

New study reveals issues with Cuba's anti-money laundering 'effectiveness' ratings

New research finds global assessment criteria fail properly to evaluate the effectiveness of anti-money laundering regimes.

The findings call into question the 2015 evaluation of Cuba's AML/CFT regime, awarded lowly 'moderate' ratings in six of eleven areas assessed for effectiveness, and no 'high' ratings at all. (Cuba was re-rated in October 2017, but only on technical compliance metrics. Those intended to measure effectiveness were not reassessed).

New criteria seek to assess effectiveness

The Paris-based Financial Action Task Force introduced a new 'effectiveness' methodology in 2013 because compliance with FATF's "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, evaluations now assess countries' anti-money laundering regimes based on two sets of rules: technical compliance with FATF's 40 recommendations, and 'effectiveness' based on 11 new 'outcome' measures. But, do they work?

Measuring effort, not outcomes

According to the study's author, Dr Ron Pol, "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" concedes Pol, "but assessing countries' anti-money

laundering regimes 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 effect or 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".

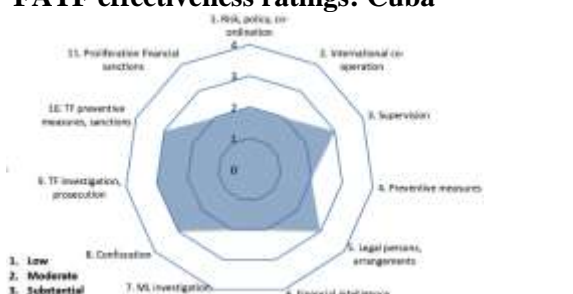
Professors Levi, Reuter and Halliday say that the modern anti-money laundering system is "highly cost-inefficient" and has failed "to produce credible evidence of [its] effectiveness."

The new study's detailed analysis makes similar findings. It concludes that FATF's new 'effectiveness' 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."

Notes for editor

<p>FATF effectiveness ratings: Cuba</p> 	<p>This chart (and other countries assessed) is available in PPTX and PDF formats.</p> <p>Data source: GAFILAT Mutual Evaluation Report: Cuba (December 2015): here, pp12-15.</p> <p>About the Financial Action Task Force</p> <ul style="list-style-type: none"> • About FATF: here • About mutual evaluations: here • About FATF ‘effectiveness’: here • About FATF’s ‘effectiveness’ methodology: here (‘immediate outcomes’ on p16 & ratings on p21)
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Supplementary material: Cuba

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

Assessors noted that Cuban authorities concentrate on investigating and prosecuting underlying predicate offences, such as drug and human trafficking, rather than money laundering cases. They remarked that, notwithstanding “many cases” for predicate offences, “only two cases have been tried” for money laundering. Assessors described this as “proof” that authorities effectively mitigated money laundering only “to some extent”; and “money laundering combat has not been decisive.” As a result, they awarded a lowly ‘moderate’ rating on this measure.

More money laundering prosecutions would clearly help boost Cuba’s ‘effectiveness’ rating. “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, and consistent with Cuba’s focus on the underlying crime, no money laundering charges are laid.

Authorities would of course promote their doubling of crime detection to positively influence ratings, but with no money laundering cases, Cuba’s FATF ‘effectiveness’ score on this measure might conceivably fall.

“Bizarrely”, says Pol “the prospect of the lowest possible rating if authorities successfully disrupt significantly *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 Cuban 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

<p>Dr Ronald F Pol, Principal, AMLassurance.com</p> <p>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.</p>	<p>PhD, LLB (Hons), BCom (Econ)</p> <p>Tel: +64 (4) 566 5144 Mobile: +64 (27) 241 1163 Email: Ronald.Pol@TeamFactors.com, or Ronald.Pol@AMLassurance.com</p>
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