ALESSA

Assessing AML Geographic Risk: A Methodology

Laurie Kelly, CAMS
Webinar Series Part 3 of 3

Alessa: Integrated AML Compliance Solution

AML Capabilities

| Customer Due Diligence | Sanctions Screening | Transaction Monitoring/ Screening | Regulatory Reporting |

Data Management, Workflows, Case Management, Fraud Detection & Prevention (Advanced Analytics)

Markets

| Traditional FIs | MSBs | FinTechs | Gaming and Casinos |

Questions? Email us at connect@alessa.com

About Presenter

Laurie has a 35-year career spanning the fields of accounting, finance, risk management, and regulatory compliance. Most recently, from 2006 to 2018 she served as the Director of Compliance for CoBank ACB, a $130 billion Farm Credit System institution, where she developed and managed the bank's anti-money laundering, fraud, and economic sanctions compliance programs.

She holds the Certified Anti-Money Laundering Specialist (CAMS) designation as well as the CAMS-Audit specialization. She helped found the Colorado Chapter of the Association of Certified Anti-Money Laundering Specialists, serving as its Executive Board Chair from 2016 to 2018, and Programs Director from 2015 to 2016.

Laurie Kelly

Poll

How has COVID-19 affected your operations? Choose all that apply:

1. Heightened monitoring for fraud activity

2. Rotating in-person office staff

3. Cross training of compliance jobs due to staff shortages

4. Working remotely

5. Online account opening, e-signature, virtual loan closings

Poll

Can you access all the Compliance systems and applications you need to do your job remotely?

1. Yes, all systems are web-based

2. Some are web-based, others require office presence

3. No, none are web-based; must go to the office

Agenda

- Defining and categorizing customer risk

- Why assess geographic risk

- Overview of country money laundering risk

- Building a country ML risk methodology

- Detailed risk factors

- Putting it all together

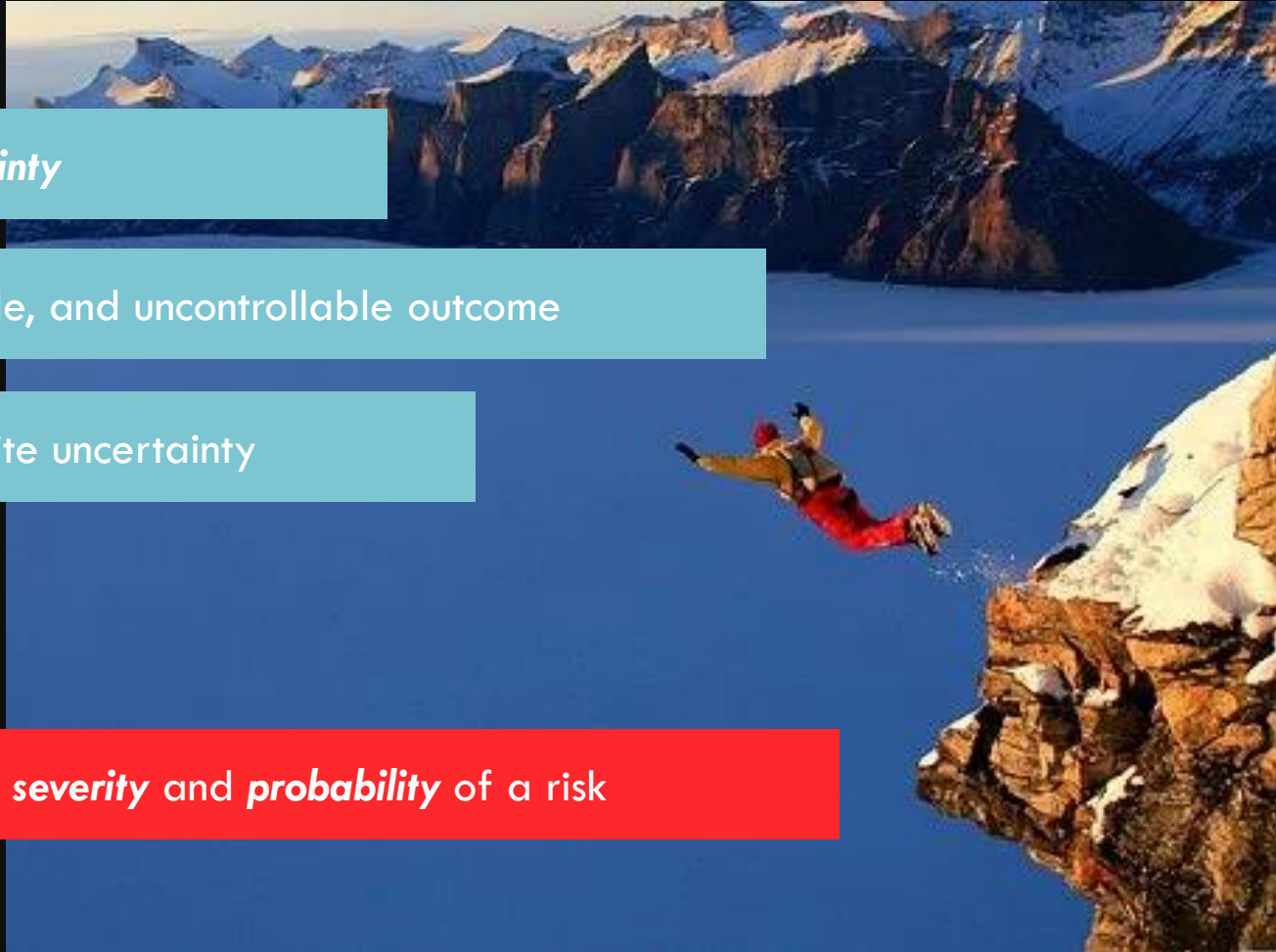- Concluding comments and Q & A

6

What is Risk?

Risk:

The intentional interaction with *uncertainty*

Uncertainty is a potential, unpredictable, and uncontrollable outcome

Risk is an aspect of action, taken despite uncertainty

Risk Perception:

A subjective judgment made about the *severity* and *probability* of a risk

Categorizing Risk Elements

Geographic Risks

Where

Profile & Relationships

Who

Products/ Services, Activities & Behaviors

What

WWW.ALESSA.COM

8

Poll

How does your FI measure geographic money laundering risk?

1. We calculate our own using one or more risk factors
2. We rely on pre-calculated country risk scores
3. Geographic risk is not an issue for us
4. Not sure

Why Assess Geographic Money Laundering Risk?

- All foreign transactions are not created equal

- Consider customer domicile/residence, affiliates, and trade

- Tool for transaction monitoring and customer due diligence

Important: Geographic risk **alone** does not necessarily determine a customer's – or a transaction's – risk level

Country ML/TF Risk Factors

No standardized measure of a country's money laundering risk

- *Subjective*
- *Often not measurable*
- *Often based on perceptions of activity*

Regulatory, legal, political, financial indicators influence vulnerability

Risk indicators: Four high level categories

- *Quality of the AML/CFT regulatory framework*
- *Financial transparency and regulations*
- *Bribery and corruption levels*
- *Involvement/support of sanctioned activities*

Building a Country ML Risk Methodology

Basel AML Index 2019
A country ranking and review of money laundering and terrorist financing risks around the world

International Centre for Asset Recovery | August 2019

Source: https://www.baselgovernance.org/

- **Public edition:** 125 countries ranked, limited detail (free)
- **Expert Edition:** 203 countries ranked, lots of detail (not free)

Country ML Risk Methodology cont'd

Ranking	Country	Score	Change 18/19	Ranking	Country	Score	Change 18/19
1	MOZAMBIQUE	8.22	-0.06	24	ANGOLA	6.33	-0.16
2	LAOS	8.21	-0.04	25	SERBIA*	6.33	-0.19
3	MYANMAR*	7.93	0.43	26	TAJIKISTAN*	6.28	-2.02
4	AFGHANISTAN	7.76	-0.52	27	ALGERIA	6.28	-0.07
5	LIBERIA	7.35	-0.07	28	KAZAKHSTAN	6.27	-0.09
6	HAITI	7.34	0.01	29	ECUADOR	6.25	-0.05

Your options:

- Use Basel's rankings — but consolidate into groups for CDD and transaction monitoring

- Build your own model from the ground up

- Start with Basel's rankings and add factors not included

Poll

How familiar are you with the Basel AML Index?

1. Very familiar – it's used by my institution

2. Somewhat familiar

3. Didn't know about it until today

Risk Indicators: AML/CFT Regulatory Framework

AML/CFT Regulatory Framework

Covers risks related to:

- Quality of the legal and institutional AML/CFT framework
- Ability of financial and economic system to mitigate risks of ML/TF

Data sources:

- Financial Action Task Force (FATF) – Mutual Evaluation Report data
- U.S. Treasury Department Jurisdictions of Primary Money Laundering Concern
- U.S. State Department's International Narcotics Control Strategy Report: Major Money Laundering Countries

Financial Action Task Force (FATF)

- Global standard setting body for AML/CFT
- FATF Recommendations
- FATF-Style Regional Bodies
- Mutual Evaluation Reports (MERs)
- High Risk Jurisdictions – aka "Black List"

Basel Methodology:

- Detailed, in-depth analysis of every MER
- Countries with significant deficiencies
- Black List countries

Simplified Methodology:

- FATF member country: <10 points>
- FATF-style regional body member country: <5 points>
- Black List country: +15 points

WWW.ALESSA.COM

Jurisdictions of Primary *ML* Concern

311 Special Measures

Special Measures for Jurisdictions, Financial Institutions, or International Transactions of Primary Money Laundering Concern

Rulemakings Listed in Alphabetical Order

	Finding**	Notice of Proposed Rulemaking	Final Rule	Rescinded
ABLV Bank		02/13/2018		
Asia Wealth Bank		11/25/2003	4/12/2004	10/01/2012
Banca Privada d'Andorra	3/10/2015	03/10/2015		2/29/2016 (Finding) 2/29/2016 (NPRM)
Banco Delta Asia	9/15/2005	9/15/2005	3/14/2007	
Bank of Dandong		7/7/2017	11/08/2017	

Source: *https://www.fincen.gov/resources/statutes-and-regulations/311-special-measures*

- USA PATRIOT Act Section 311
- Special measures are specific to each designee
- Historically, most are financial institutions
- Countries still in place: North Korea, Iran, and Burma (sort of)

UNITED STATES DEPARTMENT OF THE TREASURY
FinCEN
FINANCIAL CRIMES ENFORCEMENT NETWORK

U.S. State Dept: INCSR – Major ML Countries

International Narcotics Control Strategy Report

- Published annually by U.S. State Department

- Country-by-country analysis of international drug trade & related financial crimes

- Volume II: Money Laundering and Financial Crimes

- "Major money laundering country"
  - *Where financial institutions are believed to engage in transactions involving significant proceeds from international narcotics trafficking*

U.S. State Dept: INCSR cont'd

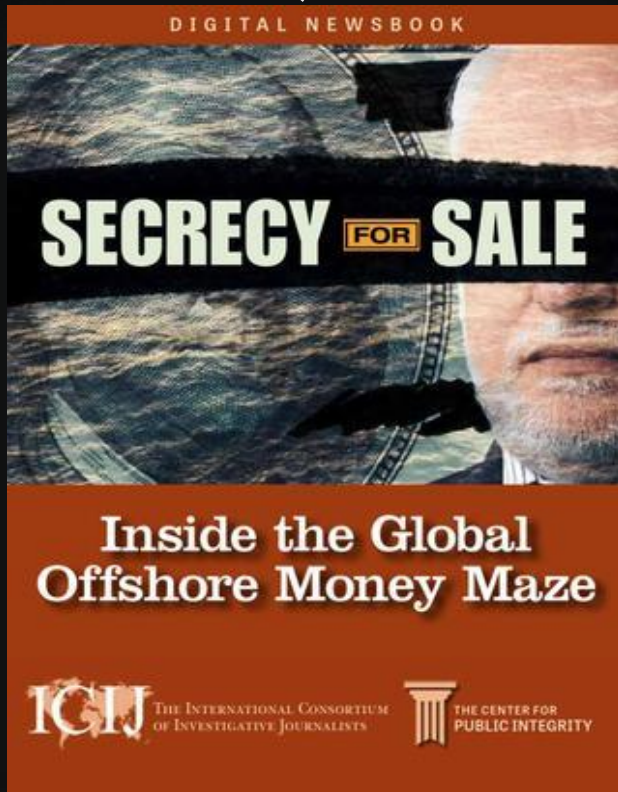## *Major Money Laundering Countries: INCSR 2020*

Afghanistan	Albania	Algeria	Antigua/Barbuda	Argentina
Armenia	Aruba	Azerbaijan	Bahamas	Barbados
Belgium	Belize	Benin	Bolivia	Bosnia/Herzegovina
Brazil	British Virgin Isl	Burma	Cabo Verde	Canada
Cayman Isl	China	Colombia	Costa Rica	Cuba
Curacao	Cyprus	Dominica	Dom Republic	Ecuador
El Salvador	Georgia	Ghana	Guatemala	Guyana
Haiti	Honduras	Hong Kong	India	Indonesia
Iran	Italy	Jamaica	Kazakhstan	Kenya
Kyrgyz Republic	Laos	Liberia	Macau	Malaysia
Mexico	Morocco	Mozambique	Netherlands	Nicaragua
Nigeria	Pakistan	Panama	Paraguay	Peru
Philippines	Russia	St. Kitts/Nevis	St. Lucia	St. Vincent/Grenadines
Senegal	Sint Maarten	Spain	Suriname	Tajikistan
Tanzania	Thailand	Trinidad/Tobago	Turkey	Turkmenistan
Ukraine	UAE	**United Kingdom**	**United States**	Uzbekistan
Venezuela	Vietnam			

Risk Indicators: Financial Transparency and Bribery/Corruption

Financial Transparency (or the lack of it)

DIGITAL NEWSBOOK

SECRECY FOR SALE

Inside the Global Offshore Money Maze

ICIJ — THE INTERNATIONAL CONSORTIUM OF INVESTIGATIVE JOURNALISTS — THE CENTER FOR PUBLIC INTEGRITY

- Primary driver of illicit funds movement globally

- Tax Justice Network: **$32 trillion** held offshore

- Financial Transparency Coalition: **80% or more unreported**

- Transactions to/from these countries without reasonable purpose: high risk

- Basel AML Index: IMF and WEF data focused on corporate transparency

Access full digital report at:
https://issuu.com/joaquinramos/docs/secrecy_for_sale

/\

The Financial Secrecy Index

tax justice network · **financial secrecy index**

Top 15 for 2020:

1. Cayman Islands
2. USA
3. Switzerland
4. Hong Kong
5. Singapore

6. Luxembourg
7. Japan
8. Netherlands
9. British Virgin Islands*
10. United Arab Emirates

11. Guernsey*
12. United Kingdom
13. Taiwan
14. Germany
15. Panama

* British Overseas Territory or Crown Dependency. **TJN:** *"If the UK and its network of Overseas Territories and Crown Dependencies were treated as a single entity, this UK spider's web would rank first on the index."*

Bribery and Corruption

- Corruption and bribery: predicate offenses

- Vulnerability to corruption = higher money laundering risk

- **Corruption**: Dishonest/fraudulent conduct by those in power

- **Bribery**: Illicit payments from private entity to public official for service or privilege

TI Corruption Perceptions Index

CORRUPTION PERCEPTIONS INDEX 2019

- Transparency International
- 180 countries ranked
- *Perceived* levels of public sector corruption
- Higher score = lower level of corruption

Top 5 MOST corrupt:

Somalia	9
South Sudan	12
Syria	13
Yemen	15
Venezuela	16

Top 5 LEAST corrupt:

New Zealand	87
Denmark	87
Finland	86
Switzerland	85
Singapore	85

TRACE Bribery Risk Matrix

TRACE Bribery Risk Matrix

- **TRACE International**: Non-profit

- **TRACE Inc**: Risk management solutions

- Measures **business** bribery risk in 200 countries

- Risk areas:
  - *Business/government interactions*
  - *Anti-bribery deterrence/enforcement*
  - *Government & civil transparency*
  - *Capacity for civil oversight*

Top 5 LOWEST RISK:

New Zealand	4
Norway	7
Denmark	7
Sweden	8
Finland	9

Top 5 HIGHEST RISK:

Somalia	94
South Sudan	92
North Korea	86
Yemen	85
Venezuela	85

TI CPI vs. TRACE Matrix

- Corruption Perceptions Index: perceived **public sector** corruption

- TRACE Matrix: business/**private sector** bribery risk
Sample Scoring Methodology:

   1. Bucket ranges of scores into High, Medium High, Medium, Low, and Very Low

   2. Determine each country's risk level based on where its score falls in the range

   3. Assign point values to each risk level

Country	CPI Score	CPI Level	CPI Points	TRACE Score	TRACE Level	TRACE Points
Somalia	9	High	20	94	High	20
Denmark	87	Very Low	0	7	Very Low	0
Chile	67	Low	0	31	Low	0
Greece	48	Medium	10	44	Medium	10
Egypt	35	Med-High	15	65	Med-High	15

Risk Indicator: Involvement/Support of Sanctioned Activities

Government Sanctions on Countries

Sanctions:

- Imposed by one country/group on another country

- Apply pressure to government or individuals/groups within a country that:
  - Threaten peace
  - Maintain policies harmful to human rights
  - Violate international law

- Basel AML Index does not include sanctions; rather "Legal & Political Risks"

- Be careful with naming conventions on sanctions programs!

Putting it All Together

Options:

- Use Basel AML Index as-is
- Start with Basel and modify
- Build your own

Recommendation: Bucket numeric scores into named risk level ranges

- Easier to understand
- May translate better to AML transaction monitoring and customer risk scoring

Poll

How often does your financial institution review for changes in country ML risk factors?

1. Every 6-12 months
2. Every 2-3 years
3. We review after major political/regulatory changes
4. Never

Concluding Comments

- Keep the model as simple as possible

- DOCUMENT the how/why of your model

- Educate front line staff – distinguish country money laundering risk from other types of country risk

- Ensure regular updates to underlying country risk factors

- Don't need to risk score your own country

- No single risk factor exists in a vacuum

CONTACT US

✉ connect@alessa.com

📞 +1-844--265-2508

🐦 @AlessaRCM-Twitter