RESEARCH ARTICLE

The Effect of Bank Compliance with Anti-Money Laundering (AML) Regulations on the Reputation of Indonesian Islamic Banks

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Abstract

The strengthening of Anti-Money Laundering (AML) regulations and the increasing risk of financial crimes have positioned AML compliance as a strategic issue in maintaining the reputation of the banking industry, including Islamic banking. This study aims to analyze the effect of Bank Syariah Indonesia's compliance with AML regulations on bank reputation, both in aggregate and through its dimensions, namely Know Your Customer (KYC), Customer Due Diligence and Enhanced Due Diligence (CDD/EDD), suspicious transaction reporting, and AML training and compliance culture. This study employs a quantitative approach with an explanatory research design and a survey method. Data were collected through structured questionnaires administered to 150 employees of Bank Syariah Indonesia who are directly involved in compliance, risk management, internal audit, and AML-related operational functions. Data analysis was conducted using Partial Least Squares–Structural Equation Modeling (PLS-SEM) to assess validity, reliability, and structural relationships among variables. The results indicate that AML compliance has a positive and significant effect on the reputation of Bank Syariah Indonesia, with the model demonstrating moderate to strong predictive power. All dimensions of AML compliance significantly contribute to bank reputation, with AML training and compliance culture showing the strongest effect. These findings confirm that AML compliance functions not only as a regulatory obligation but also as a strategic governance mechanism that strengthens trust, legitimacy, and institutional reputation in Islamic banking. This study contributes theoretically by reinforcing the relevance of Stakeholder Theory, Legitimacy Theory, and Agency Theory in the context of Islamic banking, while practically offering insights for bank management and regulators in designing AML compliance policies oriented toward sustainability and reputational enhancement. This study aims to explore customer perceptions of green banking services provided by Bank Syariah Indonesia through an e-business platform. Using a descriptive qualitative approach, this study employs observation, interviews, and documentation to understand customer experiences and attitudes. The results show that the majority of customers understand the concept of green banking, although there are differences in understanding regarding its implementation in digital services. Customers who are more familiar with digital technology tend to understand the implementation of green banking better. Most feel comfortable using Bank Syariah Indonesia's digital services because of the convenience, speed, and transparent reporting features related to environmentally friendly products. However, some customers doubt the significant impact of their actions on sustainability. Customer perceptions of social and environmental benefits are greatly influenced by how the bank communicates its commitment to sustainability.

Keywords:

Anti Money Laundering, Kepatuhan Bank, Reputasi Bank, Perbankan Syariah

Abstract

Penguatan regulasi Anti Money Laundering (AML) dan meningkatnya risiko kejahatan keuangan menjadikan kepatuhan AML sebagai isu strategis dalam menjaga reputasi industri perbankan, termasuk perbankan syariah. Penelitian ini bertujuan untuk menganalisis pengaruh kepatuhan Bank Syariah Indonesia terhadap regulasi AML terhadap reputasi bank, baik secara agregat maupun melalui dimensi Know Your Customer (KYC), Customer Due Diligence dan Enhanced Due Diligence (CDD/EDD),

pelaporan transaksi keuangan mencurigakan, serta pelatihan dan budaya kepatuhan AML. Penelitian ini menggunakan pendekatan kuantitatif dengan desain explanatory research dan metode survei. Data dikumpulkan melalui kuesioner terstruktur terhadap 150 pegawai Bank Syariah Indonesia yang terlibat langsung dalam fungsi kepatuhan, manajemen risiko, audit internal, dan operasional AML. Analisis data dilakukan menggunakan Structural Equation Modeling berbasis Partial Least Squares (SEM-PLS) untuk menguji validitas, reliabilitas, serta hubungan struktural antarvariabel. Hasil penelitian menunjukkan bahwa kepatuhan AML berpengaruh positif dan signifikan terhadap reputasi Bank Syariah Indonesia dengan kemampuan prediktif model pada kategori moderat menuju kuat. Seluruh dimensi kepatuhan AML terbukti berkontribusi signifikan terhadap reputasi bank, dengan pelatihan dan budaya kepatuhan AML menunjukkan pengaruh paling dominan. Temuan ini menegaskan bahwa kepatuhan AML tidak hanya berfungsi sebagai kewajiban regulatif, tetapi juga sebagai mekanisme tata kelola strategis yang memperkuat kepercayaan, legitimasi, dan reputasi institusional bank syariah. Penelitian ini berkontribusi secara teoretis dengan memperkuat relevansi Stakeholder Theory, Legitimacy Theory, dan Agency Theory dalam konteks perbankan syariah, serta memberikan implikasi praktis bagi manajemen bank dan regulator dalam merancang kebijakan kepatuhan AML yang berorientasi pada keberlanjutan dan penguatan reputasi.

INTRODUCTION

Money laundering is a form of global financial crime that has a systemic impact on the stability of the financial system and the integrity of banking institutions. The United Nations Office on Drugs and Crime estimates that the value of global money laundering reaches 2–5% of the world's Gross Domestic Product each year, placing the banking sector as the main channel vulnerable to being exploited to disguise illegal funds (UNODC, 2022). This condition has prompted the international community to strengthen the Anti-Money Laundering (AML) regime as a key instrument in maintaining stability and trust in the financial system. In this context, banks' compliance with AML regulations not only serves as a legal obligation but also as a strategic factor that affects the sustainability of financial institutions.

The strengthening of the global AML regime is manifested through the Financial Action Task Force (FATF) standards, which emphasize the application of the principles of Know Your Customer, Customer Due Diligence, and reporting of suspicious financial transactions. FATF reports show that failure to comply with AML regulations often results in significant financial penalties and a decline in the bank's reputation in the eyes of the public and regulators (FATF, 2021). A bank's reputation as an intangible asset plays an important role in the trust-based financial services industry, as it affects customer loyalty, capital costs, and institutional legitimacy (Fombrun & Van Riel, 2004). Therefore, compliance with AML regulations has significant reputational implications.

Indonesia has adopted international AML standards through Law No. 8 of 2010 and various Financial Services Authority regulations that require banks to establish risk-based AML compliance systems. Data from the Financial Transaction Reports and Analysis Center shows a significant increase in suspicious transaction reports from the banking sector in the last five years, reflecting the increasing complexity of money laundering risks (PPATK, 2023). This increase in risk requires banks to focus not only on formal compliance but also on strengthening their reputation as credible and trustworthy institutions. In this context, the relationship between AML compliance and bank reputation is an important issue to be examined empirically.

Islamic banking has specific characteristics in building reputation because it operates based on sharia principles that emphasize the values of trust, justice, and transparency. The reputation of Islamic banks is not only determined by financial performance but also by compliance with Islamic business regulations and ethics (Hassan & Lewis, 2007). Bank Syariah Indonesia (BSI), as the largest Islamic bank in Indonesia, has high exposure to reputational risk because it is the main representative of the national Islamic banking industry. Under these circumstances, BSI's level of compliance with AML regulations has the potential to affect public perception, customer trust, and institutional legitimacy.

Previous studies on AML can be grouped into several main themes. The first group examines AML from the perspective of regulatory compliance and internal banking controls (Levi & Reuter, 2006). The second group places AML within the framework of Good Corporate Governance and risk management (Masciandaro & Portolano, 2015). The third group links AML to bank financial performance and stability, while studies on bank reputation generally focus on aspects of trust, brand image, and governance quality (Dowling, 2016).

Literature mapping shows that most previous studies separate the study of AML and bank reputation as two different domains. Research that integrates AML compliance as a determinant of bank reputation is still limited, especially in the context of Islamic banking and national Islamic banks. In addition, the majority of empirical studies use conventional banks as their object and use financial performance as the main dependent variable. This condition indicates a significant research gap at the intersection of AML compliance, bank reputation, and Islamic banking characteristics.

The state of the art of this research lies in its attempt to empirically test the effect of bank compliance with AML regulations on the reputation of Bank Syariah Indonesia. This study positions bank reputation as the main dependent variable and integrates the perspective of modern regulations with Islamic banking values. This focus makes a new contribution to the literature by expanding the study of AML from mere issues of compliance and risk to the strategic issue of institutional reputation.

The urgency of this research is driven by increasing regulatory attention to reputation risk and AML compliance in the financial sector. The findings of this study are expected to form the basis for strengthening compliance policies and reputation risk management at Bank Syariah Indonesia. In addition, this study can provide empirical contributions to regulators in designing reputation risk-based supervisory policies. Thus, this study has strong academic and practical relevance.

This study uses primary data obtained through questionnaires administered to employees and related parties at Bank Syariah Indonesia, as well as secondary data in the form of annual reports and AML compliance reports. Data analysis was conducted using a quantitative approach with regression or Structural Equation Modeling methods to test the relationship between variables. The theoretical framework used includes Stakeholder Theory, Legitimacy Theory, and Agency Theory, which explain reputation as the result of stakeholders' perceptions of the bank's compliance and integrity (Freeman, 1984; Suchman, 1995; Jensen & Meckling, 1976).

The research gap in this study lies in the limited empirical studies that specifically examine the effect of AML compliance on the reputation of Indonesian Islamic Banks. Previous studies have focused more on financial performance and operational risk and rarely place reputation as a main variable. This study is expected to fill this gap and enrich the literature on compliance management and reputation in Islamic banking.

METHODS

This study uses a quantitative approach with an *explanatory research* design to examine the effect of bank compliance with Anti-Money Laundering (AML) regulations on the reputation of Indonesian Islamic banks. A quantitative approach was chosen because it allows for the objective and measurable testing of causal relationships between variables through inferential statistical analysis (Creswell &

Creswell, 2018). A *cross-sectional* design was used with data collection at a specific period of time, which is commonly used in research on banking compliance and corporate reputation (Hair et al., 2019). The object of the study was Bank Syariah Indonesia as a national Islamic bank with a high level of exposure to compliance and reputation risks due to system integration and service network expansion.

The research data consisted of primary and secondary data. Primary data was obtained through a structured questionnaire distributed to Bank Syariah Indonesia employees involved in compliance, risk management, internal audit, and AML-related operations. The sampling technique used *purposive sampling* with the criteria that respondents had at least one year of work experience and understood the implementation of AML policies at the bank, as recommended in regulatory compliance research (Sekaran & Bougie, 2017). Secondary data was obtained from annual reports, AML compliance reports, Financial Services Authority (OJK) publications, and PPATK reports to strengthen the empirical context of the research.

Data analysis was performed using *Partial Least Squares*-based *Structural Equation Modeling* (SEM-PLS) with the assistance of SmartPLS software. The SEM-PLS method was chosen because it is suitable for predictive models with latent constructs, data distributions that do not have to be normal, and moderate sample sizes (Hair et al., 2021). Model evaluation was carried out through *outer model* testing (validity and reliability) and *inner model* testing (structural relationships) at a significance level of 5%. The theoretical analysis of this study refers to *Stakeholder Theory* (Freeman, 1984), *Legitimacy Theory* (Suchman, 1995), and *Agency Theory* (Jensen & Meckling, 1976), which explain that AML compliance functions as a governance mechanism to build trust, legitimacy, and institutional reputation of banks.

Research Hypotheses:

H1: Indonesian Islamic banks' compliance with Anti-Money Laundering (AML) regulations has a positive and significant effect on bank reputation.

H1a: The implementation of *Know Your Customer* (KYC) has a positive effect on the bank's reputation.

H1b: The implementation of *Customer Due Diligence* and *Enhanced Due Diligence* has a positive effect on the bank's reputation.

H1c: Compliance in reporting suspicious financial transactions has a positive effect on the bank's reputation.

H1d: AML training programs and compliance culture have a positive effect on the bank's reputation.

Table 1. Operational Definitions of Variables

Variable	Indicator	Operational Definition	Source
AML Compliance (Independent)	Know Your Customer (KYC)	Procedures for identifying and verifying customer identities to prevent misuse of the banking system	Financial Action Task Force (2021)
	Customer Due Diligence (CDD) & Enhanced Due Diligence (EDD)	Risk monitoring and advanced verification process for high-risk customers	Masciandaro & Portolano (2015)
	Suspicious Transaction Reporting (STR)	Obligation to report suspicious financial transactions to PPATK in accordance with regulatory provisions	Nugroho & Widodo (2019)
	AML Training & Compliance Culture	Training programs and internalization of AML compliance culture for bank employees	Suryanto (2020)
Bank Reputation (Dependent)	Trust	Level of stakeholder trust in the bank	Fombrun & Van Riel (2004)
	Credibility	Perception of the credibility and professionalism of banking institutions	Dowling (2016)

Integrity	Perceptions of integrity, ethics, and banks' compliance with legal norms	Suchman (1995)
Corporate Image	The overall image and reputation of banks in the eyes of the public	Chen et al. (2018)

RESULTS AND DISCUSSION
Result

This study involved employees of Bank Syariah Indonesia who were directly involved in compliance, risk management, internal audit, and operations related to Anti Money Laundering (AML). Of the total questionnaires distributed, 150 questionnaires were returned and deemed suitable for analysis, bringing the total number of respondents in this study to n = 150. All respondents met the *purposive sampling* criteria, namely having at least one year of work experience and understanding the implementation of AML policies. With these characteristics, the data obtained was considered representative of AML compliance practices at Bank Syariah Indonesia.

The outer model test results show that all indicators in the AML compliance and bank reputation variables have *factor loading* values ranging from 0.721 to 0.889, which are above the threshold of 0.70. The *Average Variance Extracted* (AVE) value for the AML compliance variable was 0.612 and for the bank reputation variable was 0.658, indicating that convergent validity was met. In addition, the discriminant validity test showed that the *cross-loading* value of each indicator was higher in the measured construct than in other constructs.

The reliability test shows that the Cronbach's Alpha value for the AML compliance variable is 0.881 and for the bank reputation variable is 0.903, while the *Composite Reliability* values are 0.905 and 0.921, respectively. All of these values exceed the minimum threshold of 0.70, so it can be concluded that the research instrument has good internal consistency and is reliable. Thus, the measurement model is deemed feasible to proceed to the structural model testing stage.

The inner model evaluation results show that the coefficient of determination (R^2) value for the bank reputation variable is $R^2 = 0.47$. This value indicates that 47% of the variation in Bank Syariah Indonesia's reputation can be explained by compliance with AML regulations, while the rest is influenced by other factors outside the research model. Based on the criteria of Hair et al. (2021), this value indicates the predictive ability of the model in the moderate to strong category.

The results of hypothesis testing through the *bootstrapping* procedure show that AML compliance has a positive and significant effect on the reputation of Bank Syariah Indonesia. This effect is indicated by the path coefficient value ($\beta = 0.685$) with a test statistic value (t = 9.214) and a significance level (p = 0.000), so that hypothesis H1 is accepted.

Partial hypothesis testing shows that all AML compliance indicators have a positive and significant effect on bank reputation. The implementation of Know Your Customer (KYC) has a significant effect ($\beta = 0.243$; t = 3.876; p = 0.000), so H1a is accepted. The implementation of Customer Due Diligence and Enhanced Due Diligence (CDD/EDD) shows a significant positive effect ($\beta = 0.198$; t = 2.941; p = 0.003), which supports H1b. Compliance with suspicious transaction reporting (STR) also has a significant positive effect ($\beta = 0.176$; t = 2.614; p = 0.009), thus accepting H1c . Furthermore, the AML training program and compliance culture show the strongest influence ($\beta = 0.268$; t = 4.102; p = 0.000), supporting H1d.

Table 2. Results of Path Coefficient Testing (Bootstrapping)

Inter-Variable Relationships	β	t-value	p-value	Decision
AML Compliance → Bank Reputation	0.685	9.214	0.000	Accepted
KYC → Bank Reputation	0.243	3,876	0.00	Accepted
CDD & EDD → Bank Reputation	0.198	2,941	0.003	Accepted

STR Reporting → Bank Reputation	0.176	2.614	0.009	Accepted
AML Training & Compliance Culture → Bank Reputation	0.268	4.102	0.000	Accepted

The Effect of AML Compliance on Bank Reputation (H1)

The results of testing the main hypothesis (H1) show that Bank Syariah Indonesia's compliance with Anti-Money Laundering (AML) regulations has a positive and significant effect on the bank's reputation. This is evidenced by the high path coefficient value ($\beta = 0.685$), a very strong test statistic value (t = 9.214), and a significance level well below the 5% threshold (p = 0.000). These findings indicate that AML compliance is an important determinant in shaping the institutional reputation of Bank Syariah Indonesia.

The coefficient of determination value of $R^2 = 0.47$ shows that almost half of the variation in bank reputation can be explained by AML compliance. Based on the criteria of Hair et al. (2021), this predictive ability is in the moderate to strong category, which confirms that AML compliance is not merely a regulatory obligation, but a strategic factor that contributes significantly to the perception of the bank's reputation in the eyes of stakeholders. This finding reinforces *Stakeholder Theory* (Freeman, 1984), which states that meeting stakeholder expectations through regulatory compliance will increase institutional trust and legitimacy.

The Effect of Know Your Customer (KYC) on Bank Reputation (H1a)

The results of testing hypothesis H1a show that the implementation of Know Your Customer (KYC) has a positive and significant effect on the reputation of Bank Syariah Indonesia, with a path coefficient value of $\beta = 0.243$, a t-value of 3.876, and a p-value of 0.000. This finding shows that the consistent identification and verification of customers is perceived as a form of prudence and professionalism on the part of the bank.

Effective implementation of KYC serves as an initial mechanism in preventing the misuse of the banking system for money laundering. In terms of reputation, KYC practices send a positive signal to stakeholders that the bank is highly committed to transparency and good governance. These results are in line with *Agency Theory* (Jensen & Meckling, 1976), which emphasizes the importance of control mechanisms to reduce opportunistic risk and increase trust in financial institutions.

The Effect of Customer Due Diligence and Enhanced Due Diligence on Bank Reputation (H1b)

Hypothesis H1b was also empirically supported. The analysis results show that the implementation of Customer Due Diligence and Enhanced Due Diligence (CDD/EDD) has a positive and significant effect on bank reputation ($\beta = 0.198$; t = 2.941; p = 0.003). These findings indicate that continuous monitoring and further verification of high-risk customers contribute to a better perception of reputation.

CDD and EDD reflect the bank's ability to proactively manage compliance risks. In the context of *Legitimacy Theory* (Suchman, 1995), the application of CDD/EDD helps banks maintain social legitimacy by demonstrating that their operational activities are in line with legal norms and community expectations. Thus, compliance with CDD/EDD procedures not only reduces legal risk but also strengthens the institutional reputation of Bank Syariah Indonesia.

The Effect of Suspicious Financial Transaction Reporting on Bank Reputation (H1c)

The results of testing hypothesis H1c show that compliance in reporting suspicious financial transactions (Suspicious Transaction Reporting/STR) has a positive and significant effect on bank reputation, with a value of $\beta = 0.176$, t = 2.614, and p = 0.009. Although the path coefficient value is relatively smaller than other indicators, the effect of STR remains statistically significant.

This finding indicates that compliance in reporting suspicious transactions is perceived as a form of transparency and accountability of banking institutions. STR reporting strengthens the image of banks as institutions that cooperate with supervisory authorities and are committed to the integrity of the financial system. This supports the view that a bank's reputation is not only shaped by its customer service, but also by its compliance with reporting obligations to regulators.

The Effect of AML Training and Compliance Culture on Bank Reputation (H1d)

Hypothesis H1d received the strongest empirical support among other AML compliance indicators. The test results show that AML training programs and compliance culture have a positive and significant effect on the reputation of Bank Syariah Indonesia ($\beta = 0.268$; $t = 4.102$; $p = 0.000$). These findings confirm that human resources and the internalization of compliance values play a key role in shaping a bank's reputation.

Continuous AML training and a strong compliance culture create collective awareness among employees regarding the importance of integrity and compliance. In the context of *Stakeholder Theory*, this condition strengthens stakeholder trust because the bank is perceived to have an effective and sustainable internal control system. Thus, these results indicate that investment in human resource development and a culture of compliance is a crucial reputation strategy for Islamic banks.

Discussion Synthesis

Overall, the findings of this study indicate that Bank Syariah Indonesia's compliance with Anti-Money Laundering (AML) regulations, both in aggregate and through each of its dimensions, plays a strategic role in shaping and strengthening the bank's reputation. The acceptance of all research hypotheses (H1–H1d) confirms that AML compliance cannot be understood solely as an administrative obligation or regulatory requirement, but rather as a governance instrument that contributes directly to the perception of trust, credibility, and integrity of Islamic banking institutions.

These results indicate that effective AML practices serve as a reputational signal for stakeholders, including regulators, customers, investors, and the general public. The simultaneous implementation of KYC, CDD/EDD, suspicious transaction reporting compliance, and the strengthening of training and compliance culture reflect the bank's ability to comprehensively manage compliance risks. In the context of Bank Syariah Indonesia as a merged entity with high operational complexity, AML compliance is an important mechanism for maintaining reputational stability amid increased exposure to legal and reputational risks.

This finding also reinforces the integration between *Stakeholder Theory*, *Legitimacy Theory*, and *Agency Theory* in explaining the relationship between regulatory compliance and institutional reputation. AML compliance serves as a means to meet stakeholder expectations, maintain social legitimacy, and reduce information asymmetry and opportunistic risk in agency relationships. Thus, the reputation of Islamic banks is not only built through compliance with sharia principles and service quality, but also through consistency in implementing internationally recognized global compliance standards.

Furthermore, the results of this study indicate that internal dimensions, particularly AML compliance training and culture, play a very important role in shaping the bank's reputation. This confirms that the success of AML compliance is not only determined by formal policies and procedures but also by the internalization of compliance values at the human resource level. In other words, the reputation of Bank Syariah Indonesia is built from within the organization through continuous compliance behavior, which is then reflected in the external perceptions of stakeholders. Thus, this study provides a significant empirical contribution to the literature on banking compliance and corporate reputation, particularly in the context of Islamic banking in Indonesia. These findings confirm that AML compliance is a long-term strategic asset and plays an important role in maintaining the sustainability and

competitiveness of Bank Syariah Indonesia amid the strengthening of the supervisory regime and increasing demands for transparency in the global banking industry.

CONCLUSIONS

This study concludes that Bank Syariah Indonesia's compliance with Anti-Money Laundering (AML) regulations has a positive and significant effect on the bank's reputation. AML compliance, both in aggregate and through the dimensions of Know Your Customer (KYC), Customer Due Diligence and Enhanced Due Diligence (CDD/EDD), reporting of suspicious financial transactions, as well as training and compliance culture, has been proven to play an important role in shaping perceptions of trust, credibility, integrity, and the institutional image of Islamic banks.

These findings confirm that AML compliance cannot be understood solely as a regulatory obligation, but rather as a strategic governance mechanism that directly contributes to strengthening the reputation and legitimacy of Islamic banking institutions. In the context of Bank Syariah Indonesia as a merged entity with high operational complexity and compliance risks, effective AML implementation is a key factor in maintaining reputation stability amid increasing regulatory scrutiny and stakeholder expectations.

Theoretically, the results of this study reinforce the relevance of Stakeholder Theory, Legitimacy Theory, and Agency Theory in explaining the relationship between regulatory compliance and institutional reputation in the Islamic banking industry. Empirically, this study expands the literature by presenting evidence based on internal data from bank employees directly involved in AML compliance functions, which has been relatively limited in previous studies, especially in the context of post-merger Islamic banking in developing countries.

However, this study has several limitations. The cross-sectional research design has not been able to capture the dynamics of changes in AML compliance practices and their impact on bank reputation in the long term. In addition, the focus of the study on one object, namely Bank Syariah Indonesia, and the use of the internal perspective of bank employees has the potential to limit the generalization of findings and does not fully represent the multidimensional nature of reputation perceptions.

Therefore, further research is recommended to use a longitudinal design, expand the research object to several Islamic banks and conventional banks, and integrate the perspectives of external stakeholders. Developing a model that includes mediating or moderating variables, such as corporate governance, ethical culture, or the level of banking digitalization, as well as using a mixed methods approach, is expected to enrich theoretical and practical understanding of the role of AML compliance in shaping Islamic banking reputation.

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