

# Money Laundering Phenomenon and How Successful the Oversight Role of Adjusting and Control of the Jordanian Central Bank

Bader AL Qaied<sup>1</sup>

<sup>1</sup> Department of Business Administration, Ajloun National University, Jordan

Correspondence: Bader AL Qaied, Department of Business Administration, Ajloun National University, Jordan.

E-mail: bader1357@outlook.com

Received: September 6, 2015

Accepted: October 21, 2015

Online Published: November 25, 2015

doi:10.5539/ijbm.v10n12p226

URL: <http://dx.doi.org/10.5539/ijbm.v10n12p226>

## Abstract

The research aims to evaluate and examine the oversight role of the Central Bank of Jordan and assess its success in controlling the phenomenon of money laundering in a simple and uncomplicated manner by distributing a questionnaire to a group of corporate managers of Jordan, which are of the major companies in Jordan and within the Jordanian level.

The researcher has concluded a number of recommendations including; Activating the control entities subject to Central Bank more accurately, identify the interaction between banks operating in the Kingdom and foreign banks, mainstream frustrations operations of money laundering.

**Keywords:** money laundering, bank, Jordan

## 1. Introduction

With the technological, intellectual and scientific development witnessed by the world during this century, and with different methods and techniques of criminals in their attempts to get to the (perfect crime), The issue of money laundering and has become a constant concern for the Recidivist, gangs and criminals as a fast mean to reach to cash without the need to comply with directions and justifications and legal means to present in front of public affairs. Money laundering is considered of criminal means, which provides access to financial liquidity in a smart way and (relatively safe) for the criminals and Recidivist.

And in this regard countries and their institutions has persevered to develop determined frameworks to tackle this kind of crime because of the waste of public funds and elevation for the rights of peoples, and it is worth mentioning that, during the past few years money laundering case and examine ways to control and eliminate it has become the top and the first concern of the Arab countries, whether or Bank and is taking the biggest space in the political, legal and global trends and government agendas, they are even positioned side by side with drug trafficking and terrorism and other issues.

And among the public methods taken by States to reduce this crime and try to eliminate it, is the placement of a number of actors to be the sergeant and reckoner on whoever gets involved in this type of criminality as a mean to restrict who does that and catch who plans to it work out in the future. And among these efforts is to give the supervisory and the central role to certain party in the state serve as officer and observer of public and private money of individuals and methods of collection and disposal, and take the necessary action in case of doubt or suspicion in any action or behavior which raises Legal uncertainty.

And through research and reading and scrutiny, it has been shown that the money laundering issue poses a heavy burden on the state in general and the budget in particular and, and it is one of the prohibitions that, its actor must be judicial prosecute and especially that it is difficult to estimate the actual amount of money laundered based on case data and evidence, despite the integrated coordination between financial and the judiciary services in the country, these parties do not have a way to enable them to assess the amount of money laundered and that by their nature are imaginary numbers.

### 1.1 Research Importance

Proceeding from the idea that banks are the main element in money laundering phenomenon, that they are the focus of the main money laundering operations, the current research aims to study the supervisory role of the

Central Bank of Jordan and assess the extent of its success in controlling the phenomenon of money laundering in a simplified and uncomplicated manner by distribution questionnaires on a group of managers of Jordanian companies, which are of the major companies in Jordan and within the Jordanian level. And therefore will clarify the main roles of the central bank to pursue and stop this crime of being outbreak in the Jordanian communities and looting citizens money and seek to undermine the daily bread, note that in one study it was acquired that the amounts of laundered money that are impounded annually are equivalent to two-thirds of national product for the countries of the world.

We will examine through this research the phenomenon of money laundering and its definition, jurisdiction and ways that it appear in, and then talk about the Central Bank of Jordan and its role in the regulatory process on this phenomenon, and will try to reach EMPIRICAL studies show the size of money laundering operations that have been seized in Jordan during the past few years, and examine the bank's responsibility for these operations and its role in facing both in terms of the domestic laws of the bank or the Hashemite Kingdom of Jordan or international conventions or the applicable national legislation.

### *1.2 Research Goals*

The current research aims to reach to answers to the questions below:

- 1). What is the nature of entities subject to the control of the Central Bank of Jordan and control?
- 2). What is the nature of control imposed by the Bank to commercial banks and exchange offices?
- 3). Is there a perception of the entities directors which are subject to the Central Bank on the supervisory role of the Bank, including the fight against money laundering?

### *1.3 Research Hypotheses*

Through previous partial literature which will be presented during the current search and by access to statistical analysis applicable within the questionnaire distributed, the hypotheses below will be rejected or accepted:

- Central bank has a supervisory role limiting money laundering and limiting its spread
- Memorandum of Understanding signed between the Central Bank of Jordan and the Jordanian anti-money laundering unit, as it is only to achieve the standards of the global fight against money laundering in connection with the supervisory role of the Central Bank of Jordan
- There is a statistically significant relationship to the level ( $\alpha \leq 0.05$ ) between commercial banks managers to recognize the importance of the fight against money laundering and the supervisory role of the Central Bank of Jordan

## **2. Theoretical Framework**

- Money laundering

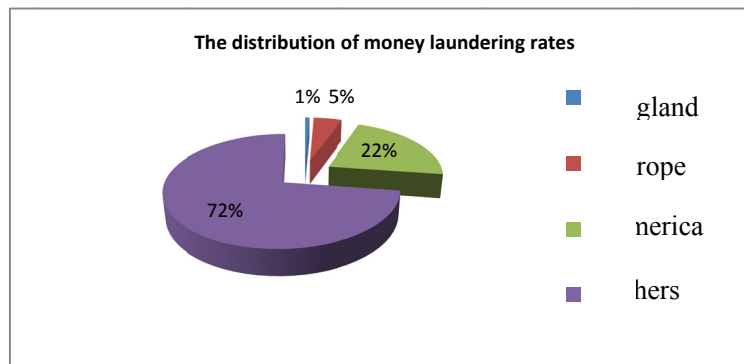
European Commission for anti-money laundering defined in 1990 money laundering as the situation to convert amounts of money obtained illegally and through crime activities in order to conceal a crime or an illegal source of it, or of helping any person (criminal) committed or intends to commit a criminal offense to avoid any legal responsibility as a result of this offense (Shorfat, 2001) see that money laundering is the process of cleansing dirty money obtained by the person by braking provisions of the law (Ghalib, 2000) see that money laundering is a to accept cash money or deposits or transfers originating illegal (criminal) and hide the source of the money or anyone who is principal actor or partner in order to evade the legal consequences.

- Money laundering crimes properties

Ajil noted in his study (2006) that the crime of money laundering has characteristics and elements, like murder, robbery, kidnapping, corruption and others, nevertheless this type of crime has the greatest and deadly impact on people compared to others. Ajil noted that the most important characteristics of a crime of money laundering is as follows:

- Money laundering is a global crime which is not confined to the limits of a single state as a result of technological development in the means of communication which makes the issue very hard to reduce and control especially that there is more than one country is involved.
- Money laundering, is an organized crime so that there are multiple offenders involved in the crime unit and the target.
- Money laundering rely on advanced technology and the perpetrators usually resort to more sophisticated types of technology to reach their goal, making it difficult to reach them and limit their activity process.

According to statistics from the International Monetary Fund, the size of money laundering that have been reached ranged from 590 billion to 1.5 trillion which is equivalent to 2-5% of the global GDP, so that the money from the drug money laundering operations alone amounted to 688\$ million per year divided by the shape below:



#### • The elements of the money laundering crime

As do any other crime, the money laundering offense is a punishable by law, and has recognized crime elements, which are:

##### -Material element

And this element has the following components:

- 1). administration or directing illegal activity that has a material return
- 2). transfer and transmit of funds obtained illegally
- 3). helping to implement an illegal activity and take money advantage of it
- 4). cover up the source or nature or the form of this money
- 5). behave in a manner designed to avoid punishment or accountability or arrest.

##### -Mental element

It is the situation in which the individual and the group of individuals are fully comprehensive aware that they are engaged in an illegal action and acquire funds sourced illegally.

#### • Central Bank of Jordan (CBJ)

##### -Date of Establishment

Central Bank of Jordan was established in the late fifties. Where Central Bank of Jordan law were passed in 1959. Where work in the Central Bank of Jordan started on the first day of the month of October of 1964. To succeed the Jordanian Monetary Council, which was founded in 1950,

Where the government owns the entire capital of Central Bank of Jordan, which was increased in stages, where it began with a million to arrive at eighteen million Jordanian dinars, and although the government has the entire share capital of the central bank, the central bank enjoys under the provisions of its law an independent legal personality.

#### • The banking sector in Jordan

The number of banks operating in Jordan with 26 banks in the end of 2011, distributed as follows: 16 Jordanian banks (of which three Islamic banks), and ten foreign banks (including one Islamic bank). These banks services covers most parts of the Kingdom through its branches network consisting of 702 branches and 72 offices and 1219 ATMs. As the banking density index (number of population to the total number of branches of banks operating in the Kingdom) at the end of 2011 reaches about 8902 people per branch.

Jordanian banking sector also managed over the past few decades to become a leading economic development in the Kingdom and the main financier of the various categories of Jordanian society of individuals and small, medium and big companies and government. Assets of banks operating in Jordan has achieved a remarkable growth rate of about 10% per year on average during the period (November 2001-2012), total bank assets of

about 39.3 billion dinars at the end of November 2012. The assets of banks operating in Jordan form about 185% of GDP in Jordan, reflecting the depth of the Jordanian banking sector and reflects its pivotal role of the national economy, which is also an indication that the Jordanian economy is based on banks.

The credit facilities has grown during the period (November 2012-2001) an annual rate of 12% on average and reached a value of 17.5 billion dinars at the end of November 2012. The credit facilities granted by banks in Jordan, forms about 77% of Jordan's GDP.

In terms of total deposits it has also achieved a remarkable growth during the same period, the ratio reached on average about 10% per year, and reached the balance of total deposits to 25 billion dinars at the end of November 2012. The deposits with banks forms about 120% of Jordan's GDP.

Banks in Jordan was among the first to adopt the latest modern technology by using systems of modern high-security technology means which enabled them to provide banking services around the clock, including ATM plastic cards, smart cards and banking services via the Internet and by telephone and others .

Banks operating in Jordan also play an important role on the employment and training level, where the number of bank employees exceeded 17340 male and female employees as of the end of 2011, while the number of staff who have been involved in the training courses exceeded 37 thousand male and female employees in 2011.

#### • Entities subject to the control of the Central Bank of Jordan

In order to preserve the rights of depositors and shareholders, the central bank will study and analyze the financial situation of licensed banks in order to ensure the safety of their financial positions and commitment to the banking safety rates imposed on it, as a proportion cash reserve and legal liquidity and credit concentrations ratios and the rate of capital adequacy.

The central bank applied the overall control of licensed banks in terms of field and office inspection, and for all the bank's branches at home and abroad. As well as the examination of records and registers of these banks to ensure the safety of its financial conditions and accuracy of the information and that it send to the Central Bank, as well as the safety of banking services. Because the stability of the banking system is as important as monetary stability, the central bank is continuously monitoring the development of methods for banks to keep pace with the latest international standards applicable to the international banking arena.

In the framework of enhancing the safety and strength of the banking system, The licensed banks were asked to prepare credit and investment policies approved and writing by the Board of Directors, and to require banks to apply international accounting standards and financial disclosure, the central bank to monitor and follow up on the effectiveness of internal control and audit systems at banks and make sure it is functioning and serve as it should.

The central bank also decided to reduce the debt rating and the suspension of benefits from 180 days to 90 days so that is consistent with international standards applied in this field, as well as the asking the Jordanian banks to raise the minimum capital of 20 million dinars to 40 million dinars. To facilitate the use of electronic means to conduct transactions and records and electronic signatures, the Central Bank has effectively contributed to the issuance of electronic transactions law. To add more strength to the banking system, the market risk equation has been included in calculating the capital adequacy ratio, as well as providing the e-mail query service and banking risks to banks. In addition, the central bank has issued instructions relating to set limits on the maximum credit concentrations.

The central bank also issued instructions regarding anti-money laundering and combating the financing of terrorism in order to maintain the integrity and reputation of the banking system both locally and globally. In addition, corporate governance standards has been applied in accordance with international standards, through the issuance of banks guide that includes the duties and responsibilities of the Board of Directors and executive management and the organization of their relations with other regulatory authorities, as systems of internal controls. The central bank also issued a comprehensive framework for immediate correction procedures designed to avoid the unsafe policies and practices of banking and to address weaknesses in the early stages. The central bank also worked on the establishment of an early warning system for banks in order to discover vulnerabilities and unsound practices or unsafe banking in the early stages at the lowest possible cost. It is currently working on the application of international standards in the field of capital adequacy for the second phase of the decisions of the Basel Committee (Basel II).

In the framework of strengthening the competition in the banking sector, the central bank has worked to liberalize interest rates in the banking market to raise the efficiency of the allocation of financial resources, and removed the preferential privileges that have been enjoyed by some of the banks in the area of lending. It also

worked on the unification of the compulsory reserve ratio on all types of deposits in dinars and foreign currencies and to all banks. The central bank also encouraged banks to integrate with each other in order to create strong institutions able to compete on both local and international arenas. Moreover, the central bank has licensed a number of foreign banks with banking experience to work in the Kingdom for the purpose of deepening the banking experiences in the Jordanian market and stimulate local banks to compete on local and international arenas.

In the area of improving the banking business environment, the central bank has worked on the development of the national payments system based on the latest foundations in order to reduce risks related to liquidity and settlement and the creation of a sophisticated mechanism for clearing and settlement of securities which facilitates banks operations in the area of the provision of prompt and safe service for citizens. In the month of January of 2001 the central bank has also established a special unit at the Central Bank of bounced checks in order to reduce the phenomenon of bounced checks and minimize its negative effects on economic activity. The success and effectiveness of the unit in reducing the phenomenon of bounced checks can be inferred by sequential decline in the number of bounced checks attributed to the checks presented for clearing since starting application of these regulations in 2001.

The main objective of banking supervision is to maintain the durability and safety of the banking system in order to protect depositors and shareholders' rights and ensure the contribution of banks positively to the development of the national economy.

The banking supervision in Jordan takes two basic forms:

-Office control: which include continuing control over the banking activities of the banks and regular analysis of the financial statements and periodic reports sent by banks to the Central Bank, in addition to the study of new banks license applications and bank branches inside and outside Jordan, and the following sections takes tasks of office control in Supervision Department on the banking device.

- (A) Studies and legislation section.
- (B) Concentrations of credit and bank risks section.
- (C) Banking statistics section.
- (D) Suspicious financial operations follow-up section.
- (E) Analysis and study of the data section.

-Field control: which include field visits to banks to ensure their commitment to the law of banks and the instructions of the Central Bank, which aims to ensure the safety and durability of the banking system, as well as to assess banks comprehensively especially qualitative aspects that can not be assessed through financial statements and reports, such as the quality of management and the internal control systems adequacy, where it is taking into account the following elements when assisting:

- (A) Capital.
- (B) Asset quality.
- (C) Management.
- (D) Profitability.
- (E) liquidity.

### **3. Research Methodology**

The current research will follow descriptive analytical method so as to stand on a range of previous related studies and how it relates to the current search entitle and then building a questionnaire consistent with some mentioned areas of research and distribute it to a sample of managers of entities subject to the supervision of the Central Bank of Jordan and then analyze the data that are obtained statistically

#### *3.1 Research Community*

Current search community consists of all official parties legally registered and subject to the supervision of the Central Bank of Jordan such as commercial banks and exchange offices and holding companies and others that have their income through direct dealing with money is.

#### *3.2 The Research Sample*

Current research Sample consists of a group of commercial banks managers which researcher managed to access

through personal relationships because of the sensitivity of the subject and his need for security approvals, So the questionnaire will be the distributed on five well-known Jordanian commercial banks in Jordan then the manager of the bank and the director of legal affairs fills out the questionnaire and then will return the data that have been obtained for use in the translation of this data into readable results.

### 3.3 Search Tool

Search tool will be a questionnaire designed by the researcher which is collected through previous studies and by access to the most basic points of the topic, the questionnaire consists of two axes: first, demographic information, and the second: required paragraphs questionnaire that must be answered.

### 3.4 Research Measures

A number of measures have been followed in the completion of the research, we mention:

- Reviewing the information and data related to the subject of study from previous studies and theoretical framework.
- Preparation of the study tools and to ensure its validity and reliability on the study sample.
- Apply study tools on bank managers and directors of Legal Affairs and who are related with the research topic.
- Collecting and classifying data of the study in light of the study variables.

### 3.5 Statistical Methods Used in the Research

Data of the current study will be analyzed statistically using the SPSS software for statistical analysis so that the study questions will answered and check their assumptions to get to the final results. For the method of analysis used, in the beginning the sample which the data were collected from will be described, by analyzing demographic variables using frequencies and percentages. As for the responses of the sample on the variables of the study the arithmetic means and standard deviations of the responses will be calculated to each paragraph separately and then the averages and deviations for the variables will be fully calculated.

## 4. Analysis and Results

### • First, demographic variables

Demographic variables were examined for the study sample through the SPSS statistical analysis program by checking frequencies and percentages for the following variables: job site, the experience, the scientific division of the participant. The following table shows the distribution of the sample for each variable.

Variable	Category	Repetition	Percentage(%)
<b>Job site</b>	General manger	5	%50
	Director of legal affairs	5	%50
<b>Experience</b>	5-9 years	2	%20
	10-14 years	5	%50
	More than 15 years	3	%30
<b>Scientific Degree</b>	Bachelor	7	%70
	Master	2	%20
	Ph.D.	1	%10

We note from the above table that the sample distribution by site functional variable was equal to two categories, General Director and Director of Legal Affairs so that the distribution of the sample was equal to 5 people per category. As for the experience variable most of the participants belong to the category of the owners of the experience of 10-14 years, which included 50% of the total sample. Finally, for the scientific degree variable the distribution indicates that most of the participants hold a bachelor's degree at a higher rate of certifications that they have, the proportion of this category amounted to 70% of the total participants.

### • Second: sample responses to the study variables

The study questionnaire included 11 diverse paragraphs on the phenomenon of money laundering and the success of the supervisory role of the Central Bank of Jordan in control and seize. The responses showed a variety of different results for each paragraph. The following table shows averages and standard deviations for each item separately.

Paragraph number	Paragraph	Arithmetic average	Standard deviation
1	The central bank requires the allocation of a separate department to process data electronically in the organizational structure of the bank.	4.4000	.843270.
2	The central bank determines the duties of this administration in terms of its responsibility to protect the data and run computer operations	4.1000	.87560
3	The Bank determines the active control methods to pursue regular, immediate remittances and follow-up its source and cause	3.8000	1.13529
4	Central Bank requires full authorization to enter the bank database and information	3.1000	1.19722
5	Central Bank requires a periodically backup base about information of the bank and clients' remittances	4.1000	.99443
6	Central Bank imposes certain methods and procedures for the entry and exit of devices to and from the bank.	2.7000	1.25167
7	Central Bank ensures control procedures to ensure the financial remittances network's and discover the weaknesses and strengths of the follow-up remittances and knowledge of the source and reason of the remittances.	3.4000	1.17379
8	Central Bank imposes the provision of administrative procedures and instructions by which the remittances received from outside Jordan are followed-up, whether by the names of organizations or individuals	3.7000	1.15950
9	It is required to obtain official approval for any new step of remittances which are eliminated or added	4.1000	.875600
10	The central bank sets currency transferred according to the state and the reason	4.0000	.81650
11	Central Bank underlines the need to follow up remittances and their currencies issued from suspected countries	3.9000	.99443

The highest responses about paragraph (Central Bank requires the allocation of a separate department to process data electronically in the bank's organizational structure) where the arithmetic average of the responses to this paragraph amounted to 4.4000 with standard deviation of 0.84327. This paragraph was followed by responses to the three paragraphs, second, fifth and ninth with a mean of \$ 4.1000 and standard deviations, in the order: 0.875600, 0.99443 and 0.875600. The lowest responses was about the sixth paragraph (the central bank imposes certain methods and procedures for the entry and exit of devices to and from the bank) with an arithmetic mean of 2.7000 and standard deviation of 1.25167.

### • Third: Results

Based on the results of statistical analysis and a review of previous literature, the following describes answers of the study questions:

#### 1). What is the nature of entities subject to the control of the Central Bank of Jordan?

Any party or government or private department or institution dealing with money transfers or deposits or loans or financial contributions it is subject to the Central Bank. nearly 617 cases of suspected money laundering or the financing of money laundering operations has been monitored in Jordan during the past four years until the end of 2012. These parties include operating banks in the Hashemite Kingdom of Jordan, exchange companies, money transfer companies, and any entity subject to the supervision of the Securities Commission whether it was a person or entity or company or a specific party. The activities being regulated by the Bank are as follows:

Tax evasion, ambiguity of money and banking transactions source, deposits or withdrawals of cash, remittances, checks, and credit facilities.

#### 2). What is the nature of control imposed by the Bank to commercial banks and exchange offices?

The central bank requires the allocation of a separate department to process data electronically in the organizational structure of the bank. The central bank sets out the duties of this administration in terms of its responsibility to protect the data and run computer operations. And determines effective control methods in the follow-up of regular, immediate and follow-up remittances and its source and reason. And also identifies the

active control methods to pursue regular remittances and the immediate and follow-up source, and requires full authorization to enter the bank and database and information. And it asks a periodically base backup of bank information and clients and their remittances.

The central bank imposes certain methods and procedures for the entry and exit of devices to and from the bank. And it ensures control procedures to ensure the network's financial remittances and discover the weaknesses and strengths of the follow-up remittances and knowledge of the source and reason of the transfer. And it imposes the provision of administrative procedures and instructions by which the remittances received from outside Jordan are followed-up, whether by the names of organizations or individuals, the central bank sets currency transferred according to the state and the reason, central Bank underlines the need to follow up remittances and their currencies issued from suspected countries.

### **3). Is there a perception of directors of the entities subject to the Central Bank on the supervisory role of the Bank, regarding the fight against money laundering?**

Through the results of the statistical analysis showed that responses were positive and supports the oversight role of the Central Bank of Jordan on the issue of anti-money laundering. So, the answer to this question showed an awareness of the managers of banks which are subject to the central for its active oversight role also showed recognition of these efforts.

### **5. Conclusions and Recommendations**

Through previous literature and by commenting on the statistics, the researcher recommends the following:

- 1). Identify the entities subject to direct control of the Central Bank, whether private or governmental, group or individuals.
- 2). Impose deterrent penalties for individuals involved in operations or suspicion of money laundering operations.
- 3). Hold awareness conferences about the risks of money laundering on the public treasury and the state for the owners of the relationship and jurisdiction.
- 4). Audit instant transfers that are handled as the ease and speed of arrival may encourage owners of sick souls who would undermine the security of the homeland to involve in money laundering operations
- 5). Determine the currency to transfer by.
- 6). Impose deterrent penalties on the cases of checks with no balance and the purchase of checks and other suspicious financial activities.
- 7). Promote the concept of citizenship and belonging among bank employees and owners of high-level positions
- 8). Put an end to the problem of instant money transfers and detain any suspect funds source.
- 9). Deepen the role of Combating Money Laundering Unit and link it directly with the banks and the relevant authorities in the Kingdom.

### **References**

- Alajez, R. (2008). The role of banks in the control of money laundering operations.
- Alnameer, L. (2006). Civil liability of the Central Bank on the control works over commercial banks.
- Alshorfat, T. (2002). The responsibility of banks for money laundering and how to address them.
- Hldni, A., & Ghabban, T. (2010). The role of internal control in light of the accounting information system website.
- Meredith, S., & Nolan, D. (2012). OSCOLA.
- Schwester, R. (2009). Examining the Barriers to e-Government Adoption.
- Zureikat, Q. (2011). The impact of Corporate Governance Guide issued by the Central Bank of Jordan in improving the quality of internal audit in Jordanian banks.

### **Copyrights**

Copyright for this article is retained by the author(s), with first publication rights granted to the journal.

This is an open-access article distributed under the terms and conditions of the Creative Commons Attribution license (<http://creativecommons.org/licenses/by/3.0/>).