New study: Money laundering rules "almost completely ineffective"

How well do the anti-money laundering regimes in Australia, New Zealand, Canada and the UK work? And how do they compare with Europe, the US, other countries, and globally?

A new study reveals anti-money laundering rules "almost completely ineffective" in disrupting the proceeds and funding of serious crime.

Published in the international peer-reviewed *Journal of Financial Crime*, the new study combines money laundering research with outcome effectiveness. This is concerned not only if rules exist, meet standards, or countries and firms comply with them, but whether they work. Do they produce intended outcomes?

Impact on criminals scarcely a rounding error
The study's author, Dr Ron Pol, says that the impact on individual criminals and organized crime groups identified by money laundering controls is profound. "Authorities rightly claim success when suspicious activity reports lead to more arrests and seizures of criminal assets."

"But" he adds, "despite these positive 'output' metrics, intended crime prevention *outcomes* hardly register. The disruption of criminal funds scarcely has the impact of a rounding error in the accounts of 'Criminals, Inc'"

> "the standard AML/CFT model is a contender for the least effective policy/ regulatory/ enforcement intervention, ever, anywhere." Dr Ron Pol

Poor anti-money laundering success rates
The research sampled various countries' proceeds of crime estimates and policing data to calculate what the United Nations calls the 'success rate' of money laundering controls. The proportion of criminal funds confiscated by authorities helps assess the effectiveness of regulations intended to disrupt serious profit-motivated crime like drugs-, arms- and human-trafficking, high-level corruption, fraud and tax evasion.

Reference details in note 4 below

Graphic available, see note 3 below

The research found few differences between countries. The rate of criminal funds intercepted was uniformly trivial, from a barely perceptible 0.1 percent to 3.3 percent in surveyed countries. (And the highest rate, in New Zealand, was based on official data excluding key areas of criminal funds, so its 'real' rate will be lower).

Study confirms & extends industry 'open secret'
Despite millions of businesses spending billions of dollars each year in compliance costs and fines when their systems don't meet certain 'standards', the research confirms the poor results shown in earlier studies by the United Nations (assisted by the US State Department) and Europol, Europe's law enforcement agency.

UN & Europol reports; note 4 below

The UN found that authorities globally disrupt just 0.2 percent of criminal funds each year. Europe fares better, with 2.2 percent seized, but only 1.1 percent is confiscated. Europol admits that the "amount of money…being recovered in the EU is only a small proportion of estimated criminal proceeds: 98.9 percent of estimated criminal profits are not confiscated and remain at the disposal of criminals." This suggests that the underlying crime continues virtually unhindered.

Sharpening a blunt tool
"If up to 99.9% of illicit funds in some countries stays in criminal hands each year, existing standards and current methods clearly don't work as well as intended. For crime truly not to pay, beyond rhetoric, a step-change in vision and capability may be required", says Pol.

The usual approach of continuously extending existing regulations may not be the answer, but the study ends positively. "For real impact on serious profit-motivated crime, we frankly need to acknowledge the reality, and start reframing for effectiveness, ie what works" Pol added. "And if the Financial Action Task Force as global standard-setter decides to enhance its current effectiveness drive, it remains well placed to help reposition the system for better outcomes."

'Closing loopholes' claims tested: The standard regulatory creep model has limited impact
The study sampled countries with full money laundering controls on banks, but different rules for professionals such as lawyers, accountants and realtors. These professional 'enablers' facilitate millions of financial transactions every year, sometimes involving criminal funds.

Often exempt from money laundering regulations initially applied to banks, authorities claim that "closing loopholes" by expanding rules to cover these professions and other businesses will have a big impact. The research tested such claims.

If extending regulations significantly improves the ability to intercept criminal finances, it should be possible to detect differences between countries with money laundering controls over some (Canada), none (Australia), or all (UK) of these professions, and where they have limited obligations (New Zealand).

The research, however, found no differences associated with professionals' inclusion or exclusion from money laundering regulations. Interception rates were uniformly tiny.

Notes for editor

Dr Ron Pol PhD, LLB (Hons), BCom (Econ)	**Contact details**
The study's author is a specialist political scientist linking public policy and effectiveness. Not only if rules exist, or meet recognised standards, or countries adopt them, and firms comply with them, but whether they work. Do they produce intended outcomes? For more, refer 1-page profiles: outcome effectiveness & AML/CFT effectiveness.	Dr Ronald F Pol AMLassurance.com Tel: +64 (4) 562 8444 Mobile: +64 (27) 241 1163 Email: Ronald.Pol@TeamFactors.com, or Ronald.Pol@AMLassurance.com

1. **The full study**

Pol, R. F., "Uncomfortable truths? ML=BS & AML=BS^2" *Journal of Financial Crime* (2018), Vol 25 No 2, pp 294-308.

Links to full article from
- Authorized summary: https://goo.gl/huS9Lm
- Official abstract: http://dx.doi.org/10.1108/JFC-08-2017-0071

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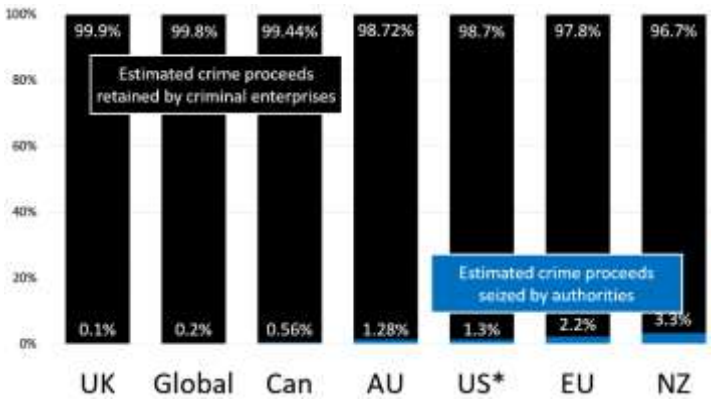
2. **The Journal of Financial Crime (JFC)**

- About the JFC: here

3. **Crime pays: Most illicit funds kept by criminals**

This chart is available in PPTX format: https://bit.ly/2pC6fwV

or as a JPEG: https://bit.ly/2JB1FLe



***US column for comparative purposes**
(not part of the study)

U.S. interception rate: 1.3%
Data source: FATF/APG evaluation of USA's AML/CFT regime 2016 (here). $4.4-4.6b forfeited (2014, pp78-79) divided by estimated $364b illicit proceeds annually from financial crime (2010) & drugs (p5). The former figure fluctuates year by year. The latter excludes crime proceeds from tax evasion, transnational organized crime, human smuggling & public corruption (domestic & foreign), so the 'real' interception rate may be less.

4. **Other studies referenced**

- *Estimating illicit financial flows resulting from drug trafficking and other transnational organized crimes*, **United Nations Office of Drugs and Crime** (2011), available here. (For the 0.2 percent finding and 'success rate' label, refer pp 7, 14, 119 & 131).
- *Does crime still pay? Criminal asset recovery in the EU*, **Europol** (2016), available here.

5. **Acknowledgements**

An earlier version of the analysis which formed this article (in a PhD thesis) was reviewed by Professor Jason Sharman (Cambridge), Professor Michael Levi (Cardiff), Professor Louis de Koker (La Trobe), and Professors AJ Brown & Duncan McDonnell (Griffith), before the *Journal of Financial Crime's* peer-review process. Afterwards, Professor Simon Young (Hong Kong) kindly noted an error in pre-print. The author is grateful for their invaluable assistance. Any remaining errors are the author's alone.

For more information on this study's companion article: https://bit.ly/2Jjvvo7