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Customers' Acceptance of Anti–Money Laundering Practices in Banks: Evidence from Kathmandu Valley

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Abstract

Background: Money laundering undermines financial transparency and stability by disguising illegally obtained funds and integrating them into the legitimate economy. Its growing complexity poses global and national risks, including in Nepal, where regulatory efforts face challenges in enforcement, technology, and public awareness.

Purpose: This study analyzes the insights of customers within the Kathmandu Valley on banks' implementation of anti-money laundering practices.

Design/methodology/approach: This study utilized an exploratory research design to investigate the subject matter. Non-probability sampling methods were employed to gather data, resulting in a total of 408 samples collected through Kobo Toolbox. The data analysis employed both descriptive and inferential techniques, with descriptive analysis providing an overview of the basic features of the data and inferential analysis facilitating broader conclusions. The analytical process was conducted using Excel for data management and SmartPLS 4.0 for structural equation modeling, enabling a thorough examination of the relationships between variables.

Findings: The results indicate that customer awareness, discomfort, and trust have a significant influence on attitudes, which in turn strongly predict customer acceptance of AML practices. Mediation analysis further confirms that attitudes significantly mediate all three relationships, highlighting their central role in shaping AML compliance behavior.

Conclusion: This study concludes that customers' awareness of money laundering and terrorism financing, their trust in banking secrecy measures, and their levels of discomfort with AML requirements all play significant roles in shaping their acceptance of banks' AML practices. Notably, the research emphasizes the role of attitude as a mediating factor in this relationship. Customers' attitudes influence how their awareness, trust, and discomfort translate into acceptance of AML practices.

Key Words: Anti Money Laundering, Know your Customers, Banks, Awareness, Trust, Discomfort, Acceptance

1. Introduction

Money laundering poses a significant challenge to global financial regulation, eroding the transparency, stability, and credibility of financial systems. It is defined as the process of concealing the illicit origins of funds obtained through unlawful activities, thereby integrating them into the legitimate economy (Pol, 2020). Criminal entities employ a range of sophisticated mechanisms to disguise the source of illicit proceeds derived from corruption, drug trafficking, smuggling, fraud, tax evasion, and terrorism financing (Wang et al., 2020). By transforming these illegal proceeds into seemingly legitimate assets, perpetrators distort financial markets and compromise regulatory oversight. The implications extend beyond individual transactions, weakening economic governance, promoting inequality, and eroding institutional integrity (Saxena, 2023; Chen, 2023).

The process of money laundering generally proceeds through three interconnected stages: placement, layering, and integration. In the placement stage, illicit funds are introduced into the financial system through deposits, real estate purchases, or cash-intensive businesses such as casinos and hotels (Al-Suwaidi & Nobanee, 2020). The layering stage involves complex transfers, conversions, and movements of funds across multiple accounts and jurisdictions to obscure the audit trail. Techniques such as the use of shell companies, offshore accounts, and cryptocurrency transactions are increasingly prevalent (Mpuchane & Gande, 2023). Finally, the integration stage legitimizes the laundered funds through business investments, property transactions, or falsified invoices, effectively embedding criminal proceeds within the legal economy (Z. Chen et al., 2018; Chang, 2013). Each stage incrementally distances illicit funds from their source, complicating regulatory detection and enforcement.

Globally, money laundering poses systemic threats to the financial architecture of nations. It distorts capital flows, weakens monetary control, and facilitates macroeconomic instability. Illicit inflows erode confidence in the banking sector, reduce fiscal revenues, and create uneven competition between compliant and non-compliant enterprises (Saxena, 2023). The problem persists even in highly regulated economies. In Europe, countries such as Germany and the United Kingdom face trade-based laundering and the misuse of corporate structures and shell companies. In the United States, sophisticated schemes exploiting digital assets, complex investment vehicles, and real estate transactions remain common (Al-Tawil, 2023). Similarly, Canada and Australia continue to battle illicit outflows through offshore financial centers, enabled by secrecy jurisdictions and weak international enforcement mechanisms (Goldbarsht, 2024). These global experiences underscore the limitations of formal regulation when institutional coordination, technological adaptability, and cross-border information sharing are inadequate.

Nepal, though smaller in scale, is increasingly exposed to the risks associated with money laundering. The country's growing financial integration, open borders, and heavy reliance on remittances have expanded opportunities for illicit financial flows. Key sources of revenue include corruption, smuggling, tax evasion, and the narcotics trade (Gocher et al. 2024). Such activities undermine macroeconomic management, distort investment decisions, and weaken public confidence in the financial system. Recognizing these risks, the Nepal Rastra Bank (NRB), as the central monetary and regulatory authority, has developed a comprehensive Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) framework (Bhusal, 2016). These regulations align with the recommendations of the Financial Action Task Force (FATF), emphasizing customer due diligence, risk-based compliance, and the reporting of suspicious transactions. However, limited institutional capacity, insufficient technological infrastructure, and low levels of financial literacy continue to constrain effective enforcement (Joshi & Shah, 2020).

Empirical studies from various jurisdictions demonstrate that effective AML regulation depends not only on policy formulation but also on implementation capacity and customer cooperation. In Malaysia, Azman et al. (2022) and Mohamad Abdul Latif & Abdul-Rahman (2018) emphasized the importance of customer awareness, trust, and Know Your Customer (KYC) procedures in promoting compliance, while secrecy norms and inadequate public engagement hinder enforcement. In India, low awareness of AML provisions and weak communication strategies have limited the effectiveness of policies (Viritha &

Mariappan, 2016), while infrastructure and ease of use have been identified as important determinants of compliance behavior (Viritha et al., 2015). In Pakistan, weak institutional enforcement and deficiencies in suspicious transaction reporting persist despite regulatory alignment with FATF standards (Usman Kemal, 2014; Zia et al., 2022). Similar challenges are evident in developed markets: U.S. institutions exhibit systemic lapses in customer due diligence (Huang, 2015; FATF, 2016), while the U.K. and EU struggle to manage illicit capital inflows and unexplained wealth (Parveen, 2020; Bodescu Cotoc et al., 2021). Collectively, these studies highlight the global persistence of AML vulnerabilities despite ongoing regulatory evolution.

In the Nepalese context, Zafarullah and Haque (2023) identifies banking, cooperatives, remittances, and casinos as sectors most susceptible to money laundering. While the NRB's directives (2010, 2022) outline a risk-based approach that emphasizes institutional compliance and customer identification, enforcement remains inconsistent. The effectiveness of these frameworks depends heavily on customer-level factors, including awareness, trust, and willingness to comply with AML procedures. Customers who understand the regulatory rationale behind verification processes are more likely to cooperate, whereas those who perceive them as intrusive or inconvenient may resist compliance (Irwin & Turner, 2018). Consequently, regulatory success is contingent upon the extent to which AML systems strike a balance between stringency and public confidence and service accessibility.

This study aims to assess customer acceptance of AML practices among bank clients in the Kathmandu Valley, Nepal's principal financial hub. It examines how awareness, trust, and perceived discomfort impact customer acceptance, and how attitudes moderate these relationships. The findings are expected to offer empirical insights into how regulatory effectiveness can be enhanced through improved customer engagement, communication, and institutional design.

From a policy standpoint, understanding customer perceptions of AML measures has practical significance for both regulators and financial institutions. It informs the design of compliance systems that are transparent, user-friendly, and proportionate to risk, thereby improving adherence without imposing excessive burdens. Strengthening customer cooperation enhances regulatory credibility, reduces institutional vulnerabilities, and supports the broader goals of financial stability and integrity in governance. By integrating behavioral insights into the regulatory discourse, this study contributes to the development of a more inclusive and effective AML policy framework for Nepal.

2. Literature Review

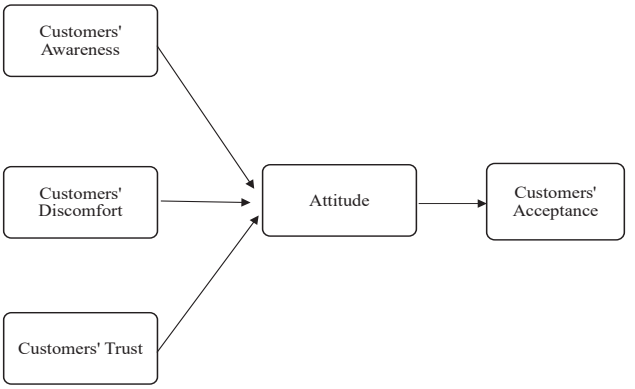
Theoretical Framework and Hypothesis Formulation

Multiple theories combine to give a complete framework for understanding customers' perceptions of Anti-Money Laundering regulations (Azevedo Araujo, 2010). The Theory of Reasoned Action (TRA) examines the relationship between attitudes and behaviors, highlighting the impact of attitudes and subjective standards on behavioral intentions, which can help banks modify their AML communication methods (Adilah et al., 2023). Disconfirmation Theory describes customer satisfaction by focusing on the difference between expectations and actual experiences, emphasizing the significance of matching AML procedures with consumer expectations to achieve compliance (Dearden, 2019). The Assimilation Theory complements the Disconfirmation Theory by suggesting that consumers adjust their expectations to mitigate cognitive dissonance, underscoring the importance of effective AML performance management in meeting customer expectations (Mugarura, 2016). Transparency-Stability theory emphasizes the necessity of clear communication and openness in establishing trust and stability, which are crucial for enhancing customer perceptions of AML regulations. Banks build credibility and trust with their customers by being open about AML measures (Huang et al., 2023). The Theory of Planned Behavior builds on TRA by analyzing attitudes, subjective norms, and control beliefs to anticipate compliant behavior. Understanding these aspects enables banks to design interventions that improve customer engagement and AML compliance. Together, these theories offer valuable insights into enhancing customer satisfaction, trust, and AML

compliance (Gikonyo, 2020). Among all these theories, the Theory of Reasoned Action is used in this study to explain the influence of customers' attitudes on their acceptance of banks' AML practices. Since the TRA focuses on the relationship between individuals' beliefs, attitudes, intentions, and behaviors, it is well-suited to explore the ways customers' awareness, trust, and discomfort shape their attitudes toward AML policies, which, in turn, affect their acceptance of these practices. By incorporating TRA, the study can better understand the decision-making process behind customers' acceptance of AML measures and identify ways to improve it.

Multiple studies reveal that Anti-Money Laundering (AML) practices are perceived differently across stakeholders, emphasizing the importance of enhancing compliance through customer awareness, trust, and technology integration (Irwin et al., 2012; Rosdol, 2007). Research in Malaysian banks reveals that awareness, trust, and discomfort are key factors influencing customer acceptance of AML practices, with awareness and trust having a positive impact on compliance (Azman et al., 2022). Similarly, Othman (2021) finds that awareness, satisfaction, and trust shape favorable customer attitudes toward AML rules in the Bank of Palestine. Karim et al. (2020) highlight how financial supply chain structures influence money laundering risks in Indonesia, underscoring the need for systemic reform. Drawing on these studies, the conceptual framework synthesizes these insights to examine how awareness, trust, discomfort, and attitudes collectively influence customer acceptance of AML practices.

Figure 1: Conceptual Framework



Source: Adapted from Azman et al. (2022)

Customer Awareness

Customer awareness refers to the extent to which consumers are informed about a bank's AML measures, such as monitoring transactions, verifying identities, and reporting suspicious activities (Azman et al., 2022). Consumers' acceptance reflects their willingness to support and comply with these AML practices, recognizing their importance in preventing financial crimes (Viritha et al., 2015). Customer awareness significantly influences their attitude towards AML practices. Informed customers tend to trust banks more, as they understand that AML measures protect both the financial system and their own assets (Z. Chen et al., 2018). Awareness also leads to better compliance with regulations, such as KYC, reduces frustration, and fosters a positive perception of security and regulation. Ultimately, knowledgeable customers are more likely to view AML processes as necessary and beneficial, rather than as inconvenient (Othman, 2021).

H1: Customers' Awareness has a significant relationship with attitude.

Customers' Discomfort

Attitude serves as a mediator in the relationship between customers' discomfort and their acceptance of a bank's Anti-Money Laundering (AML) practices. Customers' discomfort may arise from perceiving AML practices as burdensome or inconvenient, particularly when these measures require extensive

documentation or frequent monitoring of transactions (Keskitalo & Väyrynen, 2023). Customer discomfort can impact their attitude toward AML practices. When customers perceive AML measures, such as strict documentation and verification processes as hard to handle, it can lead to frustration and dissatisfaction. This discomfort may cause them to view AML regulations as inconvenient, unnecessary, or even a hindrance to their banking experience (Mubera, 2014). As a result, customers might develop a negative attitude toward the bank's policies, leading to reduced trust and reluctance to comply with these regulations (Y. H. Yusoff et al., 2024).

H2: Customers' Discomfort has a significant relationship with attitude.

Customers' Trust

Customer trust plays a crucial role in shaping their attitude towards AML practices. When customers trust that a bank's AML measures are implemented with integrity and are designed to protect them from financial crime, they are more likely to view these processes positively (Mubera, 2014). Trust fosters the acceptance of regulatory procedures, such as identity verification and transaction monitoring, as customers believe these efforts contribute to a safer financial environment. As a result, they tend to comply willingly and feel reassured by the bank's efforts to safeguard their assets, leading to a more favorable attitude toward AML practices (Esoimeme, 2020).

H3: Customers' Trust has a significant relationship with attitude

Customers' Acceptance

Customers' acceptance, which refers to their willingness to comply with and support AML measures, can be shaped by their attitudes toward these practices (Pol, 2019). When customers have a positive attitude towards AML practices, viewing them as necessary for security and protection, this favorable perception can lead to higher acceptance of these measures. A positive attitude helps customers understand the importance of AML practices in maintaining a safe financial environment, thus increasing their likelihood of accepting these protocols (Inés López-López, 2016). Similarly, if customers have a negative attitude, seeing AML practices as overly restrictive or inconvenient, this can hinder their acceptance, even if the practices are well-intentioned. Therefore, attitude acts as a mediator that can either enhance or diminish the effect of various factors on customers' acceptance of AML practices, making it a crucial element in understanding customer behavior in the context of banking compliance (Kim, 2008).

H4: Attitude has a significant relationship with consumers' acceptance

Customers' Awareness, Attitude, and Acceptance

Attitude plays a significant mediating role in the relationship between customer awareness and consumer acceptance of banks' Anti-Money Laundering (AML) practices. The attitude of customers towards AML practices acts as a bridge between their awareness and acceptance. When customers have a positive attitude towards these practices, often due to understanding their importance in maintaining the integrity of the financial system, increased awareness is more likely to lead to greater acceptance (Wang et al., 2020). Thus, attitude serves as a mediating factor that can enhance or diminish the effect of customer awareness on consumer acceptance, making it a key component in the relationship between these two constructs (Z. Chen et al., 2018).

H5: There is a significant relationship between awareness, attitude, and acceptance

Customers' Discomfort, Attitude, and Acceptance

The way customers feel about AML practices, whether they hold a positive or negative attitude can significantly influence whether their discomfort affects their acceptance of these practices (Pol, 2020). Suppose customers develop a positive attitude towards AML practices, understanding their importance in preventing financial crimes and protecting the integrity of the banking system. In that case, they may be more willing to accept them, despite any initial discomfort (Kurum, 2023). On the other hand, if customers have a negative attitude towards these practices, viewing them as overly restrictive or unnecessary, this discomfort could reduce their willingness to comply with or support AML measures (Dearden, 2019).

H6: There is a significant relationship between Customers' Discomfort, Attitude, and Acceptance

Customers' Trust, Attitude, and Acceptance

When customers have a positive attitude toward a bank's AML practices, this attitude can enhance the relationship between trust and acceptance. A positive attitude often stems from understanding the necessity and effectiveness of AML measures in safeguarding both the financial system and the interests of customers (Olaim et al., 2016). If customers trust that the bank's AML practices are fair and transparent, and they have a favorable attitude towards these measures, they are more likely to accept and adhere to them. Similarly, if customers have negative attitudes towards AML practices, perhaps viewing them as unnecessary or burdensome, even high levels of trust might not lead to acceptance. Therefore, attitude serves as a crucial mediator, influencing whether trust in the bank will translate into a willingness to accept and support its AML practices (Kumar & Lokanan, 2023).

H7: There is a significant relationship between Customers 'Trust, Attitude, and Customers' Acceptance.

3. Methods

This study is grounded in a post-positivist research philosophy, which recognizes that while reality can be objectively studied, knowledge remains provisional and influenced by contextual factors (Saunders et al., 2019). Guided by this stance, the research adopts a deductive approach, moving from established theories on customer behavior and compliance toward the formulation and testing of hypotheses. In alignment with Saunders' research onion, the study employs a mono-method quantitative strategy, using a survey-based design to collect structured data on customer perceptions and attitudes toward Anti-Money Laundering (AML) practices. The choice of an explanatory research design is justified, as the objective is to examine the causal relationships between independent variables, such as customer awareness, trust, and discomfort, and the dependent variable, acceptance of AML policies. While descriptive elements are incorporated to capture socio-demographic characteristics and general customer concerns, the explanatory design provides the analytical framework to test how these factors interact and shape behavioral outcomes (Basnet et al., 2024). This design thus integrates a clear philosophical foundation, systematic methodological choices, and rigorous analytical procedures to generate insights that can inform both theory and practice in the field of AML compliance.

Sampling, Data Collection, and Analysis

The research focuses on the Kathmandu Valley (27.7172° N, 85.3240° E), targeting bank customers aged 18 and above who actively maintain accounts within the region (Baker et al., 2014). As Nepal's economic hub, the valley offers an ideal setting due to its dense concentration of financial institutions, diverse demographics, and advanced infrastructure that facilitate effective data collection (Rana et al., 2015). The study employs non-probability sampling, given the uncertain number of bank customers, to gather data from a representative subset of participants. Sampling, as defined by Mohsin (2021) and Hamed (2016), enables researchers to draw conclusions about a population from a smaller group, with techniques classified into two types: probability and non-probability (Sharma, 2017). This methodological choice ensures both practical feasibility and relevance to the study's objectives.

The formula often used in non-probability sampling for determining sample size is: $n = \frac{z2p(1-p)}{e^2}$ (A.S.Singh & Masuku,2014; Maharjan et al., 2022)

Where, z2= 1.96 p=0.5 and E2=0.05 (From Statistical Table). For non-probability sampling, a sample size of approximately 384 can serve as a strong estimate when aiming for a 5% margin of error, assuming a large population.

Considering Non-Performing Error 5%. Thus, the sample size of the study is n≈403.'

Research Instrument, Pre-Testing, Data Collection, and Analysis Techniques

The research instrument used in this study is a structured questionnaire, a tool designed to collect reliable and consistent data. Structured questionnaires with fixed-response options, such as Likert scales, facilitate easy analysis and help identify patterns across large samples. KoboToolbox was used to design and

administer the questionnaire because it supports both online and offline data collection (Lawaju et al., 2024). Before the final survey, the questionnaire was pre-tested with 15 administrative staff to check clarity, wording, and usability, and necessary adjustments were made based on their feedback. Data collection took place online among banking customers in the Kathmandu Valley from July 18 to August 11, 2024, yielding 408 valid responses. For analysis, both descriptive and inferential techniques were applied to interpret and evaluate the collected data.

Variables and Definitions

Table 1: Variables and Definitions

Construct	Observed Variables	Indicators	Explanation	Citation
Customer Awareness	Anti-Money Laundering	CA1	Customers are highly aware of Money laundering activities.	Azman et al. (2022)
	KYC	CA2	Customers are highly aware of KYC.	
	Communication	CA3	The bank explained the importance of KYC to its customers.	
	Customer Identification	CA4	Customers understand the importance of providing their address and identity proof to the bank.	
	Transaction Reporting	CA5	Customers are aware that Banks are required to report certain transactions of the customers to the concerned authority.	
	AML/CFT Laws	CA6*	Customers are aware of the Unlawful Activities	
	Financial Intelligence Unit	CA7	Customers understand the role of FIU	
Customer Trust	Confidence	CT1	Customers are confident in bank's ability to detect and prevent money laundering.	Azman et al. (2022)
	Security	CT2	Bank prioritizes customer security in its AML practices.	
	Banking Continuation	CT3	Prefer to continue banking with your current bank because of its AML measures.	
	AML Information	CT4	Trust the information provided by your bank about its AML policies and procedures.	
	Transaction Reporting	CT5	The bank does not report any customer information or transactions to any third party.	
	Processing Time	CT6*	Customers are satisfied with the time it takes the bank to process our request to open an account with them.	
	Communication	CT7*	Customers are satisfied with bank's timely communication regarding any changes in their acceptance policy.	
	Procedure Hinderance	CD1	Customers have experienced difficulty and discomfort with the bank's KYC process.	

Customer Discomfort	Self -Present	CD2	As part of updating the KYC particulars, the bank requests that account holders come in person to resubmit the KYC documents.	Azman et al. (2022)
	Staff Support	CD3	The bank staff helps resolve KYC-related issues.	
	Paper Work	CD4*	To fill out the account opening form and complete the KYC application and documentation requires a significant amount of paperwork.	
	Language	CD5	It is difficult to understand the account opening/ KYC form as it is not available in the customer's mother tongue.	
	Account Freeze	CD6	Banks can freeze customers' accounts without prior notice if they do not resubmit KYC documents.	
Customers' Acceptance	Identity	CAC1*	Provide true identity and address proof to the bank.	Azman et al. (2022)
	Information Disclosure	CAC2	Ready to disclose certain information (details of accounts with other banks, annual income, value of my assets, source of funds, etc.) to the bank.	
	KYC Update	CAC3	Update my KYC particulars if there are any changes.	
	Documentation	CAC4*	I can provide the KYC documents to banks at regular intervals, even when there is no change in my KYC particulars.	
	Approach	CAC5	Satisfied with the approach our bank uses while gathering information from us during the time of transactions.	
	High volume transactions	CAC6	Satisfied with the ability of our bank to provide us with full information regarding the extra documents required from us, any time we carry out high-volume transactions (transactions that exceed NPR 1 million and above)	
Attitude	Importance	AT1	Anti-money laundering regulations are important for Nepal's global position.	Azman et al. (2022)
	PEPs	AT2	The present AML procedure cannot prevent money laundering by Politically Exposed Persons (PEPs).	
	AML regulations	AT3	The current AML regulations of Nepal fail to prevent those who are actively engaged in money laundering.	
	Account Closure	AT4*	Close the account if the bank reports any suspicious transactions.	
	Guilty	AT5	There are very few people found guilty of money laundering in Nepal.	
	AML enforcement	AT6	Not convinced that the result of AML enforcement will be a reduction in the volume of money laundering.	

Note: Items AT4 from the construct Attitude, CA6 from Customers' Awareness, CD4 from Customers' Discomfort, CT6 and CT7 from Customers' Trust, and CAC1 and CAC4 from Customers' Acceptance have been removed.

4. Results

Socio-Demographic Characteristics

Socio-demographic characteristics refer to the attributes of the study population that help to describe and differentiate the individuals or groups being studied. These characteristics typically include variables such as age, gender, education level, income, marital status, occupation, ethnicity, and location, among others. By incorporating socio-demographic variables into data analysis, researchers can ensure that their findings are more comprehensive, relevant, and applicable to diverse populations. The socio-demographic data collected from 408 banking customers within the Kathmandu Valley provides valuable insights into the characteristics of the population served by the banking sector. A similar study by Azman et al. (2022) in Malaysia collected 160 samples of banking customers aged 18 and above.

Table 2: Socio-Demographic Characteristics

Title	Categories	Number	Percentage
Gender	Male	214	52.45
	Female	194	47.55
Age	21-30	141	34.56
	41-50	112	27.45
	50 Above	74	18.14
	31-40	74	18.14
	Below 20	7	1.72
Location	Kathmandu	168	41.18
	Lalitpur	134	32.84
	Bhaktapur	106	25.98
Education	Bachelors	173	42.4
	Masters	129	31.62
	Higher Secondary	49	12.01
	Secondary	48	11.76
	Above	9	2.21
Occupation	Salaried	183	44.85
	Self Employed	85	20.83
	Dependent	70	17.16
	Housewife	40	9.8
	Retired	30	7.35
Average Monthly Income	41,000- 60,000	143	35.05
	Above 60,000	131	32.11
	21,000- 40,000	82	20.1
	20,000 and below	50	12.25

The gender distribution shows a near-equal representation, with males comprising 52.45% and females 47.55% of the respondents. The age distribution reveals that the largest age group is between 21 and 30 years, accounting for 34.56% of the customers, followed by those aged 41-50 at 27.45%. The remaining age groups are 50 and above and 31-40, each representing 18.14%, while only 1.72% are below 20. In terms of location, a significant portion of the customers reside in Kathmandu (41.18%), followed by Lalitpur (32.84%) and Bhaktapur (25.98%).

Regarding educational qualifications, the majority hold a Bachelor's degree (42.4%), followed by 31.62% with a Master's degree, and a smaller percentage having completed higher secondary education (12.01%) or secondary education (11.76%). A small group (2.21%) has education above the Master's level. In

terms of occupation, the data indicates that most customers are salaried employees (44.85%), followed by self-employed individuals (20.83%), dependents (17.16%), housewives (9.8%), and retirees (7.35%). Lastly, the average monthly income distribution shows that the largest income group earns between NPR 41,000 and NPR 60,000 (35.05%), followed by those earning above NPR 60,000 (32.11%), between NPR 21,000 and NPR 40,000 (20.1%), and below NPR 20,000 (12.25%). This data provides a comprehensive overview of the socio-demographic profile of banking customers in the region, highlighting their diversity in terms of age, education, occupation, and income levels.

Inferential Analysis

Inferential analysis, on the other hand, goes beyond mere description, allowing researchers to draw conclusions and make predictions about the broader population based on the sample data. This involves using statistical techniques, such as hypothesis testing, regression analysis, and confidence intervals, to determine relationships, test theories, and make inferences that extend beyond the immediate data set (Patterson et al., 2001).

Internal Consistency Reliability (ICR) assesses how consistently a set of indicators measures the same construct, ensuring alignment and reliability in research (Diamantopoulos et al., 2008; Lawaju et al., 2023). The two primary measures of ICR are Cronbach's alpha and composite reliability, both of which evaluate the coherence among survey items (Nair et al., 2017). Cronbach's alpha values above 0.6 are acceptable, and those exceeding 0.7 indicate good internal consistency, reflecting strong correlations among items (Khidzir et al., 2018). High internal consistency enhances the validity of findings by confirming that items collectively measure the intended construct (Bacon et al., 1995). Composite reliability further refines this assessment by accounting for the varying loadings of items, offering a more comprehensive measure of reliability (Nair et al., 2016).

Table 3: Internal Consistency Reliability (ICR)

Constructs	Cronbach's alpha	Composite reliability (rho_c)
At	0.774	0.846
Ca	0.814	0.866
Cac	0.684	0.808
Cd	0.756	0.836
Ct	0.847	0.891

Table 5 evaluates the reliability of different constructs using Cronbach's alpha and composite reliability (rho_c). In this case, all constructs, except "cac," which has a lower value of 0.684, meet the acceptable threshold. For composite reliability, values between 0.6 and 0.7 are considered acceptable, 0.7 and 0.90 are considered good, while values above 0.90 may indicate potential issues with item redundancy (Bacon et al., 1995). All constructs in the table fall within the "good" range for composite reliability.

Convergent validity is a crucial concept in research that assesses whether different indicators or measures intended to evaluate the same construct actually correlate as expected. This is achieved by verifying whether items that should be related in theory are indeed related in practice (Carlson & Herdman, 2012). Convergent Validity is evaluated by examining factor loadings, where higher values on the intended construct suggest a stronger level of convergent validity (Cunningham et al., 2024). Factor loadings measure the extent to which a specific item correlates with a particular factor. Factor loadings of items with a value of 0.71 or higher are regarded as excellent, 0.63 or higher as very good, 0.55 or higher as good, 0.45 or higher as reasonable, and 0.32 or higher as poor (Saeed et al., 2022).

Table 4: Factor/Outer Loading

Constructs	Items	At	Ca
Attitude	at1	0.724	0.524
	at2	0.778	
	at3	0.708	
	at5	0.679	
	at6	0.727	
Customers' Awareness	ca1	0.706	0.519
	ca2	0.709	
	ca3	0.713	
	ca4	0.787	
	ca5	0.718	
	ca7	0.687	
Customers' Acceptance	cac2	0.652	0.518
	cac3	0.577	
	cac5	0.79	
	cac6	0.829	
Customers' Discomfort	cd1	0.778	0.506
	cd2	0.767	
	cd4	0.681	
	cd5	0.644	
	cd6	0.678	
Customers' Trust	ct1	0.812	0.621
	ct2	0.83	
	ct3	0.778	
	ct4	0.783	
	ct5	0.733	

Table 4 presents factor or outer loadings for various items across five different factors labeled "at," "ca," "cac," "cd," and "ct." Items like ca6, ct7, ad3, at4, cac1, and cac4 have been removed from the table, indicating that their factor loadings were likely too low to be considered significant. Items with loadings of 0.71 or higher are classified as "excellent," suggesting a very strong correlation with the factor. Several items, such as at1, at2, at6, ca4, ca5, cac5, cac6, ct1, ct2, and ct4, have loadings in this range, showing they are highly relevant to their respective factors. Items with loadings between 0.63 and 0.70 are considered "very good," reflecting a strong but slightly lesser degree of correlation; examples include at3, ca1, ca2, and ca3. Items like cac2, cd1, and cd2, which have loadings between 0.55 and 0.62, are rated as "good," indicating a moderate level of association. "Reasonable" loadings, between 0.45 and 0.54, and "poor" loadings, from 0.32 to 0.44, are not included in the table, suggesting that all items have at least moderate relevance. Overall, the majority of the items have "excellent" or "very good" loadings, indicating strong associations with their respective factors and suggesting a robust factor structure.

Discriminant validity ensures that constructs that are supposed to be different are, in fact, distinct from each other (Franke & Sarstedt, 2019). The Heterotrait-Monotrait Ratio (HTMT) is a statistical method used to assess discriminant validity more precisely by comparing the correlations between different constructs (heterotrait correlations) with the correlations within the same construct (monotrait correlations) (Rasoolimanesh, 2022). If the HTMT ratio is below a certain threshold, typically 0.85 or 0.90, it indicates good discriminant validity, meaning that the constructs are sufficiently distinct from one another (Yusoff et al., 2020).

Table 5: HTMT Ratio

Constructs	at	ca	cac	cd	ct
at					
ca	0.704				
cac	0.772	0.753			
cd	0.669	0.507	0.667		
ct	0.609	0.618	0.885	0.582	

Table 5 presents the Heterotrait-Monotrait (HTMT) ratio of correlations, a measure used to assess discriminant validity between constructs in a model. In this table, all the HTMT ratios between the constructs at, ca, cac, cd, and ct are below the 0.9 threshold. The ratios range from 0.507 between ca and cd to 0.885 between cac and ct. The lower ratios, such as 0.507 and 0.609, indicate strong discriminant validity, demonstrating that these constructs are clearly distinct from one another. Even the highest ratio, 0.885 between cac and ct, remains just under the 0.9 threshold, indicating that while these two constructs are closely related, they are still sufficiently distinct to maintain discriminant validity. Overall, the table suggests that the constructs in the model are well-differentiated, supporting the validity of the measurement model used in this analysis.

Discriminant validity, assessed through the Fornell-Larcker Criterion, is a key measure used to confirm that distinct constructs in a model are truly different from one another (Ab Hamid et al., 2017). The Fornell-Larcker Criterion compares the square root of the average variance extracted (AVE) for each construct with the correlations between that construct and others in the model (Henseler et al., 2015). Discriminant validity is established when the square root of the AVE for a construct is greater than the highest correlation it shares with any other construct. This ensures that a construct explains more variance with its own indicators than with other constructs (Afthanorhan et al., 2021).

Table 6: Fornell Larcker Criterion (FLC)

Constructs	At	ca	cac	cd	Ct
at	0.724				
ca	0.57	0.721			
cac	0.578	0.562	0.719		
cd	0.519	0.404	0.491	0.711	
ct	0.504	0.518	0.689	0.477	0.788

Table 6 presents the discriminant validity, as measured by the Fornell-Larcker criterion, for the constructs in the model. The diagonal elements in the table (shown in bold) are the square roots of the Average Variance Extracted (AVE) for each construct. In contrast, the off-diagonal elements are the correlations between the constructs. For each construct, the square root of its Average Variance Extracted is higher than its correlations with other constructs, indicating that each construct shares more variance with its own indicators than with other constructs. The square root of the AVE for attitude (at) is 0.724, which exceeds its highest correlation of 0.578 with customer acceptance (cac). Similarly, the square root of the AVE for customer awareness (ca) is 0.721, greater than its highest correlation of 0.562 with cac.

For customer acceptance (cac), its square root AVE of 0.719 is higher than its highest correlation of 0.689 with customer trust (ct), while customer discomfort (cd) has a square root AVE of 0.711, surpassing its highest correlation of 0.519 with attitude (at). Lastly, customer trust (ct) demonstrates strong discriminant validity with a square root AVE of 0.788, greater than its highest correlation of 0.689 with cac. These comparisons confirm that each construct is distinct from the others, validating the structural integrity of the model.

Cross-loadings are used to assess how well each item corresponds to its intended factor versus other factors. In an ideal situation, an item should have a high loading on the factor it is supposed to measure and lower loadings on the other factors (Hamid et al., 2017).

Table 7: Cross Loading

Constructs	At	ca	cac	cd	ct
at1	**0.724**	0.514	0.454	0.344	0.42
at2	**0.778**	0.437	0.402	0.425	0.343
at3	**0.708**	0.336	0.358	0.391	0.269
at5	**0.679**	0.32	0.366	0.355	0.302
at6	**0.727**	0.423	0.488	0.368	0.456
ca1	0.43	**0.706**	0.449	0.3	0.394
ca2	0.426	**0.709**	0.349	0.31	0.307
ca3	0.399	**0.713**	0.414	0.198	0.387
ca4	0.439	**0.787**	0.406	0.362	0.345
ca5	0.417	**0.718**	0.437	0.298	0.407
ca7	0.342	**0.687**	0.364	0.277	0.398
cac2	0.37	0.379	**0.652**	0.371	0.397
cac3	0.293	0.38	**0.577**	0.266	0.368
cac5	0.445	0.378	**0.79**	0.342	0.566
cac6	0.52	0.481	**0.829**	0.425	0.607
cd1	0.358	0.234	0.371	**0.778**	0.36
cd2	0.388	0.282	0.327	**0.767**	0.332
cd4	0.285	0.197	0.26	**0.681**	0.248
cd5	0.414	0.278	0.41	**0.644**	0.382
cd6	0.367	0.425	0.344	**0.678**	0.34
ct1	0.407	0.463	0.588	0.409	**0.812**
ct2	0.418	0.467	0.57	0.41	**0.83**
ct3	0.419	0.423	0.564	0.381	**0.778**
ct4	0.383	0.352	0.487	0.311	**0.783**
ct5	0.353	0.318	0.495	0.36	**0.733**

Table 7 presents the cross-loadings of various items across five different constructs: cac, at, ca, cd, and ct. Here, items of 'At' load most strongly on the 'At' factor, with loadings ranging from 0.679 to 0.778. These values indicate that these items are closely aligned with the 'at' construct. Similarly, items of 'Cac' range from 0.577 to 0.829, indicating strong loadings on the Cac factor. These high loadings imply that the Cac construct and all these items are well-coordinated. In the same way, the ca, cd, and ct items highly load with their constructs, ranging from 0.687 to 0.787, 0.644 to 0.778, and 0.733 to 0.83, respectively, which suggests a well-coordinated relationship between the construct and these items. This strong coordination emphasizes the reliability of these items, precisely reflecting the underlying constructs they are intended to measure.

The Collinearity Statistic, often expressed as the Variance Inflation Factor (VIF), is a measure used in statistical analysis to detect multicollinearity among predictor variables in a model (Afthanorhan et al., 2021). A VIF value of 3.3 or less is considered acceptable, indicating that the constructs are not highly correlated with each other and that multicollinearity is not a concern (J. F. Hair et al., 2014).

Table 8: Inner Model Matrix

Constructs	VIF
At	1.803
Ca	1.663
Cd	1.502
Ct	1.606

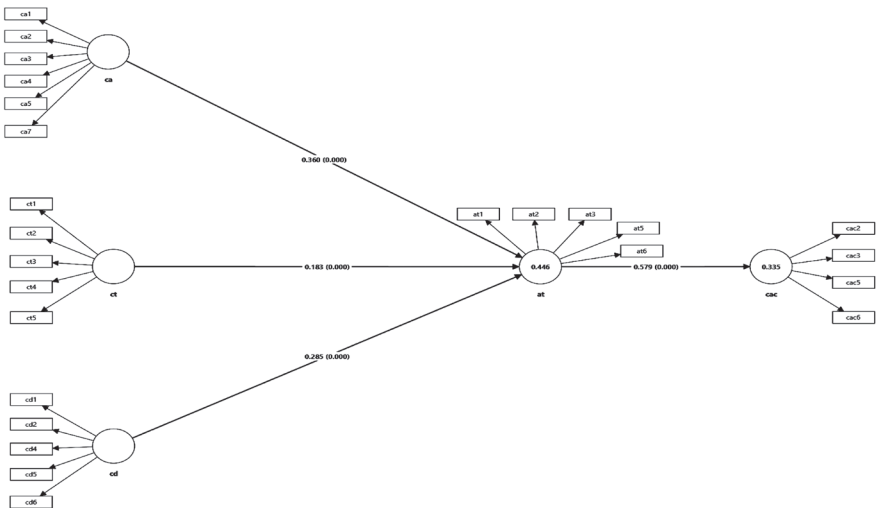
Table 8 presents the Variance Inflation Factor (VIF) values for various constructs, which are used to assess the presence of multicollinearity in the model. In this table, all the VIF values for the constructs are below the threshold of 3.3. These values indicate that there is no significant multicollinearity among the constructs, suggesting that each construct provides unique information and is not excessively correlated with the others. This indicates that the model is well-constructed, with distinct and independent constructs, thus supporting the reliability of the analysis.

Structural Model Assessment

Structural Model Assessment involves evaluating the relationships between latent constructs in a model (Dhakal et al., 2023; Rajbhandari et al., 2022), particularly in Partial Least Squares Structural Equation Modeling (PLS-SEM) (Tibbe & Montoya, 2022). This process typically includes several key steps: first, examining the path coefficients to determine the strength and significance of the hypothesized relationships between constructs. Bootstrapping is often used to assess the significance of these paths. For this study, bootstrapping under 10,000 subsamples is performed. Second, the R^2 value is analyzed to gauge the amount of variance explained by the independent variables in the dependent variables, indicating the model's predictive power.

Additionally, the f^2 effect size is calculated to assess the impact of individual paths on the R^2 value, offering insight into the relative contribution of each predictor. Finally, predictive relevance (Q^2) and the Standardized Root Mean Square Residual (SRMR) are evaluated to ensure the model's goodness-of-fit and predictive accuracy, respectively (Sarstedt et al., 2020). These steps, taken together, ensure a comprehensive assessment of the structural model's validity and reliability.

Figure 2: Path Analysis



A hypothesis is a proposed explanation or assumption about a relationship between two or more variables. A hypothesis is considered supported when the results are statistically significant at $p < 0.05$, and the beta value falls within the confidence interval. $P<0.05$ suggests strong evidence against the null hypothesis, supporting the idea that the effect observed in the study is real. Additionally, the beta value, which represents the strength and direction of the relationship between variables, should lie within the confidence interval. If the beta value is within this range, it confirms that the estimate is stable and reliable, further supporting the hypothesis. Together, these criteria provide robust evidence that the proposed relationship is statistically significant.

Table 9: Hypothesis Testing

Hypothesis	Beta	SD	t-value	P values	CL		Decision
					LL	UL	
H1	ca -> at	0.36	0.05	7.277	0.000	0.261	0.454
H2	cd -> at	0.285	0.046	6.178	0.000	0.194	0.373
H3	ct -> at	0.183	0.052	3.559	0.000	0.081	0.282
H4	at -> cac	0.579	0.043	13.378	0.000	0.485	0.656

Result supported at significance level: *** $p<0.05$ and beta value lies within confidence interval.

Table 9 presents four hypotheses (H1, H2, H3, and H4), all of which are supported based on the provided criteria. For each hypothesis, the beta values, which indicate the strength and direction of the relationships, fall within their respective confidence intervals (CL) between the lower limit (LL) and upper limit (UL). Additionally, all the p-values are 0, which is below the significance level of 0.05. This shows that the results are statistically significant. This suggests that Customers' Awareness, Discomfort, and Trust have a significant impact on shaping their attitudes. Similarly, Customers' Attitudes significantly impact their acceptance of banks' AML policies.

Mediation analysis is a statistical method used to explore and understand the process or mechanism by which an independent variable influences a dependent variable through a third variable, known as the mediator. A hypothesis is considered supported when the results are statistically significant, when the beta value falls within the confidence interval and $p < 0.05$.

Table 10: Mediation Analysis

Hypothesis	Beta	SD	t- value	P values	CL		Decision
					2.50%	97.50%	
H5	ca -> at -> cac	0.209	0.036	5.791	0	0.142	0.282
H6	cd -> at -> cac	0.165	0.028	5.813	0	0.109	0.219
H7	ct -> at -> cac	0.106	0.033	3.202	0.001	0.044	0.174

*Result supported at significance level: *** $p<0.05$ and beta value lies within confidence interval.*

Table 10 presents the results of hypothesis testing for three relationships involving customer awareness (CA), customer discomfort (CD), and customer trust (CT) as independent variables, and customer acceptance (CAC) and attitude (AT) as dependent and mediating variables, respectively. All three hypotheses (H5, H6, and H7) are supported, as their p-values are below the 0.05 threshold. Specifically, the p-values for H5 and H6 are 0, indicating extremely strong significance for the effects of customer awareness and discomfort on the dependent variable. The p-value for H7 is 0.001, indicating a significant impact and a positive relationship between customer trust and the dependent variable. Thus, all three factors are critical influences in the model.

5. Discussion

This study aims to explore how customers perceive the implementation of Anti-Money Laundering (AML) practices by banks, especially in light of the current AML challenges facing Nepal. To understand these perceptions, the study examines three key variables: customers' awareness, trust, and discomfort. The research seeks to establish the relationships between these constructs using Structural Equation Modeling (SEM). Based on the conceptual framework, seven hypotheses were formulated to assess these links. The analysis found that all seven hypotheses were supported, with each showing a statistically significant relationship at $p < 0.05$. These findings suggest that customers' awareness of AML practices, their trust in banks, and their level of discomfort significantly influence their attitudes toward banks' AML efforts and their overall acceptance of these measures.

The first hypothesis (H1), which posits a significant relationship between customers' awareness and their attitudes toward the implementation of Anti-Money Laundering practices by banks, has been supported. This means that when customers are well-informed about AML measures and understand the reasons behind these practices, they tend to have a more positive attitude toward them. Awareness plays a crucial role in shaping customers' perceptions, as it helps them see the value and necessity of these efforts in combating financial crimes (Usman Kemal, 2014). By being aware, customers are more likely to appreciate the bank's commitment to compliance and transparency, which in turn leads to a more favorable attitude toward the bank's policies and practices (Z. Chen et al., 2018). This result emphasizes the importance of educating customers about AML measures to foster a supportive and informed customer base.

The third hypothesis (H2) of this study has been supported, indicating a significant relationship between customers' discomfort and their attitudes toward banks' Anti-Money Laundering practices. This means that when customers feel uneasy or experience discomfort with the AML measures implemented by their banks, their overall attitude toward these practices tends to be less favorable (Usman Kemal, 2014). Discomfort may arise from various factors, such as perceived intrusiveness, lack of clear communication, or inconvenience caused by stringent AML procedures (Viritha & Mariappan, 2016). When customers perceive that AML practices are overly burdensome or not adequately explained, it can lead to frustration and a negative perception of the bank's efforts. This relationship underscores the importance of striking a balance between effective AML practices and clear communication, as well as customer-friendly approaches, to minimize discomfort and enhance customer satisfaction. By addressing these concerns, banks can help ensure that their AML efforts are not only effective but also well-received by their customer (Ilyas et al., 2022).

The second hypothesis (H2) has been supported, which means there is a significant relationship between customers' trust and their attitudes toward banks' Anti-Money Laundering practices. This finding suggests that when customers trust their banks, they are more likely to have a positive attitude toward the AML measures that those banks implement. Trust is a fundamental factor in shaping how customers perceive the actions of financial institutions (Zahn et al., 2007). When customers believe that a bank is acting in their best interest, they are more inclined to support and accept the bank's policies, including AML efforts (He, 2006). This trust reassures them that the bank's practices are reliable, ethical, and aimed at safeguarding their assets, thereby fostering a positive attitude (Joshi & Shah, 2020). The support for this hypothesis highlights the crucial role that trust plays in the relationship between customers and banks, particularly in terms of compliance with key regulations, such as AML.

The fourth hypothesis (H4), which confirms a significant relationship between customers' attitudes toward Anti-Money Laundering practices and their acceptance of these measures, has also been supported. This finding indicates that when customers have a positive attitude toward the AML practices implemented by their banks, they are more likely to accept and support these efforts. A favorable attitude reflects customers' understanding and appreciation of the importance of AML practices in maintaining financial security and integrity. Conversely, if customers view these practices negatively, perhaps seeing them as inconvenient or overly intrusive, they are less likely to accept them, which can hinder the effectiveness

of AML measures (Y. H. Yusoff et al., 2024). This relationship emphasizes the need for banks to cultivate positive attitudes among their customers through awareness, maintaining trust, and reducing discomfort, which results in the acceptance of AML practices. By fostering a positive attitude, banks can enhance customers' acceptance, making them more cooperative and supportive of these crucial efforts to combat financial crime (Arasa, 2015).

The results from the mediation analysis show that all hypotheses (H5, H6, and H7) are statistically significant, as indicated by $p < 0.05$. This suggests that customers' awareness, discomfort, and trust directly influence their acceptance through their attitudes. The significance of these relationships highlights the importance of attitude as a mediating factor in the decision-making process. These findings align with the framework of the Theory of Reasoned Action (TRA), which suggests that individuals' attitudes play a pivotal role in shaping their intentions and behaviors.

By confirming that attitude mediates the relationship between customers' awareness, trust, and discomfort and their acceptance, the study provides support for the TRA. It emphasizes that the impact of attitudes and subjective norms on behavioral intentions is validated in this context. The results highlight the importance of considering psychological factors, such as awareness, discomfort, and trust, when evaluating customer behavior. Overall, the analysis strengthens the theoretical foundation that individuals' attitudes are a key determinant in shaping their acceptance of new concepts, reinforcing the TRA's application in understanding customer decision-making.

6. Conclusion

This study successfully fulfills its objectives by systematically investigating the various aspects of banks' implementation of Anti-Money Laundering policies as they relate to customer behavior and perception within the Kathmandu Valley. The first objective, which aims to examine the factors influencing customer acceptance of AML practices, is addressed through a comprehensive analysis of key determinants such as awareness, discomfort, and trust. By employing robust statistical techniques, the study identifies the factors that influence customers' willingness to accept and comply with AML policies. The findings reveal that trust in the banking institution, the clarity of communication regarding AML practices, and customers' awareness levels significantly influence their attitude, which in turn affects their acceptance of AML practices. This insight offers a comprehensive understanding of the key factors that banks must consider to foster customer cooperation with AML regulations.

The second objective, which focuses on assessing the mediating effect of attitude in the relationship between customer awareness, discomfort, trust, and their acceptance of AML practices, is achieved through a careful examination of the interplay between these variables. The study employs advanced inferential analysis to determine how customers' attitudes serve as a mediator in this relationship. The results demonstrate that a positive attitude towards AML practices significantly enhances the likelihood of acceptance. This finding underscores the importance of cultivating positive attitudes through targeted communication strategies and customer education, demonstrating how banks can effectively manage the perceptions that influence customer behavior.

The study meets its third objective by thoroughly examining customer concerns regarding AML practices. This is accomplished by analyzing qualitative and quantitative data to capture the depth of customer concerns. The research identifies key areas where customers feel uncertain or apprehensive about AML practices, such as privacy concerns, the perceived complexity of compliance requirements, and the potential for inconvenience. By addressing these concerns, the study provides actionable recommendations for banks to mitigate customer apprehension and build a more trust-based relationship. Customers express concerns about the potential for international business or remittances to encounter additional hurdles and scrutiny, which could lead to delays in cross-border transactions and the possibility of their accounts being mistakenly flagged for suspicious activity, potentially resulting in account closures. Additionally, customers show concerns about the collection, storage, and sharing of their personal and financial

information by banks as part of AML compliance, as well as the potential damage to their personal or business reputation if they are incorrectly flagged for AML reasons.

Overall, the fulfillment of these objectives offers a well-rounded perspective on the implementation of AML policies from the customer's viewpoint, contributing valuable insights to both academic literature and practical applications in the banking sector.

While this study offers valuable insights into the implementation of Anti-Money Laundering (AML) policies in the Kathmandu Valley, several avenues for future research remain open. Comparative studies across different cultural and regional contexts could reveal how societal norms and cultural perceptions shape customer attitudes toward AML regulations. Longitudinal research could further assess the long-term impact of AML measures on customer trust and loyalty, providing evidence on how compliance intensity influences customer retention. As digital banking expands, examining the role of technology—particularly artificial intelligence, blockchain, and big data analytics—in enhancing AML effectiveness and shaping customer perceptions becomes increasingly important. Moreover, exploring the psychological factors underlying customer compliance, including trust, perceived fairness, and fear, would deepen understanding of behavioral motivations and support the design of more persuasive, customer-centered communication strategies. Collectively, such research could inform more adaptive, technology-driven, and psychologically grounded AML policies that promote voluntary compliance and strengthen financial integrity.

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