundering and terrorist financing risks.

H2: Risk-Based Approach (RBA) positively impacts the mitigation of money laundering and terrorist financing risks.

H3: Strong regulatory compliance positively impacts the mitigation of money laundering and terrorist financing risks.

H4: Effective Transaction Monitoring Systems (TMS) positively impact the mitigation of money laundering and terrorist financing risks.

H5: Robust training and awareness sessions positively impact the mitigation of money laundering and terrorist financing risks.

H6: The relationship between Enhanced Due Diligence (EDD) and mitigating money laundering and terrorist financing risks is moderated by globalisation.

H7: The relationship between the risk-based approach (RBA) and mitigating money laundering and terrorist financing risks is moderated by globalisation.

H8: The relationship between regulatory compliance (RC) and mitigating money laundering and terrorist financing risks is moderated by globalisation.

H9: The relationship between Transaction Monitoring Systems (TMS) and mitigating money laundering and terrorist financing risks is moderated by globalisation.

H10: The relationship between training and awareness and mitigating money laundering and terrorist financing risks is moderated by globalisation.

The resulting conceptual framework, presented in Figure 1, demonstrates how globalisation amplifies or reshapes the effectiveness of institutional guardianship strategies, thereby advancing the study's theoretical contribution beyond compliance into a nuanced exploration of criminal motivation, regulatory adaptation, and global integration.

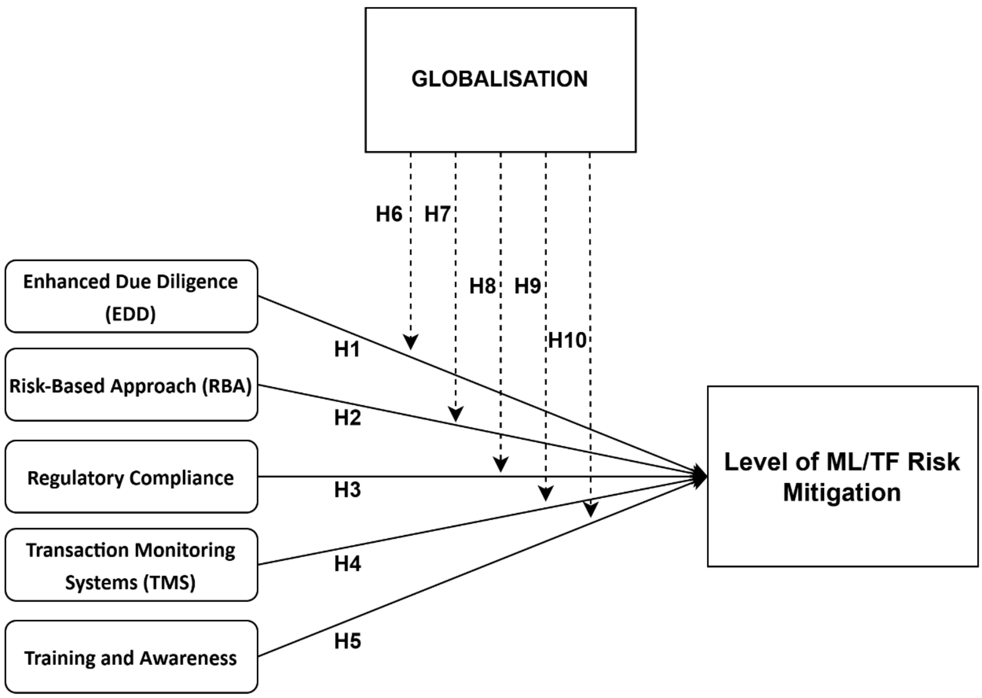


**Figure 1: Conceptual Framework**

Source: Authors' compilation based on literature review (2026)

## MATERIALS AND METHODS

### Research Design

This study used a quantitative research approach to assess the effectiveness of anti-money laundering (AML) and combating terrorist financing (CFT) tactics in Sri Lanka's regulated commercial banking sector. A quantitative strategy was used for this study because it allows for the systematic collection of numerical data, statistical analysis, and generalisation of findings across a specific population (Creswell & Creswell, 2018). The study is descriptive and analytical in nature, with the goal of evaluating banking professionals' opinions and actions regarding AML/CFT tactics and risk management frameworks.

### Study Population

The study's target population included employees working in Sri Lanka's licensed commercial banking sector as well as those who had AML/CFT regulatory obligations under the Financial Transactions Reporting Act No. 06 of 2006, the Convention on the Suppression of Terrorist Financing Act No. 25 of 2005, and subsequent regulatory guidelines issued by Sri Lanka's Financial Intelligence Unit (FIU). Given the specialised and technical nature of AML/CFT compliance, the population was specifically limited to individuals actively engaged in AML/CFT compliance functions, financial crime risk management, and related operational roles within these institutions, as these personnel have the necessary professional knowledge and direct experience relevant to the research objectives.

### Sampling Procedure and Sample Size

Considering the nature of this study, purposive sampling was used to pick study participants, which necessitated participants having unique knowledge, expertise, or experience relevant to this investigation. The eligibility criteria for participation in this study were as follows: (i) current employment in a licensed commercial bank in Sri Lanka; (ii) active involvement in AML/CFT compliance, risk management, or financial crime prevention functions; and (iii) a minimum level of professional exposure to AML/CFT policies, procedures, or regulatory reporting mechanisms. Based on these criteria, 150 AML/CFT and risk management specialists were purposefully picked from Sri Lanka's regulated commercial banking sector.

### Data Instrumentation Process

Primary data were gathered using a structured self-administered questionnaire designed specifically for this study based on a thorough review of existing literature, international AML/CFT standards (including the Financial Action Task Force (FATF) Recommendations), and the regulatory framework applicable to Sri Lankan licensed commercial banks. The questionnaire was chosen as the best tool for this study because it provides for the standardised and efficient gathering of data from a large number of respondents, ensures anonymity, and reduces interviewer bias (Sekaran & Bougie, 2019).

The questionnaire was divided into several sections. The first segment collected information on respondents' demographic and professional characteristics. The following sections addressed the study's core areas, including respondents' perceptions of AML/CFT strategy effectiveness, the compliance culture within their institution, and the adequacy of risk management frameworks. Items were measured using a five-point Likert scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree).

**Validity and Reliability of the Instrument**

The study employed rigorous diagnostic testing, including sampling adequacy KMO (0.922), reliability tests using Cronbach's Alpha (>0.87 across all constructs), and multicollinearity checks (VIF). All measures were confirmed to be within acceptable bounds before utilising PCA to create robust latent variables for regression. In terms of ensuring content validity, the questionnaire was reviewed by a panel of subject matter experts, including academics specialising in financial regulation and banking, as well as experienced AML/CFT practitioners. Their feedback was incorporated to refine the phrasing, structure, and relevancy of the items. A pilot survey was subsequently conducted with a small sample of respondents drawn from the same target group but excluded from the main study. The pilot results were used to evaluate the instrument's internal consistency, with Cronbach's Alpha coefficients calculated for each construct. Values exceeding the generally accepted threshold of 0.70 demonstrated satisfactory reliability of the measurement scales. Collectively, these procedures ensured the construct validity, content validity, and reliability of the primary data instrument, thereby preventing spurious correlations in the subsequent regression models and enhancing the robustness of the study's findings.

**Data Collection Procedure and Ethical Considerations**

The questionnaire was distributed to a sample of 150 AML/CFT and risk management staff using a combination of direct and electronic means, depending on the accessibility and preferences of the individual banking institutions. Prior to the start of data collection, formal ethical clearance was obtained from the necessary institutional authorities, and written authorisation was requested from the participating banks' compliance or HR departments. Respondents were informed about the study's academic goal, the voluntary nature of their participation, and the confidentiality with which their responses would be handled. Each questionnaire was accompanied by a cover letter. To increase the response rate, completed questionnaires were collected within a set deadline, and follow-up reminders were sent out.

## Data Analysis

Data gathered from the questionnaires were coded, cleaned, and examined using SPSS. Frequencies, percentages, averages, and standard deviations are examples of descriptive statistics that were calculated to summarise the respondents' demographic profile and their perceptions regarding the important variables. Cronbach's Alpha coefficients were calculated for each construct, with values over the generally accepted threshold of 0.70 considered to demonstrate satisfactory reliability of the measurement scales.

An Exploratory Factor Analysis (EFA) was performed to determine the underlying latent structure of the data set and to confirm the construct validity of the instrument. Specifically, principal component analysis (PCA), produced by Varimax rotation with Kaiser normalisation, was used to reduce dimensionality and generate latent constructs that indicate underlying patterns in observable variables. These constructs (factors) were subsequently used as composite variables in regression analyses, rather than individual survey items or simple averages as predictors. The success of the AML/CFT strategies in mitigating ML and TF risk was therefore examined with respect to the identified factors (EDD, RBA, RC, TMS, and TA) using inferential statistical techniques, such as correlation analysis and multiple linear regression analysis.

## RESULTS

The analysis focused on the extent to which globalisation influences the mitigation of ML/TF risks in Sri Lankan LCBs as per the insights derived from 150 AML/CFT and risk management specialists. Summary statistics of the measures used for each construct analysed in the study are presented in Table 1.

Table 1 shows that AML/CFT practices used in Sri Lanka's licensed commercial banking industry are generally regarded as reliable and successful. Strong agreement was shown by respondents that their organisations use well-defined risk-based strategies (RBA), carry out stringent enhanced due diligence procedures that go beyond surface-level compliance (EDD), and uphold a strong regulatory adherence culture through timely reporting and updated compliance programs (RC). Training and awareness initiatives, which give employees the practical skills necessary to recognise and address financial crime concerns, were also repeatedly recognised as an important component of institutional readiness (TA). Although the integration of client risk intelligence into automated monitoring platforms was recognised as a less important opportunity for additional development, transaction monitoring systems were acknowledged as functional and operationally sound (TMS). Among the five strategies considered, agreement on effectiveness was lowest for transaction monitoring systems.

The results also reveal a general acknowledgement that globalisation, cross-border regulatory complexity, and the quick development of financial technology, especially cryptocurrencies, present substantial and continuous difficulties that go beyond the capabilities of national frameworks alone (GBL). Despite these external pressures, respondents consistently and confidently agreed that their institutions' overall AML/CFT frameworks are effective in identifying, preventing, and mitigating risks related to money laundering and terrorist financing (MLTF). This reflects a professionally mature, compliance-driven, and increasingly resilient approach to financial crime prevention.

**Table 1: Descriptive Statistics**

| Code Statement | Mean | Std. Dev. | Skewness | Kurtosis |
|---|---|---|---|---|
| RBA1 - Defined ML/TF risk assessment processes | 4.24 | 0.72 | -1.65 | 6.14 |
| RBA2 - Controls based on ML/TF risk level | 4.19 | 0.81 | -1.65 | 4.57 |
| RBA3 - Risk assessment regularly updated | 4.21 | 0.79 | -1.65 | 4.97 |
| RBA4 - RBA helps prioritise high-risk areas | 4.14 | 0.84 | -1.51 | 3.66 |
| EDD1 - EDD includes adverse media screening | 4.24 | 0.75 | -1.34 | 3.56 |
| EDD2 - EDD verifies SoW/SoF for high-risk clients | 4.18 | 0.86 | -1.37 | 2.62 |
| EDD3 - Enhanced monitoring of EDD customers | 4.29 | 0.71 | -1.25 | 3.25 |
| EDD4 - EDD builds deep customer understanding | 4.21 | 0.85 | -1.54 | 3.59 |
| RC1 - Up-to-date AML/CTF program approved | 4.29 | 0.71 | -1.47 | 4.89 |
| RC2 - Fulfil CDD and record-keeping obligations | 4.29 | 0.70 | -1.49 | 5.22 |
| RC3 - SAR/STR reporting is effective and timely | 4.20 | 0.85 | -1.47 | 3.08 |
| RC4 - AML/CTF adapted to risks and regulations | 4.24 | 0.78 | -1.57 | 4.39 |
| TMS1 - TMS detects suspicious patterns effectively | 4.09 | 0.77 | -1.18 | 2.85 |
| TMS2 - TMS alerts reviewed by trained staff | 4.09 | 0.80 | -1.22 | 2.55 |
| TMS3 - TMS includes KYC/customer risk profiles | 4.05 | 0.73 | -1.14 | 3.23 |
| TMS4 - TMS rules optimised to reduce false positives | 4.09 | 0.81 | -1.31 | 3.01 |
| TA1 - Regular AML/CTF training provided | 4.18 | 0.70 | -1.49 | 5.29 |
| TA2 - Training tailored to job-specific risks | 4.14 | 0.74 | -1.26 | 3.58 |
| TA3 - Training explains internal policies well | 4.21 | 0.71 | -1.39 | 4.56 |
| TA4 - Training helps identify ML/TF red flags | 4.18 | 0.70 | -1.38 | 4.85 |
| GBL1 - Cross-border complexity increases ML/TF risk | 3.98 | 0.88 | -1.26 | 2.24 |
| GBL2 - Jurisdiction differences hinder global controls | 3.83 | 0.85 | -0.92 | 1.07 |
| GBL3 - Hard to get timely global AML info | 3.79 | 0.88 | -0.78 | 0.33 |
| GBL4 - Tech (e.g. crypto) makes ML/TF harder | 3.97 | 0.86 | -1.03 | 1.39 |
| MLTF1 - AML/CTF effective against ML risk | 4.15 | 0.66 | -1.38 | 5.96 |
| MLTF2 - AML/CTF effective against TF risk | 4.19 | 0.69 | -1.19 | 4.20 |
| MLTF3 - Framework protects from financial crime misuse | 4.14 | 0.68 | -1.04 | 3.18 |
| MLTF4 - Confident in detecting/preventing ML/TF | 4.20 | 0.72 | -1.36 | 4.35 |

Source: Author generated

### Reliability Analysis

The reliability analysis of 23 items across six constructs - Risk-Based Approach (RBA), Enhanced Due Diligence (EDD), Regulatory Compliance (RC), Transaction Monitoring Systems (TMS), Training and Awareness (TA), and Mitigating ML/TF Risk (MLTF) - yielded Cronbach's Alpha values ranging from 0.875 to 0.919, with an overall alpha of 0.961. All values exceeded the accepted threshold of 0.70, confirming that the measurement items demonstrate high reliability and internal consistency.

**Table 2: Reliability Analysis**

| Variable | No. of Items | Cronbach's Alpha | Validity (p-value) |
|---|---|---|---|
| Risk-Based Approach (RBA) | 4 | 0.876 | 0.000 |
| Enhanced Due Diligence (EDD) | 3 | 0.875 | 0.000 |
| Regulatory Compliance (RC) | 4 | 0.919 | 0.000 |
| Transaction Monitoring Systems (TMS) | 4 | 0.909 | 0.000 |
| Training and Awareness (TA) | 4 | 0.908 | 0.000 |
| Mitigating ML/TF Risk (MLTF) | 4 | 0.904 | 0.000 |
| Overall | 23 | 0.961 | 0.000 |

Source: Author generated

### Factor Analysis

The diagnostic tests used to confirm the suitability of the data for Factor Analysis provided satisfactory results. The KMO measure of sampling adequacy (0.922) suggests that the sample size used is appropriate for factor extraction because it reveals compact patterns of correlation. Bartlett's Test of Sphericity revealed statistically significant results ($\chi^2$ = 3453.598, df = 276, p <.001), indicating that the correlation matrix is factorable and not an identity matrix. These first tests validated the data's suitability for factor analysis and provided a solid foundation for dimensional reduction and construct validation.

The Factor Analysis revealed six latent factors that contribute to preparation for AML/CFT difficulties (Table 3). PCA was used to produce these constructs, which were then included in regression models to test their predictive power on the outcome variable (for example, perceived effectiveness of AML/CFT techniques). The Rotated Component Matrix produced by Varimax rotation with Kaiser normalisation proved the conceptual clarity and loading purity of the items on their respective factors. Each variable had a high loading (typically >0.70) on its predicted component and negligible cross-loading, showing high discriminant validity across constructs. The Risk-Based Approach items (RBA1-RBA4) loaded on Component 5, EDD items (EDD2-EDD4) on Component 6, Regulatory Compliance items (RC1-RC4) on Component 4, Transaction Monitoring System items (TMS1-TMS4) on Component 1, Training Awareness items (TA1-TA4) on

Component 2, and the dependent variable MLTF effectiveness items (MLTF1-MLTF4) loaded heavily on Component 3. The clear division of variables into distinct segments highlights the multifaceted nature of AML/CTF frameworks and is consistent with international standards that call for an integrated yet specialised control regime in the field of financial crime compliance.

**Table 3: Results of the Principal Component Analysis**

| **Rotated Component Matrix**[a] | **1** | **2** | **3** | **4** | **5** | **6** |
|---|---|---|---|---|---|---|
| RBA1 | | | .751 | | | |
| RBA2 | | | .802 | | | |
| RBA3 | | | .773 | | | |
| RBA4 | | | .660 | | | |
| EDD1 | | | | | | |
| EDD2 | | | | | | .547 |
| EDD3 | | | | | | .667 |
| EDD4 | | | | | | .700 |
| RC1 | | | | | .630 | |
| RC2 | | | | | .645 | |
| RC3 | | | | | .676 | |
| RC4 | | | | | .591 | |
| TMS1 | .775 | | | | | |
| TMS2 | .706 | | | | | |
| TMS3 | .746 | | | | | |
| TMS4 | .717 | | | | | |
| TA1 | | .747 | | | | |
| TA2 | | .753 | | | | |
| TA3 | | .714 | | | | |
| TA4 | | .782 | | | | |
| MLTF1 | | | | .760 | | |
| MLTF2 | | | | .794 | | |
| MLTF3 | | | | .818 | | |
| MLTF4 | | | | .795 | | |

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalisation[a]

[a.] Rotation converged in 7 iterations.

Source: Author generated

The Factor Analysis and variance explanation produced a statistically sound and theoretically driven measurement framework with excellent construct validity and internal consistency. The findings indicated the validity of the criteria used to describe the operational reality of AML/CTF effectiveness in Sri Lanka's licensed commercial banks. These verified constructs served as a solid foundation for further inferential analysis, including regression modelling to assess the impact of each independent variable on the ML/TF outcome.

**Relationships between AML/CFT Strategies and ML/TF Risk Mitigation**

Pearson correlation analysis was used to examine the associations among the five AML/CFT strategy variables, Risk-Based Approach (RBA), Enhanced Due Diligence (EDD), Regulatory Compliance (RC), Transaction Monitoring Systems (TMS), and Training and Awareness (TA), and the dependent variable, ML/TF risk mitigation (MLTF) (Table 4).

**Table 4: Pearson Correlation Analysis**

| | RBA | EDD | RC | TMS | TA | ML/TF |
|---|---|---|---|---|---|---|
| **RBA** | 1 | | | | | |
| **EDD** | 0.701 | 1 | | | | |
| **RC** | 0.652 | 0.762 | 1 | | | |
| **TMS** | 0.608 | 0.694 | 0.740 | 1 | | |
| **TA** | 0.545 | 0.692 | 0.703 | 0.610 | 1 | |
| **ML/TF** | 0.504 | 0.544 | 0.541 | 0.601 | 0.589 | 1 |

Source: Author generated

As shown in Table 4, all correlation coefficients were positive, statistically significant ($p<0.01$), and moderately strong, indicating a substantive linear relationship between AML/CFT control measures and their perceived effectiveness in reducing ML/TF risk. Transaction Monitoring Systems recorded the highest correlation with MLTF ($r = 0.601$), followed by Training and Awareness ($r = 0.589$), EDD ($r = 0.544$), Regulatory Compliance ($r = 0.541$), and Risk-Based Approach ($r = 0.504$). So, for instance, respondents with greater confidence in the TMS or TA strategies adopted by their organisations were more likely to agree that the adopted measures for AML and TF were effectively mitigating the risks of ML and TF. These results are broadly consistent with the risk-based ethos discussed in the literature.

According to FATF (2014) and AUSTRAC (2025), the Risk-Based Approach (RBA) is a foundational component in tailoring Enhanced Due Diligence procedures, refining Transaction Monitoring Systems, and allocating compliance resources, a view supported by the significant correlations observed in this study between RBA and MLTF predictors. However, Southworth and Levi (2024) and Dharmawati et al. (2024) caution that ambiguities and implementation weaknesses in RBA practices within the financial sector may reduce its practical utility to a procedural formality, an issue that merits attention in interpreting the correlations and understanding causal dynamics in this context.

The positive correlations between EDD and Regulatory Compliance ($r = 0.762$) and between Regulatory Compliance and Transaction Monitoring ($r = 0.740$) indicate that AML/CFT control pillars are highly interconnected and function in a mutually reinforcing manner. The strong inter-construct correlations also highlight the central role of training, as confirmed by Bakhtiari and Shajar (2011), who emphasised the importance of globally informed training to enhance staff ability to interpret TMS alerts and conduct effective EDD. Overall, these findings suggest that AML/CFT functions are deeply integrated within the financial setting and that neglect of any single strategy, particularly TMS or training, can undermine the overall effectiveness of ML risk mitigation.

**Regression Analysis: Predictors of ML/TF Risk Mitigation**

A multiple linear regression analysis was conducted to assess the predictive capacity of the five independent variables, RBA, EDD, RC, TMS, and TA, on the effectiveness of ML/TF risk mitigation (MLTF). The model reported an $R^2$ value of 0.550 and a correlation coefficient of $R = 0.671$, indicating that the five AML/CFT strategies collectively explain 55% of the variance in perceived ML/TF mitigation effectiveness.

**Table 5: Regression Estimates**

| Model | Coefficients | Standardized Coefficients | t | Sig. | Tolerance VIF | VIF |
|---|---|---|---|---|---|---|
| (Constant) | 1.237 | | 4.552 | 0.000 | | |
| RBA | 0.119 | 0.132 | 1.515 | 0.132 | 0.466 | 2.144 |
| RC | -0.034 | -0.039 | -0.352 | 0.725 | 0.294 | 3.397 |
| TMS | 0.294 | 0.335 | 3.544 | 0.001 | 0.400 | 2.499 |
| TA | 0.309 | 0.322 | 3.587 | 0.000 | 0.443 | 2.255 |
| EDD | 0.022 | 0.026 | 0.238 | 0.812 | 0.304 | 3.289 |

Note: ANOVA Significance = .000

Source: Author generated

The regression coefficients, presented in Table 5, indicate that Transaction Monitoring Systems ($B = 0.294$, $p = 0.001$) and Training and Awareness ($B = 0.309$, $p < 0.001$) would be the only statistically significant predictors of ML/TF risk mitigation. These findings underscore the centrality of robust monitoring infrastructure and continuous personnel development as effective strategies for curbing ML/TF risks. Both variables directly strengthen institutional capacity to detect and prevent money laundering activities, and their positive coefficients confirm that improvements in these areas would be associated with more effective AML/CFT outcomes.

Transaction Monitoring Systems (TMS) provide automated surveillance of financial flows, enabling banks to identify suspicious patterns such as layering, structuring, and unusual cross-border transfers. The statistical findings affirm that TMS addresses vulnerabilities that manual oversight alone cannot effectively manage. Training and Awareness emerged as the next most influential (as per the standardised coefficients), highlighting the irreplaceable role of human judgment and vigilance in the financial sector. Well-trained staff who are alert to red flags are better positioned to interpret system alerts, adhere to reporting protocols, and foster a culture of compliance within their institutions. The very low p-values confirm that these relationships are substantive rather than incidental.

Overall, the findings demonstrate that both technological infrastructure and human capacity would be indispensable to an effective AML/CFT strategy, with training serving to amplify the effectiveness of monitoring systems. This dual foundation explains why these two variables emerged as the most significant contributors to financial stability and institutional integrity in the fight against money laundering.

**Moderation Effect of Globalisation on AML/CFT Strategies**

The moderation analysis, summarised in Table 6, reveals that globalisation exerts a positive and significant moderating influence on all five AML/CFT strategies, strengthening their respective relationships with ML/TF risk mitigation while simultaneously complicating their implementation.

**Table 6: Moderation Effect of Globalisation**

| Interaction | Coeff ($\Delta R^2$) | Std. Error | t-stat | p-value | Decision |
|---|---|---|---|---|---|
| RBA>GLOB>MML/TF | 0.025 | 0.855 | 2.23 | 0.025 | Strengthen the relationship |
| EDD>GLOB>MML/TF | 0.016 | 0.825 | 2.45 | 0.016 | Strengthen the relationship |
| RC>GLOB>MML/TF | 0.012 | 0.839 | 2.52 | 0.012 | Strengthen the relationship |
| TM>GLOB>MML/TF | 0.011 | 0.797 | 2.61 | 0.011 | Strengthen the relationship |
| TA>GLOB>MML/TF | 0.013 | 0.805 | 2.49 | 0.013 | Strengthen the relationship |

Source: Author generated

As shown in Table 6, globalisation exerts a significant moderating effect on all five strategies. Notably, strategies such as Risk-Based Approach (RBA), Enhanced Due Diligence (EDD), and Regulatory Compliance (RC), which were statistically insignificant in the direct model, became significant after the moderating effect of globalisation was considered. This indicates that globalisation enhances the effectiveness of these strategies in mitigating ML/TF risks. For instance, cross-border integration and international compliance frameworks amplify the relevance of RBA and EDD, while regulatory compliance gains strength through harmonisation with global standards. Thus, globalisation not only strengthens already significant strategies (Transaction Monitoring and Training/Awareness) but also transforms previously weak predictors into statistically robust mechanisms.

The Risk-Based Approach benefits from globalisation through access to international intelligence and ML/TF typologies, enabling banks to better prioritise high-risk activities by origin and customer profile. While the diversity of global financial systems may render risk assessment uneven across jurisdictions, the perceptions of the survey banking personnel suggest that the positive effects predominate. EDD is reinforced by internationally recognised standards such as the FATF Recommendations; however, globalisation also enables criminals to exploit regulatory weaknesses in less stringent jurisdictions, thereby reducing its overall effectiveness. Globalisation strengthens regulatory compliance by encouraging consistency; yet, aligning divergent legal systems and enforcement capacities frequently dilutes compliance efficiency. The findings of the moderation analysis further suggest that globalisation-driven technological advancement has transformed transaction monitoring, with artificial intelligence and big data analytics now capable of tracking complex cross-border transactions. However, the sheer volume and intricacy of global financial flows can overwhelm existing monitoring systems. Global knowledge-sharing and international best practices related to ML and TF support training and awareness; yet, cultural and jurisdictional differences can impede consistent application without a robust centralised framework.

Collectively, the findings suggest that while globalisation may increase criminal opportunities through regulatory arbitrage, technological anonymity, and complex international illicit networks, it could simultaneously moderate the effectiveness of ML/TF mitigation by providing stronger tools, frameworks, and opportunities for international cooperation. Managing this effect requires AML/CFT strategies to be continuously adapted to balance the benefits of global financial integration against the threats it introduces.

## CONCLUSION AND RECOMMENDATIONS

Amid increasing global financial integration, this study critically explored the relationship between AML/CFT strategies and the mitigation of ML/TF risks in Sri Lankan licensed commercial banks based on a survey conducted among 150 AML/CFT and risk management specialists. Correlation analysis confirmed that all five core AML/CFT strategies (enhanced due diligence, risk-based approaches, regulatory compliance, transaction monitoring systems, and training and awareness) were positively associated with perceived ML/TF risk mitigation effectiveness. Among these, transaction monitoring systems and training and awareness demonstrated the strongest associations, highlighting their pivotal role in shaping AML/CFT outcomes. The strong inter-construct correlations further underscore the interconnected and complementary nature of these measures within a unified compliance framework.

The results of this study also offer empirical evidence in favour of the hypothesis that globalisation significantly and favourably moderates the relationship between AML/CFT strategies and the successful prevention of terrorist financing in Sri Lanka's licensed commercial banking industry. According to AML/CFT professionals surveyed, the integrative and capacity-enhancing aspects of global financial governance seem to outweigh the widely held belief that globalisation primarily serves as a threat multiplier in the context of financial crime. This finding is both theoretically and practically significant.

This research made contributions across theory, methodology, policy, practice, and society. Theoretically, it integrated Routine Activity Theory with Risk Management Theory, a combination seldom applied in AML/CFT studies within developing-country contexts, thereby advancing scholarly discourse on financial crime prevention. The development of a conceptual model that is responsive to global influences could enhance understanding of how institutional controls and external criminal opportunities interact in shaping ML and TF dynamics.

Methodologically, the study addressed a significant empirical gap by providing an assessment of AML/CFT framework effectiveness within Sri Lanka's licensed commercial banking sector. The use of validated constructs and robust statistical procedures, including reliability analysis, correlation analysis, multiple regression, and moderation analysis, produced evidence-based conclusions applicable to similarly underrepresented jurisdictions. The study's positivist methodology, combined with a structured survey design, offered a reliable and replicable measurement framework for evaluating AML/CFT strategies in future research.

In terms of policy and practice, the study enabled the conclusion that transaction monitoring systems, training, and awareness represent the most effective bases for investment planning and operational priorities for financial institutions and regulators. The findings advocate for a shift away from procedural compliance toward more dynamic, outcome-oriented approaches aligned with evolving international standards. They also emphasise the need for flexible AML/CFT architectures to protect correspondent banking relationships and uphold institutional credibility.

It could be inferred that strengthening AML/CFT strategies directly contributes to deterring financial crimes that could jeopardise national security, economic stability, and public trust. In that respect, the findings of the study contributed towards the development of a secure and resilient financial ecosystem at a time when emerging technologies are continuously reshaping the threat landscape. The study also made an important contribution to the international AML/CFT discussion by examining how globalisation affects the implementation and outcomes of domestic AML programmes. This perspective that effective frameworks must be both contextually grounded and internationally informed is relevant not only to Sri Lanka but also to other developing economies that face comparable regulatory and financial challenges. Practically, the findings provide clear guidance for regulators and financial institutions by emphasising the importance of investing in technology, continuous training, and adaptive compliance architectures to address both domestic and international AML/CFT challenges.

**Recommendations**

Based on the study's key findings, particularly the significance of Transaction Monitoring Systems (TMS) and Training and Awareness (TA), and amplification of their effectiveness under conditions of globalisation, the following targeted recommendations can be proposed to strengthen ML/TF risk mitigation among Sri Lankan licensed commercial banks.

First, transaction monitoring systems should be enhanced through the adoption of advanced technologies such as artificial intelligence and machine learning. Traditional rule-based systems often struggle to detect sophisticated and emerging ML/TF typologies while generating high rates of false positives. Collaboration with FinTech and RegTech firms is therefore essential for developing adaptive, data-driven solutions capable of identifying complex transaction patterns and flagging high-risk activities across international borders.

Second, training and awareness programmes must be expanded and contextualised to reflect the realities of the globalised financial system. These programmes should extend beyond procedural compliance training to incorporate scenario-based learning that equips staff to recognise and respond to global ML/TF threats, digital asset vulnerabilities, and changes in foreign regulations. The objective should be to prepare employees at all levels to manage the continuously evolving risks associated with financial crime in an internationally interconnected environment.

Third, the operationalisation of the Risk-Based Approach requires meaningful improvement. As currently applied, the RBA is often reduced to a procedural exercise. Banks and regulators must collaborate to foster a culture of substantive risk assessment grounded in precise, actionable tools and guidelines. An effective RBA should be dynamic, combining quantitative data with qualitative judgment, and should allocate resources to areas of highest ML/TF risk, including those shaped by international financial flows.

Fourth, Enhanced Due Diligence procedures should be optimised through both technological innovation and international collaboration. Banks should deploy AI-enabled technologies to automate the collection, verification, and monitoring of information related to politically exposed persons, high-risk clients, and complex corporate structures. Concurrently, Sri Lankan authorities should pursue cross-border information-sharing frameworks to address barriers arising from data privacy constraints and fragmented jurisdictional standards.

Fifth, regulatory oversight must evolve beyond narrow technical compliance toward a genuine assessment of AML/CFT effectiveness. Outcome-based indicators should be developed to measure actual reductions in financial crime risk, encouraging institutions to adopt strategies that produce measurable results rather than satisfy procedural requirements alone.

Finally, enhanced domestic and international cooperation is essential given the transnational character of financial crime. Sri Lankan banks should deepen their engagement with law enforcement agencies, the Financial Intelligence Unit (FIU), and international counterparts. Meaningful participation in international forums and adherence to FATF guidelines are critical to strengthening institutional resilience and ensuring that AML/CFT strategies remain equipped to address the complex challenges posed by global financial integration.

The study offers highly specific, actionable recommendations, such as the integration of AI/machine learning into Transaction Monitoring Systems (TMS) and the expansion of cross-border information-sharing frameworks. It bridges the gap between academic theory and industry practice, making the paper highly valuable to regulators, bank managers, and the Financial Intelligence Unit (FIU). At the same time, it is pertinent to emphasise that this research is intrinsically limited by its contextual scope, as the findings are exclusive to licensed commercial banks in Sri Lanka and may not be immediately applicable to jurisdictions with different legislative, cultural, or institutional frameworks. The study's reliance on existing AML/CFT frameworks and secondary data sources means that it reflects prevailing standards and interpretations at the time of analysis, which may evolve with future global or local legislative revisions and the dynamic nature of money laundering and terrorist financing threats. Furthermore, the solutions examined — such as Risk-Based Approaches (RBA), Enhanced Due Diligence (EDD), and Transaction Monitoring Systems (TMS) — are influenced by technological capacity and institutional resources, which vary across banks and may affect implementation consistency. It is also noted that the study operated under the restrictions of available empirical evidence, making it difficult to quantify certain aspects of financial crime prevention due to data sensitivity and confidentiality. These limitations, however, do not diminish the practical relevance of the recommendations but rather underscore the need for ongoing adaptation, contextualization, and reassessment in diverse financial environments.

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