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

Findings in a leading peer-reviewed journal call into question the evaluation of Bahrain's anti-money laundering regime, released 4 September 2018.

The Paris-based Financial Action Task Force and its local associate, voluntary supranational bodies responsible for anti-money laundering standards, awarded Bahrain lowly 'moderate' ratings on eight of 11 areas assessed for 'effectiveness', with no 'high' ratings awarded. Bahrain was assessed having only a "moderate level of understanding of its money laundering and terrorist financing risks" and was told to develop further policy guidelines and strategies.

But new research finds the new global assessment criteria by which Bahrain was assessed do not properly evaluate the effectiveness of anti-money laundering regimes.

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 truth, 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."

"The nature of a tick-box system means that it's possible for countries to get high ratings without much impact on crime, and vice versa" says Pol. "To their credit, Bahraini authorities appear to have focused more on crime prevention than better ratings. It is, however possible to achieve both. Although arguably a meaningless exercise, the ratings have real impact on Bahrain's access to financial markets."

Effectiveness gap evidence mounting
Another academic paper also notes "enormous" 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.

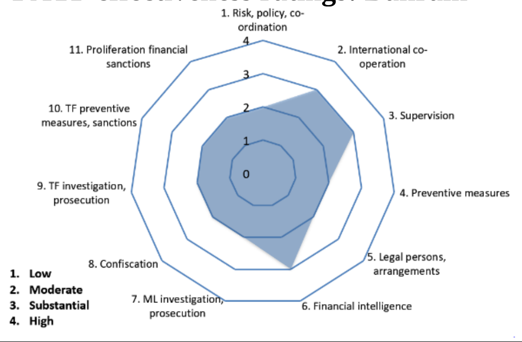
Positive signs
But the new study ends optimistically. "FATF's frank acknowledgement that evaluating for effectiveness was missing, and important, is a positive step", says Pol. "Likewise, that outcomes matter. FATF also frequently adjusts its standards and guidance as circumstances change. If it accepts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

In the meantime, however, Bahrain remains stuck with poor ratings which offer little meaningful indication about the effectiveness of authorities' efforts to combat the harms from serious profit-motivated crime such as drugs-trafficking, investment fraud, smuggling and tax evasion.

[Additional detail about Bahrain's assessment below]

Notes for editor

FATF effectiveness ratings: Bahrain



This chart (and other countries assessed) is available in PPTX and PDF formats.

Data source: FATF Mutual Evaluation Report: Bahrain (September 2018): here, p11.

About the Financial Action Task Force

- About FATF: here & MENAFATF here
- About mutual evaluations: here
- About FATF 'effectiveness': here
- About FATF's 'effectiveness' methodology: here ('immediate outcomes' on p16 & ratings on p21)

Supplementary material: Bahrain

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

Bahrain received a lowly 'moderate' rating on this measure, despite "strong" and "robust" co-operation and joint investigations between law enforcement agencies, which utilises the "full range of coercive and non-coercive investigative techniques and tools when conducting money laundering investigations." Assessors observed that most prosecutions were focused on the underlying 'predicate' offence rather than money laundering charges, and that authorities seldom conducted parallel investigations (for the predicate offence and money laundering) in cases such as fraud involving relatively small amounts of money. Likewise, assessors were concerned that Bahraini authorities pursue narcotics offences without much consideration for also prosecuting drugs offenders with money laundering charges. If authorities do so, Bahrain'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, Bahrain's 'effectiveness' rating might conceivably fall 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 Bahraini 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.

Contact details

Dr Ronald F Pol, Principal, AMLassurance.com	PhD, LLB (Hons), BCom (Econ)
The study's author is a political scientist linking public policy with effectiveness. This involves examining not only whether rules exist, or meet recognised standards, or countries adopt them, or even if firms comply with them, but whether they work. Do they produce intended outcomes? Also: 1-page outcome effectiveness & AML/CFT effectiveness profiles.	Tel: +64 (4) 566 5144 Mobile: +64 (27) 241 1163 Email: Ronald.Pol@TeamFactors.com, or Ronald.Pol@AMLassurance.com