

Study reveals issues with Belgium's low anti-money laundering ratings

Findings in a leading peer-reviewed journal call into question the evaluation of Belgium's anti-money laundering regime, updated on 3 September 2018.

This week's partial re-rating of Belgium's AML/CFT regime failed to address new findings that called into question Belgium's so-called 'effectiveness' ratings, awarded lowly 'moderate' ratings in seven of eleven areas.

The new ratings update 15 of 40 'technical compliance' metrics but ignores 11 'effectiveness' measures issued in 2015 which the Paris-based Financial Action Task Force considers the "[main component](#)" of evaluations. Yet it is the methodology behind those so-called 'effectiveness' ratings which the new research, published in the *Journal of Money Laundering Control*, finds incapable of properly evaluating effectiveness.

New criteria seek to assess effectiveness

FATF introduced a new 'effectiveness' methodology in 2013 because compliance with its '40 recommendations' (previously the sole focus of evaluations since 1990) gave no assurance that money laundering regulations were effective.

An extensive process demanding significant resources and preparation by authorities, evaluations now assess anti-money laundering regimes based on two sets of rules: technical compliance with FATF's 40 recommendations, and 'effectiveness' based on 11 'outcome' measures. But, the new study reveals major flaws with the effectiveness methodology.

Measuring effort, not outcomes

According to the study's author, Dr Ron Pol from international consultancy AMLassurance.com, "misapplication of *outcome* labels for what are, in reality, simplistic *output* and *activity* measures miss an opportunity to evaluate the real impact of anti-money laundering rules."

He says that FATF's new methodology doesn't evaluate outcomes in the sense generally understood as the effect or impact of regulations.

"More meaningful outcome measures, for example, might include the extent to which the system better allows authorities to reduce and prevent crime, and to cut the social and economic harms caused by serious crime like drugs-, arms- and human-trafficking, corruption, fraud and tax evasion."

"Some of those measures are difficult to evaluate" says Pol, "but assessing countries' anti-money

laundering systems by superficial 'easy-to-measure' metrics suggests that the intensive rating exercise conveys value more as a rhetorical device than any real measure of effectiveness."

"That is because the current measures largely reflect the efforts of regulatory and enforcement authorities, not whether those efforts have any meaningful impact on serious crime."

'Tick-box' compliance extended

"Moreover", adds Pol, "assessors often use the same evidence to assess both the old and new criteria. But, compressing FATF's 40 recommendations into an abbreviated yet broadly equivalent list of so-called 'outcomes' adds little new evaluative capability beyond 11 more boxes to tick."

Effectiveness gap evidence mounting

Another recent academic paper also notes "enormous" industry frustration that, despite nearly 30 years of money laundering obligations (now imposed on millions of firms in nearly 200 countries) the "huge and growing cost of compliance has been accompanied by little observable effect".

Professors Levi, Reuter and Halliday say that the modern anti-money laundering system is "highly cost-inefficient" and has failed "to produce credible evidence of [its] effectiveness."

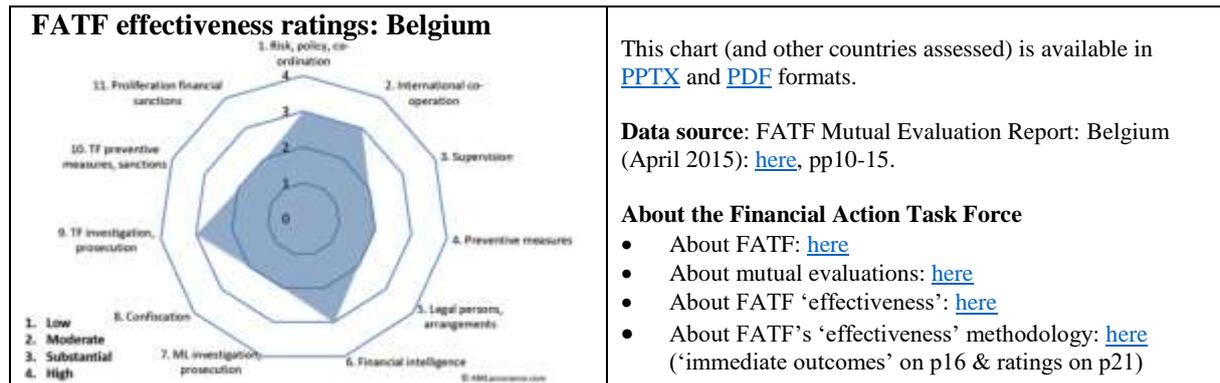
The new study's detailed analysis makes similar findings. It concludes that FATF's new methodology offers few reliable indicators about the effectiveness of money laundering controls.

Positive signs

But the new study ends optimistically. "FATF's frank acknowledgement that evaluating for effectiveness was missing, and important, is a positive step", says Pol. "Likewise, that outcomes matter. FATF also frequently adjusts its standards and guidance as circumstances change. If it accepts that some principles and practices underpinning its effectiveness framework might be improved, that tradition might reasonably be expected to continue."

In the meantime, however, Belgium remains stuck with poor ratings, which arguably offer no meaningful indication about the effectiveness of authorities' efforts to combat the harms from serious profit-motivated crime such as human- and drugs-trafficking, fraud, corruption and tax evasion.

Notes for editor



Supplementary material: Belgium

The new study used ‘immediate outcome 7’ (money laundering investigations and prosecutions) to illustrate differences between *outputs* and *outcomes*, and why it matters.

Belgium received a lowly ‘moderate’ rating on this measure, despite a ‘significant’ number of money laundering prosecutions. Assessors observed that most prosecutions were focused on the predicate offence, with related money laundering charges against the same offender. Prosecution of professional launderers also remains rare. Belgian authorities, however, expressed a commitment to prosecuting money laundering as a priority. If they do so, Belgium’s rating on this measure might increase.

“But,” says Pol, “more money laundering prosecutions (an *activity* or *output* measure) might, or might not, help achieve the (crime prevention) *outcomes* that authorities seek.”

He gave a hypothetical example where enforcement agencies detect and prosecute twice as much serious crime but, with prosecutors overwhelmed, no money laundering charges are laid.

Authorities would of course promote their doubling of crime detection to influence ratings, but with fewer money laundering cases, Belgium’s FATF ‘effectiveness’ rating might conceivably fall even further.

“Bizarrely”, says Pol “the prospect of *lower* ‘effectiveness’ ratings if authorities successfully disrupt *more* serious crime is an unintended consequence of focusing on simple output measures rather than crime prevention outcomes. Presumably, that would not be the intention of Belgian authorities, or FATF.”

1. **The full study:** Pol, R, F., *Anti-money laundering effectiveness: Assessing outcomes or ticking boxes?* Journal of Money Laundering Control (2018), Vol 21 No 2. DOI: 10.1108/JMLC-07-2017-0029. Authorized summary [here](#) and official abstract [here](#). About *Journal of Money Laundering Control*: [here](#)
2. **Companion study:** Pol, R. F., *Uncomfortable truths? ML=BS and AML=BS²*, Journal of Financial Crime (2018), Vol 25 No 2. DOI: 10.1108/JFC-08-2017-0071. Links to full article from [media release](#), authorized [summary](#) and official [abstract](#). About *the Journal of Financial Crime* [here](#).
3. **Other study referenced.** Levi, M., Reuter, P., Halliday, T., *Can the AML system be evaluated without better data?* Crime, Law and Social Change (2017), available [here](#)
4. **Acknowledgements.** An earlier version of the analysis which formed this article (in the author’s PhD thesis) was reviewed by supervising Professors [Jason Sharman](#) (now at Cambridge) and [AJ Brown](#) and [Duncan McDonnell](#) (Griffith), and examined by Professors [Michael Levi](#) (Cardiff) and [Louis de Koker](#) (La Trobe), before the *Journal of Money Laundering Control*’s own peer-review process. The author is grateful for their invaluable assistance. Any errors are the author’s alone.

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