Evaluation of the anti-money laundering programs implementation in Indonesia

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Abstract: The term money laundering emerged in the early 19th century. Although various prevention and enforcement efforts have been developed since then, money laundering still occurs throughout the world. Therefore, it is necessary to carry out continuous evaluations to ensure that the applicable policies to curb money laundering remain adequate. This research aims to evaluate the effectiveness of anti-money laundering programs in Indonesia using the opportunity element approach in fraud models that are represented by the regulations, implementations, and supervisions. This research will evaluate: (1) the effectiveness of money laundering control, (2) banks levels of compliance, (3) the regulatory and supervisory body's performance, and (4) the problems in implementation of the anti-money laundering program. This study uses a qualitative research method with an evaluation approach. This study obtained data from Indonesia's Financial Service Authority, the Financial Intelligence Unit and the relevant banks as well as other relevant evaluations reports and indexes. The results of this study are that the implementation of the AML program in Indonesia is good but still needs improvement in its risk-based preventive measure and enforcement measures. The results of this research also shows that the identification of beneficial owner is one of the problems faced by banks.

Keywords: AML; Programs; Effectivity; Evaluation; Opportunity

Introduction

From 2015 to 2021 there was an increase in money laundering (ML) cases in Indonesia. Over the same period, Indonesia's Corruption Perception Index (CPI) score did not experience significant improvement. Based on Indonesia's 2019 Risk Assessment Report on Money Laundering (2019 NRA on ML), corruption and banking crimes are included as predicate crimes with a high potential risk of money laundering (INTRAC, 2019). In the 2021 National Risk Assessment on Money Laundering, banking crimes were no longer the highest predicate risk crimes for money laundering instead moved to medium risk category. Nonetheless, adequate and sustainable control efforts are still required for Indonesia's anti-money laundering program to be implemented effectively.

Money laundering is closely related to corruption as a predicate crime. CPI data in Indonesia from 2015 to 2021 is listed in Figure 1. Figure 1 shows Indonesia's perception index from 2015 to 2021. In 2021 Indonesia's CPI score was 38, ranked 96th out of 180 countries. Meanwhile, Denmark was in first place in 2022 with a CPI score of 90 (Transparency International, 2022). From 2015 to 2022, Indonesia's lowest score was 34 in 2022, highest score was 40 in 2019. In addition, there has also been an increase in the number of sentences related to money laundering in Indonesia as shown in Figure 2.

Based on the data in Figure 2, the number of sentences related to money laundering cases in Indonesia are increasing. Compared to 2015 data, sentences related to money laundering cases in 2019 and 2020 have doubled. The author believes that the increase in money laundering cases in Indonesia can mean one of two things. On one hand, this seems to indicate the ineffectiveness of the anti-money laundering programs implemented in Indonesia to date. On the other hand, the number of cases found also indicates that the anti-money laundering program have been running

effectively. This is because, every disclosure of a money laundering case cannot be separated from the initial identification and reporting carried out by the bank in question as a Financial Services Provider (FSP). The identification of the money laundering cases also indicates a healthy relationship of cooperation between the banks and Law Enforcement Officials and regulators. By knowing the real problems faced by the anti-money laundering processes in Indonesia, targeted improvements can be made which in turn can increase the effectiveness of the implementation of anti-money laundering program in Indonesia.
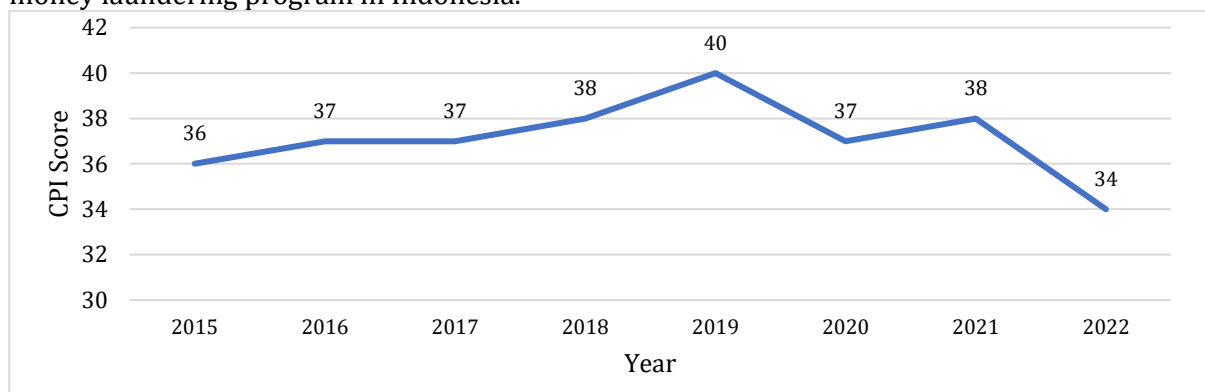

Figure 1. Indonesia's Corruption Perception Index for the 2015-2022 Period (Transparency International, 2022)
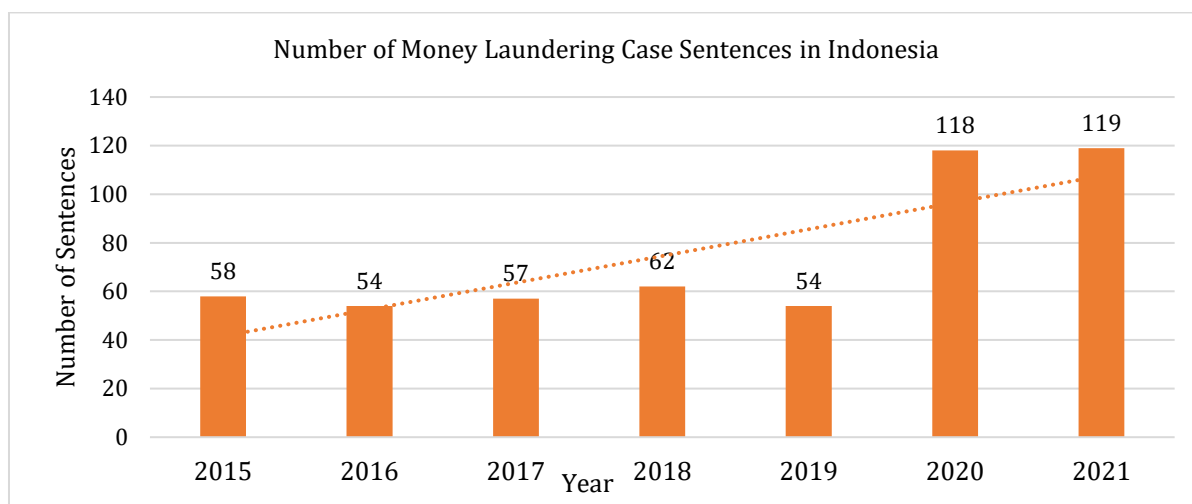

Figure 2. Number of Money Laundering Case Sentences in Indonesia (INTRAC, 2022)

Based on the explanation in the previous paragraphs, there are several core questions for this research to address: (1) How effective has Indonesia been in controlling money laundering crimes since the issuance of the Financial Services Authority Regulation Number 12 of 2017?, (2) How compliant are banks as a Financial Service Providers (FSP) with regards to abiding by Financial Services Authority Regulation Number 12 of 2017?, (3) How effective have The *Indonesian* Financial Transaction Reports and Analysis Centre (*INTRAC*) and the AML-CFT Handling Group of Indonesian Financial Services Authority been as supervisors of the banking sector following the implementation of the anti-money laundering program in Indonesia?, and (4) What are the factors that cause the ineffective implementation of anti-money laundering programs in Indonesia?.

With these questions in mind, the objectives of this research are: (1) to evaluate the effectiveness level in controlling money laundering crimes in Indonesia since the issuance of the Financial Services Authority Regulation about the anti-money laundering programs (Law Number 12 of 2017), (2) to evaluate the banks compliance levels with the anti-money laundering programs, (3) to evaluate the performance of The *Indonesian* Financial Transaction Reports and Analysis Centre (*INTRAC*) and the AML-CFT Handling Group of Indonesia's Financial Services Authority in the implementation of the Anti-Money Laundering program in Indonesia, and (4) to

find out the factors causing ineffectiveness in the implementation of the anti-money laundering programs in Indonesia.

The discussion of money laundering crimes cannot be separated from the theory of fraud as a factor in the occurrence of criminal acts. Of the many theories related to fraud, the most commonly used is the fraud triangle. According to Arens et al. (2008), the three factors or conditions that cause fraud to occur are incentives or pressures, opportunities, and rationalization. Incentives or pressures can lead someone to commit acts of fraud. Incentive or pressure motives can come from employees themselves or from working environment conditions that employees are subject to (Arens et al., 2015). Opportunity is a condition where there is a gap or opportunity resulting from a weakness in the system or control in an area, as well as ineffectiveness on behalf of the supervisory function of authorities (Arens et al., 2008). Attitude/rationalization is the existence of an attitude or a set of ethical values contained within a company or agency that rationalizes fraudulent acts of employees and/or management (Arens et al., 2008).

The purpose of this research is to evaluate the effectiveness of anti-money laundering programs in Indonesia. Evaluation is carried out using an approach from the element of opportunity as referred to in the fraud model. One of the factors for the occurrence of fraud based on the fraud triangle theory according to Arens et al. (2008) is opportunity. The opportunity factor according to Arens et al. (2008) is caused by a weakness in the system or control in an area, accompanied by a lack of effective oversight function. Therefore, the opportunity element in this study is represented by: (1) Regulations in the form of applicable laws or policy; (2) Implementation or application of the anti-money laundering program by financial service providers; (3) Reporting plans and realization of anti-money laundering programs by financial service providers; and (4) Supervision by supervisory and regulatory agencies such as the FSA and INTRAC, as well as supervision by the government (in this case law enforcement officials) authorized to take action against money laundering and INTRAC as the Financial Intelligence Unit.

As well as from the fraud triangle, other fraud model theories include the fraud diamond and fraud pentagon. In the fraud diamond, as well as incentives (pressure), opportunity (opportunity) and rationalization, there is a fourth element, namely "Capability" which is defined as a trait or ability possessed by a person or actor who is able to successfully commit acts of fraud. The person is aware of opportunities and believes that they can realize these opportunities into reality (Wolfe & Hermanson, 2004).

In the fraud pentagon, there are two additional elements other than those contained in the fraud triangle, namely arrogance and competence. Arrogance is defined by Marks (2009) in (Azzahra, 2017) as being greedy and overly confident that one is immune from the regulations in force. Competence, as described by Marks (2009) in (Azzahra, 2017) is defined as a person's ability to override internal controls and control circumstances for personal gain.

Methods

In this study, a qualitative method with an evaluation approach is being used to evaluate the research data. Evaluation is an assessment of the benefits, value, or effectiveness of a performance, action or outcome (Ellet, 2007). This study uses two types of data, namely primary and secondary data. The primary data in this study was obtained from interviews with the the Indonesian Financial Transaction Reports and Analysis Centre (INTRAC) as the financial intelligence units and the Indonesia's Financial Services Authority (FSA) as the supervisory and regulatory agency for the banking sector. In addition to INTRAC and FSA, a list of questions was also submitted to several banks as financial service providers. In this study, the banks that were questioned consisted of one state-owned bank and two regional development banks.

The secondary data in this study is related documents or literature including (1) Indonesia's Risk Assessment on Money Laundering Crimes or the National Risk Assessment on ML/TF and Money Laundering Risk Assessment in the Financial Services Sector (Sectoral Risk Assessment or SRA) issued by INTRAC and Indonesia's FSA in the 2015-2021 range, (2) data and/or the Annual Report of the Corruption Eradication Commission (CEC) for year 2015 to 2021 which includes information related to the handling of money laundering cases, (3) an INTRAC Publication

(Statistics Bulletin 2015-2021) which includes information and statistical data related to the assessment and development of anti-money laundering processes in Indonesia, and (4) publications on related assessments including the Basel AML Index, Corruption Perception Index, Financial Integrity Rating (FIR) and Mutual Evaluation Report (MER).

Interviews with INTRAC and FSA were conducted using a semi structured in-depth interview technique. Semi-structured interviews are a qualitative research method that combines open-ended questions with theoretical questions, comparing data based on the experiences of respondents with data or theories from the research discipline itself (Galletta, 2013). In semi-structured interviews, researchers can rearrange interview questions and make changes according to the interview situation (Galletta, 2013). What is expected from the interview using the semi structured in-depth interview technique is a depth of information and openness of the respondents which is beneficial for the appropriateness of the information obtained. Therefore, for interviews with this technique, respondents were selected with backgrounds that match the research needs, such as in the field of AML-CFT.

To enrich the research results so that information was not only obtained from the side of the regulator and FIU, but interviews were also conducted from bank respondents as the reporting party. To get around the difficulties posed to the research conducted in a pandemic situation, the questions submitted to the banks within the study were made in the form of a Google Form and inquiries were also made via telephone and short messages to several respondents.

The information obtained in this study was analyzed using thematic analysis techniques. Thematic analysis is a qualitative method for identifying, analyzing, and reporting patterns or themes in data. Thematic analysis can organize and describe the data we specify minimally but with rich detail (Braun & Clarke, 2006). Thematic analysis can interpret various aspects of the research topic, offering a flexibility that provides a variety of analytical choices (Braun & Clarke, 2006).

To facilitate analysis, the research topics are broken down into five detailed themes as follows: (1) money laundering control effectiveness in Indonesia, (2) banks compliance level with anti-money laundering programs, (3) the performance of regulatory and supervisory institutions related to the AML-CFT regime in Indonesia, (4) effectiveness of AML program implementations in Indonesia based on MER assessment, (5) problems in anti-money laundering program implementation in Indonesia.

There is a wide potential for things that can be interpreted from the data analyzed. The thematic analysis technique was chosen because this research was conducted by elaborating inquiries/interviews involving respondents and/or informants, as well as analyzing a number of documents to obtain conclusions or information for research results.

Results and Discussion

Money Laundering Control Effectiveness In Indonesia

The primary data in this study was obtained from in-depth interviews with parties from The Indonesian Financial Services Authority and the Indonesian Financial Intelligence Unit (INTRAC). The informants interviewed in this study are presented in Table 1.

Table 1. List of Informants Interviewed

No.	Position	Institutions
1.	Staff of the Reporting Director in the Directorate of Reporting	The Indonesian Financial Transaction Reports and Analysis Center (INTRAC)
2.	Functional Research Arrangements and Development in the AML-CFT Handling Group	The Indonesian Financial Services Authority

The resource persons chosen from the two different agencies based on their duties and responsibilities were considered to have sufficient knowledge and insight regarding the conditions surrounding the implementation of the anti-money laundering programs in Indonesia. Based on the interviews results with informants from the FSA, it can be concluded that the controls governing money laundering offences in Indonesia are quite effective. This is marked by the

reduced risk of money laundering originating from banking crimes seen in the 2015 National Risk Assessment (NRA) on ML/TF data compared to 2021. There has also been an increase in the number of Suspicious Transaction Reports (STR) from year to year. According to the FSA, the increasing number of STR reported by banks to INTRAC is an indicator that the banking sector already has an adequate identification system.

From the results of interviews with INTRAC it can be concluded that the anti-money laundering programs has been running with coordination efforts between INTRAC and FSA conducting socializations and guidance when preparing reports to the relevant banks. This is a good sign because one of the primary success factors for the effective implementation of anti-money laundering programs is good cooperation between supervisory bodies and regulators.

The banks studied have also carried out the Know Your Customers (KYC) procedure in accordance with FSA Law Number 12 of 2017 (updated with FSA Law Number 23 of 2019) by reporting the STR to INTRAC. INTRAC itself has created a reporting channel in the form of an application called goAML, finding that the number of reports related to suspicious transactions from banks that enter INTRAC continues to increase from year to year. According to an informant from INTRAC, the recapitulation regarding the numbers for each report can be seen in the AML-CFT Statistical Bulletin document which is published periodically by INTRAC. Other than the assessment from the interview results, there is also data on Indonesia's ranking based on the Basel AML Index from 2015 to 2021 as listed in Table 2.

Table 2. Indonesia's Position on Basel AML Index of 2015-2021 (Basel Institute on Governance, 2022) (*NRA, 2021*).

Year	2015	2016	2017	2018	2019	2020	2021
Scores	6,23	6,23	6,32	5,73	5,13	4,62	4,68
Ranks	59 of 152	57 of 149	61 of 146	52 of 129	67 of 125	96 of 141	76 of 110

The number on the Basel AML Index is on a scale of 0-10, where 10 indicates the highest level of ML risk. In Table 2, it can be seen that there is an improvement in the score from 5.73 in 2018 to 4.62 in 2020. This means that the level of money laundering risk in Indonesia has decreased yearly.

Bank's Compliance Levels with Anti-Money Laundering Programs

Regarding the level of bank compliance with FSA Law Number 12 of 2017 (which has been updated with FSA Law Number 23 of 2019), the Financial Service Authority as the regulatory and supervisory body for financial service provider which includes the banking industry stated in interviews that the level of compliance banks are displaying with the FSA Law related to anti-money laundering program is good. This statement is based on the FSA's internal document entitled Compilation Report and Analysis of the Monitoring Results of the Anti-Money Laundering and Counter-Terrorism Financing Program.

According to the FSA, it is stated that a level of compliance is 'adequate' if it maintains an average score of four on a scale of one to five. The compliance aspects assessed include both compliance with suspicious transactions reporting obligations to INTRAC as well as the bank's compliance in implementing the five pillars of anti-money laundering policy. Furthermore, the FSA also said that the results of the bank's assessments in the Financial Integrity Rating (FIR) on ML/TF document issued by INTRAC showed good results. According to INTRAC, the large number of reports received indicates that the socialization carried out by FIU's and regulators has been successful because it indicates an increase in the reporting party's awareness. Further detail about the assessment of bank's compliance with the implementation of anti-money laundering programs based on an analysis of the 2021 Financial Integrity Report documents, is listed in Table 3.

The analysis of the Financial Integrity Rating on Money Laundering and Terrorist Financing for 2021 (FIR 2021) document as summarized in Table 3 is intended as a reference for measuring the current level of compliance of banks in Indonesia with the anti-money laundering program set by the Regulator. Assessment of the FIR on ML/TF 2021 uses a scale of 0-10 and ratings from A to E, a more complete explanation is in Table 4.

Table 3. Summary of 2021 FIR Analysis Results concerning Banks as Financial Service Providers (INTRAC, 2021)

No.	Types and Aspects of Assessment	Score	Category
1.	**FIR on ML/TF Aggregate Financial Service Providers Bank**	7,92	B (Good)
2.	**FIR on ML/TF Aggregate Financial Service Providers Bank Dimensions 1:** Measuring the level of commitment of the bank in supporting INTRAC and LEA in tracing financial transactions with indications of ML/TF.	6,25	B (Good)
3.	**FIR on ML/TF Aggregate Financial Service Providers Bank Dimensions 2:** Measuring the suitability of the implementation of AML-CFT reporting in accordance with the applicable law and reporting guidelines.	8,85	A (Very Good)
4.	**FIR on ML/TF Aggregate Financial Service Providers Bank Dimensions 3:** Measuring the level of bank compliance with indicators including the level of compliance with AML-CFT reporting and the level of report quality.	8,48	A (Very Good)

Table 4. 2021 FIR On ML/TF Assessment Interpretation (INTRAC, 2021)

Ratings	Interpretations	Scores
A	**Very Good** (*needs minor improvement*)	>8,0 – 10
B	**Good** (*needs moderate improvement*)	>6,0 – 8,0
C	**Pretty Good** (*needs considerable improvement*)	>4,0 – 6,0
D	**Not Good** (*needs huge improvement*)	>2,0 – 4,0
E	**Bad** (*needs fundamental improvement*)	<= 2,0

Based on the results of the 2021 FIR analysis as shown in Table 4, it can be concluded that in general the integrity level of FSP especially banks in Indonesia is good. This is evidenced by the score of FIR on ML/TF Aggregate Bank Financial Service Providers of 7.92 which places it in the "Good" category. The aggregate assessment consists of several other assessment elements; what is related to this research is the FIR assessment from Dimensions 1 to 3. In Dimension 1, a value of 6.25 is obtained, which means the level of commitment of banks as a financial service providers in supporting INTRAC and Law Enforcement Officials to trace transactions financial statements indicated by AML-CFT is already "Good".

For the Dimension 2 assessment, banks in Indonesia obtained an FIR index value of 8.85, placing it in category A. This means that the anti-money laundering reporting governance carried out by banks as the reporting party is "Very Good" because it complies with FSA Law Number 12 of 2017 that was updated with FSA Law Number 23 of 2019 and other INTRAC reporting guidelines.

For Dimension 3, FSP's in Indonesia obtained an FIR 2021 index value of 8.48 placing it in category A. This means that the level of compliance of banks as reporting parties with the obligations to report AML-CFT programs to INTRAC and the quality of the reports submitted are "Very Good" or in accordance with INTRAC Law Number 14 of 2014.

Regulatory Performance

The FSA reported to the study that they have been effective in carrying out their duties as regulatory and supervisory agents of the financial services sector when implementing anti-money laundering programs in Indonesia. Its representatives stated that the success of FSA's performance (as a regulatory and supervisory agency) can be seen in the results of the 2018 Mutual Evaluation Report (MER APG Indonesia Report), in the assessor notes for immediate outcome (IO). Meanwhile, INTRAC replied that it had carried out its role as an FIU in this case receiving suspicious financial transaction reports from FSP's and passing them on to the Financial Service Authority (Kedeputian Penindakan Komisi Pemberantasan Korupsi, 2018).

INTRAC provides facilities in the form of the goAML application which can be accessed by both FSP's and the FSA as its regulatory and supervisory body. When sent from the banks themselves, reports received by INTRAC included suspicious transaction reports, foreign transaction reports and all related reports. The FSA carries out supervision of banks in accordance with the mandate of Law Number 21 of 2011 about the Financial Service Authority. In carrying out its supervisory function, the FSA conducts direct visits to banks based on their level of risk. It visits banks that are considered low risk at least once every three years. Meanwhile, banks that are considered high-

risk, receive visits at least once in a year. According to an informant from the FSA , this is also regulated in the Financial Service Authority Board of Commissioners Circular Letter which contains internal guidelines for supervisors when visiting banks.

From the interviews results, both informants from the FSA and INTRAC stated that the two parties had coordinated and collaborated regarding the implementation of anti-money laundering programs. Forms of coordination and cooperation included efforts to strengthen human resources in the form of capacity building workshop programs, both internally for the FSA and INTRAC, as well as externally for AML-CFT regime stakeholders including banks. INTRAC also stated that it had created a PEP (Politically Exposed Person) database on the behest of INTRAC Regulation Number 11 of 2020 to facilitate the initial identification process of financial transactions.

Implementation of Three Lines of Defense for AML-CFT Stakeholders

The Three Lines of Defense (3LOD) model is associated with the AML-CFT programs concept in this study. In theory, the 3LOD concept is similar to the AML-CFT Programs. According to the author, the 3LOD model illustrates that in order to achieve its goals, an entity must be able to avoid risks for its management (COSO, 2015). Meanwhile, in Article 5 paragraph (1) of FSA Law Number 12 of 2017 states that "The AML and CFT program is part of the overall implementation of financial service provider's risk management". From the understanding of 3LOD and Article 5 FSA Law Number 12 of 2017 there is a similarity in concept, as they both are risk management efforts. The only difference is that in 3LOD, the concept is intended to be applied to all entities, while in the AML-CFT program, the program is devoted to managing risk for stakeholders in the financial services sector. Table 5 contains the similarity of the 3LOD concept with the AML-CFT program:

Table 5. 3LOD and AML-CFT Programs Similarity (*COSO, 2015; FSA Law Number 12 of 2017*)

Three Lines of Defense		Anti-Money Laundering Programs
1st Line of Defense	Top management supervision Internal control	FSA Law Number 12 of 2017, Art. 5 (2) : a. Active supervision of the Board of Directors and Board of Commissioners;
2nd Line of Defense	Risk management Inspection Compliance	b. Procedures and policies; c. Internal control; d. Information management system; and
3rd Line of Defense	Internal Audit	e. Human resources and training.
Additional Lines of Defense	Regulator	1. The Indonesian Financial Service Authority, and 2. *The Indonesian Financial Transaction Reports and Analysis Centre (INTRAC)*

Based on Table 5, it can be seen that the first to third lines of defense come from banks internal stakeholders such as its board of directors and board of commissioners, internal control/compliance division, internal audit division and all other employees who carry out the bank's operational functions. As for additional lines of defense, in the financial services sector in Indonesia there is the FSA (OJK) as the Supervisory and Regulatory Agency and the INTRAC (PPATK) as the FIU. If a bank has properly implemented an anti-money laundering program in its operational activities, it can be interpreted that the bank has implemented a line of defense as stated in the three lines of defense theory.

Effectiveness of AML Program Implementation in Indonesia Based on MER Assessment

In a Mutual Evaluation Report, there are two assessment categories, namely effectiveness ratings and technical Compliance Ratings. There are 11 immediate outcomes in the effectiveness ratings assessment and 40 Financial Action Task Force (FATF) recommendations in the technical compliance ratings which are used as a reference or indicator. The indicators analyzed in this study are the ones that only relate to the opportunity element, including elements of regulation, application or implementation, reporting and supervision. The results of the opportunity element analysis based on the analysis of Indonesia's 2018 MER documents are presented in Table 6.

Table 6. Indonesia's 2018 MER APG Effectiveness Level Summary (APG, 2018)

Opportunity Element	Effectiveness	Compliance (With the FATF recommendations)
AML related regulation	IO 1 – *Risk, Policy and Coordination*: "***Substantial***"	1. R.1 – *Assessing risk & applying a risk-based approach*: **Largely Compliant** 2. R.2. – *National cooperation and coordination*: **Largely Compliant**
AML Program implementation by Banks as FSP	IO 4 –*Preventive Measures* : "***Moderate***"	1. R.10 – *Customer due diligence* : **Largely Compliant**
Suspicious financial transaction reporting	-	1. R. 20 – *Reporting of suspicious transactions*: **Compliant**
Supervision by regulators	IO 3 – *Supervision* : "***Moderate***"	1. R. 26 – *Regulation and supervision of financial institutions*: **Largely Compliant** 2. R. 27 – *Powers of supervisors*: **Largely Compliant**

The assessment on the MER includes the level of effectiveness and the level of technical compliance of a country with 40 FATF recommendations related to anti-money laundering programs. Measuring the level of effectiveness is assessed based on 11 Immediate Outcomes or IO. In the 2018 MER APG Indonesia, out of 11 IO assessed by Indonesia, five were in the "**Substantial**" category, five were in the "**Moderate**" category, one was in the "**Low**" category. The "Substantial" category is given a value of three, "Moderate" is given a value of two, and "Low" is given a value of one. This means that the total score for the effectiveness of the anti-money laundering program in Indonesia is 26 out of 33 or 78.7% of the perfect score. Referring to the measurement of the level of effectiveness based on the MER APG which adopts three levels of assessment (substantial, moderate and low), the value of 78.7% can be said to be in the substantial category because it is more than 2/3 of 100%.

The level of technical compliance is measured by the compliance value of a country's AML-CFT regime with 40 FATF recommendations. The rating scale used from highest to lowest is compliant (C), largely compliant (LC), partially compliant (PC) and non-compliant (NC). Of the 40 recommendations, based on Indonesia's 2018 APG MER, Indonesia is considered compliant with six recommendations, largely compliant with 29 recommendations, partially compliant with four recommendations and non-compliant with one recommendation. If given a value, where three is compliant, two is largely compliant, one is partially compliant, and zero is non-compliant, Indonesia's total score is 80 or 66.7%, of the full value (120). As a comparison, Table 7 contains an assessment of Singapore and Malaysia's level of compliance with the 40 FATF Recommendations based on the results of the MER (Financial Action Task Force and Asia Pacific Group on Money Laundering, 2015; Naidoo, 2023).

Table 7. FATF Compliance Levels Comparison Between Indonesia, Malaysia and Singapore (APG, 2016; 2018)

Rating	Total Scores		
	Indonesia (MER 2018)	Malaysia (MER 2018)	Singapore (MER 2016)
Compliant	6	20	18
Largely Compliant	29	18	16
Partially Compliant	4	2	6
Non-compliant	1	0	0
Score	80 or 66,7%	98 or 81,7%	92 or 76,7%

Compared to its two neighboring countries, Malaysia and Singapore, for an almost adjacent period of time, the results of Indonesia's compliance with the 40 FATF recommendations was the lowest among the three countries. With an effectiveness percentage of 78.7% and a compliance percentage of 66.7%, it can be said that Indonesia still needs to improve its money laundering control measures. Measures to control money laundering can be in the form of prevention or prosecution. Prevention, for example, could mean strengthening HR capacity, improving regula-

tions, coordination between AML-CFT stakeholders or strengthening the oversight function. Meanwhile, enforcement efforts can take the form of coordinating with law enforcement officials and improving regulations regarding sanctions and recovering state financial losses.

Problems in Anti-Money Laundering Program Implementation in Indonesia

The implementation of anti-money laundering programs in Indonesia, as in other countries, certainly has its own challenges. In this study, an evaluation of the problems encountered in the implementation of the anti-money laundering program was carried out on three parties within the anti-money laundering regime in Indonesia. The three parties in the anti-money laundering regime in Indonesia consist of the Financial Intelligence Unit, Financial Service Authority and Banks as financial service providers.

Based on the interviews results, informants from INTRAC **s**aid that the problem with the current implementation of anti-money laundering programs was the widespread use of fake identities by bank customers. This raises questions such as, are bank unable to carry out early detection? Has the implementation of KYC and Customer Due Diligence (CDD) been carried out properly by bank? Furthermore, it is necessary to ensure that all banks have access to data from the Population and Civil Registration Service as an effort to check the authenticity of identity cards from customers.

Meanwhile, according to sources from the FSA, what hinders the effectiveness of anti-money laundering programs from a risk prevention perspective, includes deficiencies in terms of regulation, outreach, supervision, and technology. For example, the entry of crypto assets into financial instruments in Indonesia adds one more aspect that requires supervision from the relevant regulators. Therefore, it is necessary to make regulatory adjustments that can accommodate the characteristics and risks of the related instruments.

From an FSP perspective, the banks studied revealed that there is a need for system updates related to Beneficiary Owners (BO) management. The intended BO management system includes technical implementation and regulations that govern it so that it can accommodate the needs of the bank in carrying out the initial identification process. These problems are in accordance with the high risk typology of money laundering as stated in the 2021 National Risk Assessment on Money Laundering, namely: (1) Use of false identities, (2) Use of nominees (loan names), foreign trusts, family members or third parties, (3) Utilization of sectors that are not well regulated.

The problems as mentioned in the previous paragraph have an important role in the implementation of anti-money laundering programs because based on Law Number 8 of 2010 concerning the Prevention and Eradication of Money Laundering Article 18 paragraph (5) it is stated that the principle of recognizing service users must at least include identification of financial service user, verification of the financial service user, and monitoring transactions of the financial service user.

Conclusion

Based on the results of the research, it can be seen that Indonesia has fairly good implementation of anti-money laundering programs. Nevertheless, there is still quite a lot of room for improvement in efforts to control money laundering in Indonesia. The results of interviews and analysis of documents obtained information that there are still several obstacles in the implementation of anti-money laundering programs in Indonesia.

The level of effectiveness in controlling money laundering crimes after the issuance of Financial Services Authority Regulation Number 12 of 2017 are considered good and effective based on the assessment conducted by MER for Indonesia in 2018. Based on the results of the analysis and weighting of scores in the discussion section, the 2018 MER assessment for Indonesia obtained an effectiveness level of 78.7%. Meanwhile, the level of compliance with 40 FATF recommendations related to AML-CFT showed Indonesia obtained a percentage score of 66.7%. Thus, in general it can be concluded that the level of effectiveness in the implementation of anti-money laundering programs in Indonesia is considered good, however it requires improvement.

The level of compliance of banks as FSP's with Financial Services Authority Regulation Number 12 of 2017 are considered good. Based on the results of the interviews, the FSA as the banking industry supervisory and regulatory body stated that banks already have good compliance with the implementation of the APU program. This is also supported by the MER assessment, especially at IO 4 (Preventive Measures), where Indonesia received the "Moderate" predicate, and the compliance assessment on recommendation ten (Customer Due Diligence) which received the "Largely Compliant" predicate. Furthermore, banks as FSP's in Indonesia also obtained an FIR index score in the 1st dimension at 6.25 (Good) and 2nd dimension at 8.85 (Very Good). Based on the respondents' answers from the banks studied, it was also confirmed that these banks carried out KYC and CDD procedures in accordance with the provisions contained in Financial Services Authority Regulation Number 12 of 2017, which was updated by Financial Services Authority Regulation Number 23 of 2019.

The performance of FSA and INTRAC as the supervisory and regulatory agency in the implementation of anti-money laundering programs in Indonesia are also considered good and effective. From a regulatory standpoint, the two institutions (FIU and FSA) are in compliance and have referred to international regulations, primarily by making regulation related to anti-money laundering that refer to the latest 40 FATF recommendations. PPATK as the FIU has also implemented good monitoring and detection efforts by developing regulations and related applications, namely goAML and the Politically Exposed Person (PEPs) application. From the 2018 Indonesia APG MER assessment, Indonesia is considered to have been effective in terms of regulation. Indonesia's efforts to establish adequate regulations regarding to the implementation of the anti-money laundering program earned the title of "substantial" in the 2018 MER APG Indonesia assessment, particularly in IO 1 (Risk, Policy and Coordination). This means that Indonesia's understanding and implementation of APU regulations is considered effective.

Based on the results of this study, there are at least two main factors causing the ineffective implementation of anti-money laundering programs in Indonesia. First, there are still frequent obstacles in the process of identifying and verifying Beneficiary Owners (BO) from customers or Walk-in Customers (WIC). Secondly, there are weaknesses in risk mitigation efforts including regulatory weaknesses, lack of outreach, lack of supervision, and technological weaknesses.

In accordance with the research results and the analysis of the documents and literature used as references, several recommendations are proposed that are expected to improve and increase the effectiveness of the implementation of anti-money laundering program in Indonesia: (1) Improve regulations regarding Beneficiary Owners or BOs to facilitate access to FSPs in carrying out the initial identification process; (2) Prioritise technological improvements that can strengthen means of implementing anti-money laundering programs, and (3) Increase the ability of Law Enforcement Agents (LEA) and improve regulations primarily to expand the authority of LEA.

One of the limitations of this study is that the results do not describe the overall condition of FSP's under the supervision of FSA and INTRAC. The data and results of this study only describe the limited conditions of the three banks studied. Another limitation in this study is its references. At the time this research was conducted, there were no updates from the publication of the Indonesian MER document (APG Indonesia Mutual Evaluation Report September 2018). With the publication of the latest Indonesian MER document, it will certainly be easier to describe the condition of the evaluation results of the anti-money laundering regime in Indonesia more accurately. This is because during this period of time there were several significant changes in regulations, as well as economic events such as the Covid-19 pandemic which disrupted all aspects of life including economic, political, legal and social.

Future research is expected to contain information from the latest published documents so that data will be more relevant and accurate with current conditions. In addition, further research is also expected to cover a wider range and number of FSP respondents in order to describe the effectiveness of the implementation of anti-money laundering programs in the financial services sector more broadly.

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