Study reveals issues with Saudi Arabia's AML/CFT ratings

Findings in a leading peer-reviewed journal call into question the latest evaluation of Saudi Arabia's anti-money laundering regime, released 24 Sept 2018.

The Paris-based Financial Action Task Force and its local associate in Bahrain - voluntary bodies responsible for anti-money laundering standards - gave Saudi Arabia lowly 'moderate' ratings on four of 11 areas assessed for 'effectiveness', the lowest possible scores for another three areas, and no 'high' ratings at all. Assessors applauded that the Kingdom had "brought its legal system into line" with international demands, but "serious problems" still affected many areas it was told to address.

Saudi Arabia's international reputation and access to financial markets will be affected by these ratings for years to come.

But, independent research finds that the assessment criteria don't properly evaluate the effectiveness of anti-money laundering regimes as claimed.

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 criteria.

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

"Some of those measures are difficult to evaluate" says Pol, "but assessing 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's 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 any 'tick-box' system means that it's possible for jurisdictions to get high ratings without much impact on crime, and vice versa" says Pol. "To their credit, authorities often appear to focus more on crime prevention than better ratings, although close examination of more than 50 evaluations to date reveal ways to achieve both. Nonetheless, although the new ratings system arguably lacks much meaning, low scores have a very real impact on any jurisdiction'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."

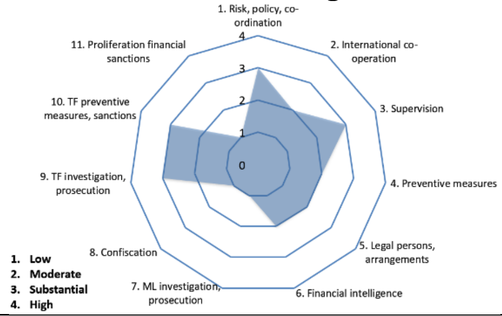
The new study's detailed analysis makes similar findings. It concludes that FATF's new methodology offers few reliable indicators about the effectiveness of money laundering controls.

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, Saudi Arabia 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, corruption, fraud and smuggling.

Additional notes

FATF effectiveness ratings: Saudi Arabia



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

Data source: Mutual Evaluation Report: Saudi Arabia (September 2018), p13.

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: Saudi Arabia

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

Saudi Arabia was given the lowest possible rating on this measure, despite a "substantial" increase in the number of money laundering prosecutions, parallel investigations were "frequently conducted", and the "successful" co-ordination between law enforcement agencies "to improve operational efficiency and information sharing" and enhance detection rates. Nonetheless, assessors said there were "too few money laundering investigations overall". Tellingly, they bemoaned a low ratio of money laundering investigations to investigations into predicate offences", with "less than 1 in 10 money laundering investigations stemming from the top 4 proceeds generating crimes." This suggests a strong focus on the underlying crime, such as drugs offences, corruption and bribery and smuggling, without necessarily also pursuing money laundering investigations. Evidently, if authorities increase the number of money laundering investigations, it would improve the ratio of laundering cases to predicate offences, and likely increase the Kingdom's 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, 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, Saudi Arabia's 'effectiveness' rating might stay low.

"Bizarrely", says Pol "the prospect of the lowest possible 'effectiveness' ratings 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 Saudi 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: http://dx.doi.org/10.1108/JMLC-07-2017-0029. 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: http://doi.org/10.1108/JFC-08-2017-0071. 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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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