

Report on

Lessons Learned from the First Generation of ML/TF Risk Assessments

WB Financial Integrity Team

October 2023

The study is based on



Horizontal review
of 146 Mutual
Evaluation
Reports,



Experiences from
the WB teams –
assisted 114 NRAs,



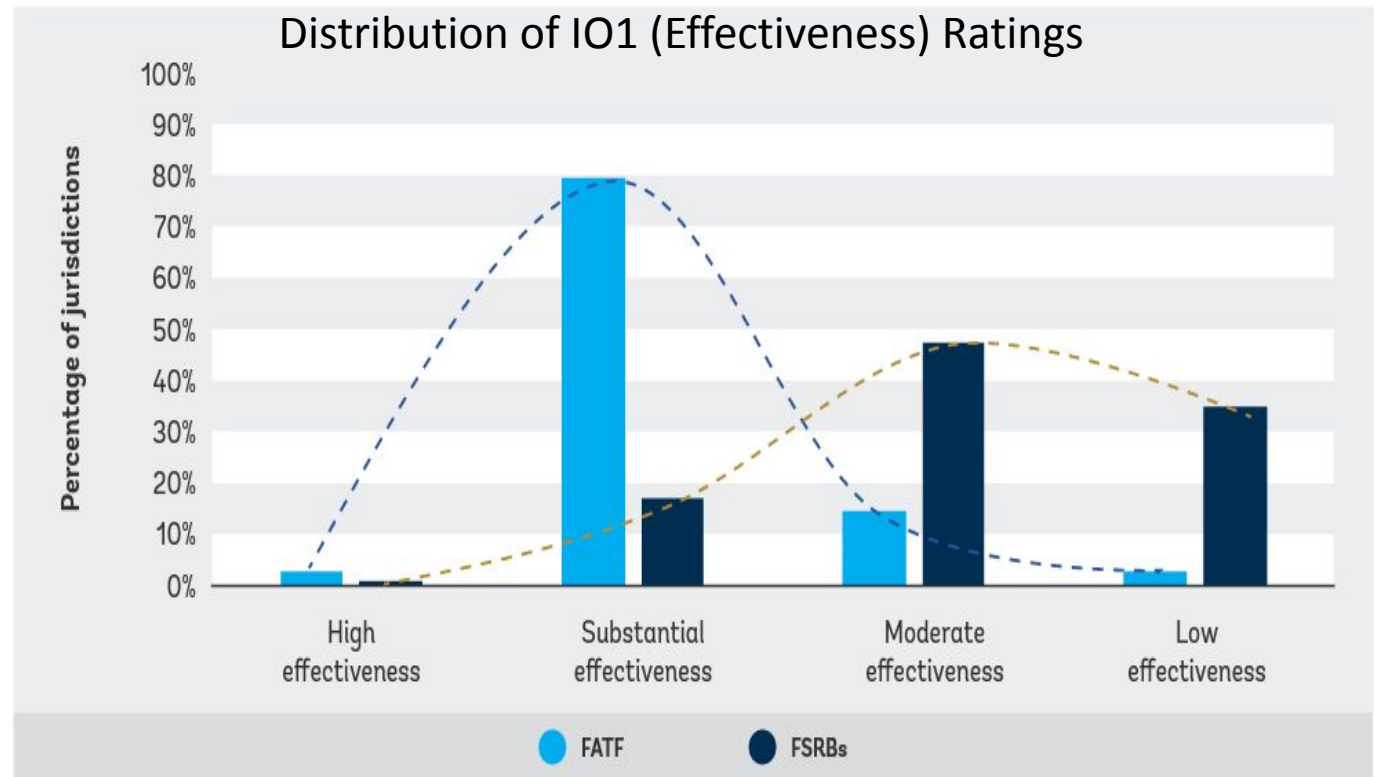
Two surveys, with
the participation
of a diverse group
of country experts.



Some key findings

Global State of Risk-Based Approach to AML/CFT after Its First Decade:

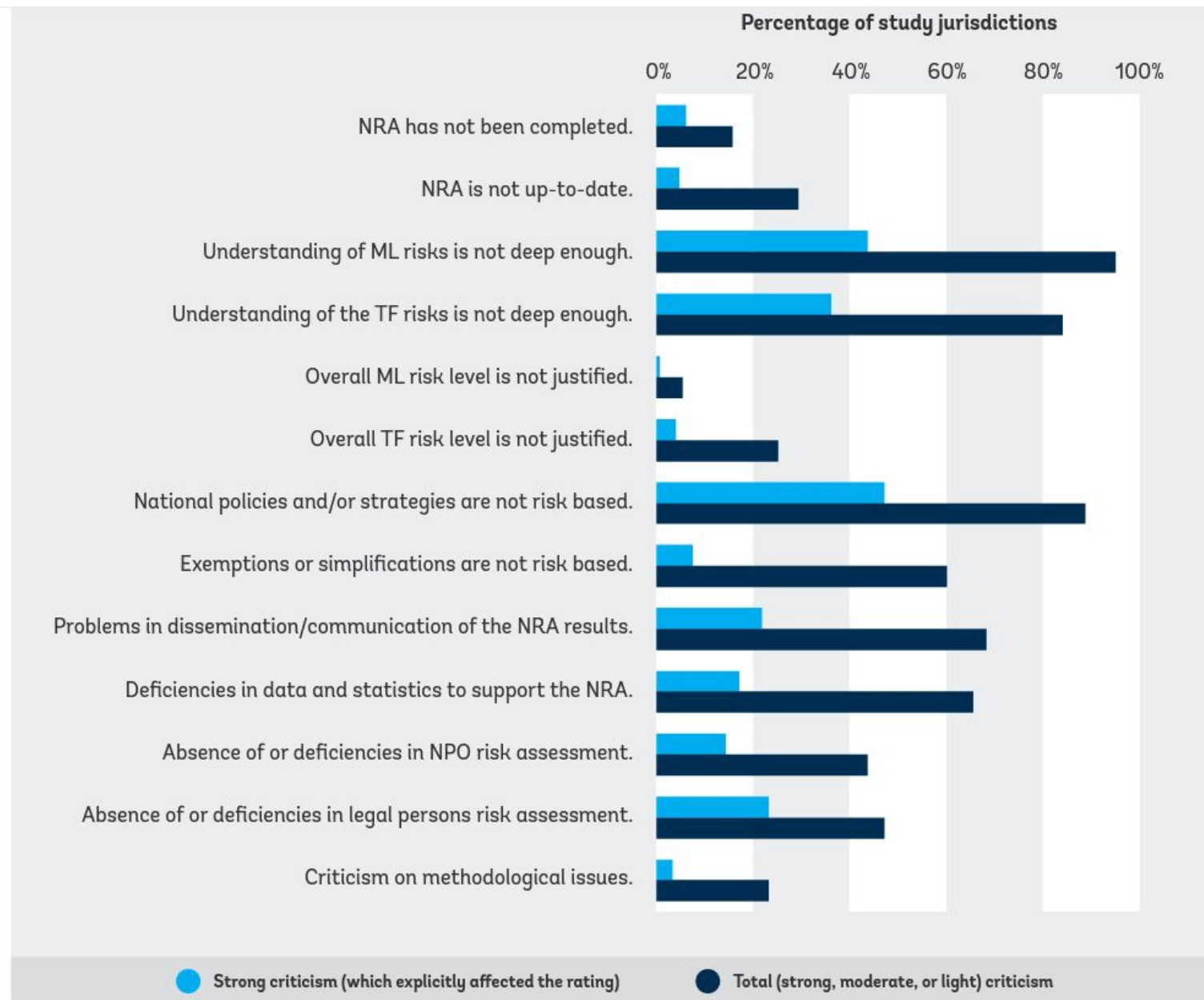
- In Progress,
- Uneven, and
- Yet to Be Effective.



Source: Data compiled from Financial Action Task Force website (June 2023).
Note: FATF = Financial Action Task Force; FSRBs = FATF-style regional bodies.

Why jurisdictions fail in Immediate Outcome 1

- Risk Assessments Are Not Deep,
- Risk Assessments Do Not Lead to Risk-Based Approaches,



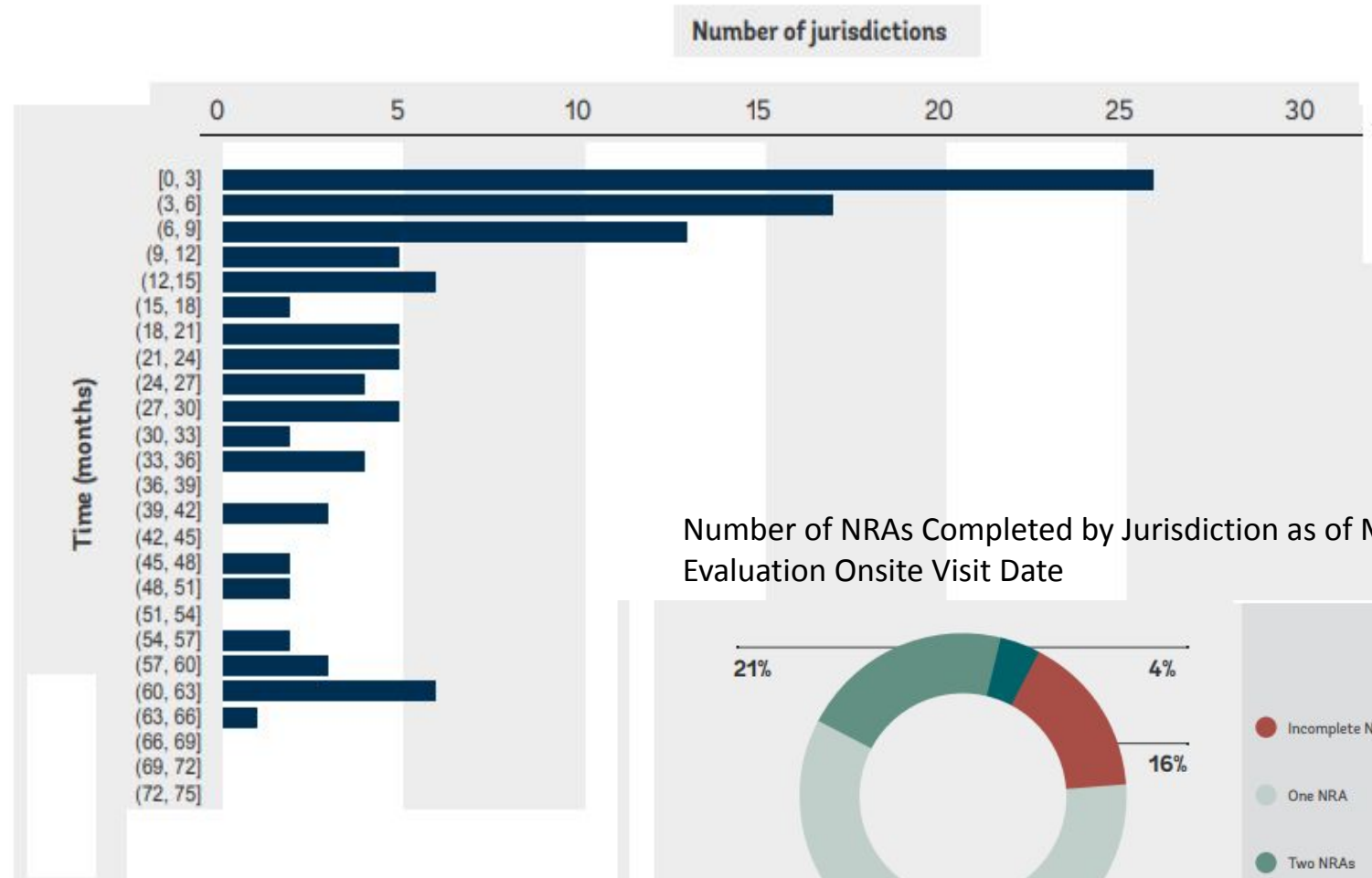
Source: Study data based on mutual evaluation reports.

Note: ML = money laundering; NPO = nonprofit organization; NRA = national risk assessment; TF = terrorist financing.

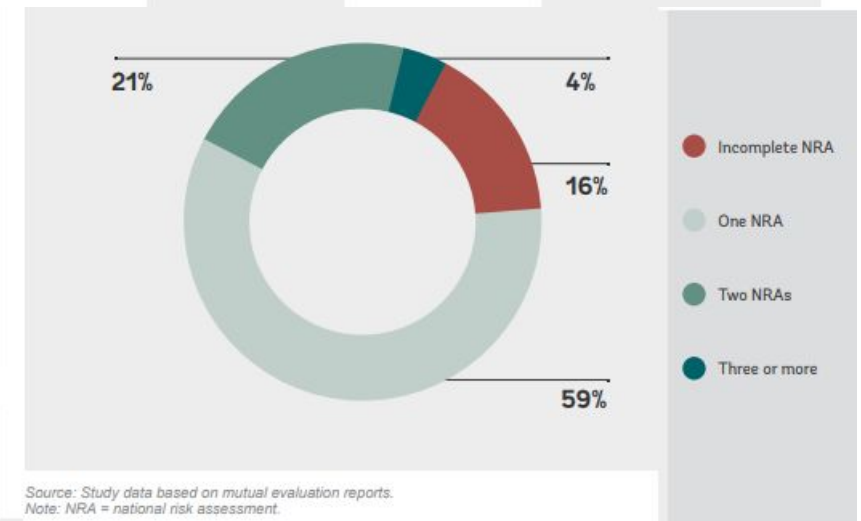
Last-minute NRAs do not leave time for risk-based policies and actions

- 60 completed NRA within 1 year before the on-site,
- 26 within 3 months before the onsite visit,
- 20 within 1 month before the onsite visit, and
- 20 jurisdictions could not present a complete NRA.

The time between NRA Completion and Mutual Evaluation Team's Onsite Visit (Months)



Number of NRAs Completed by Jurisdiction as of Mutual Evaluation Onsite Visit Date



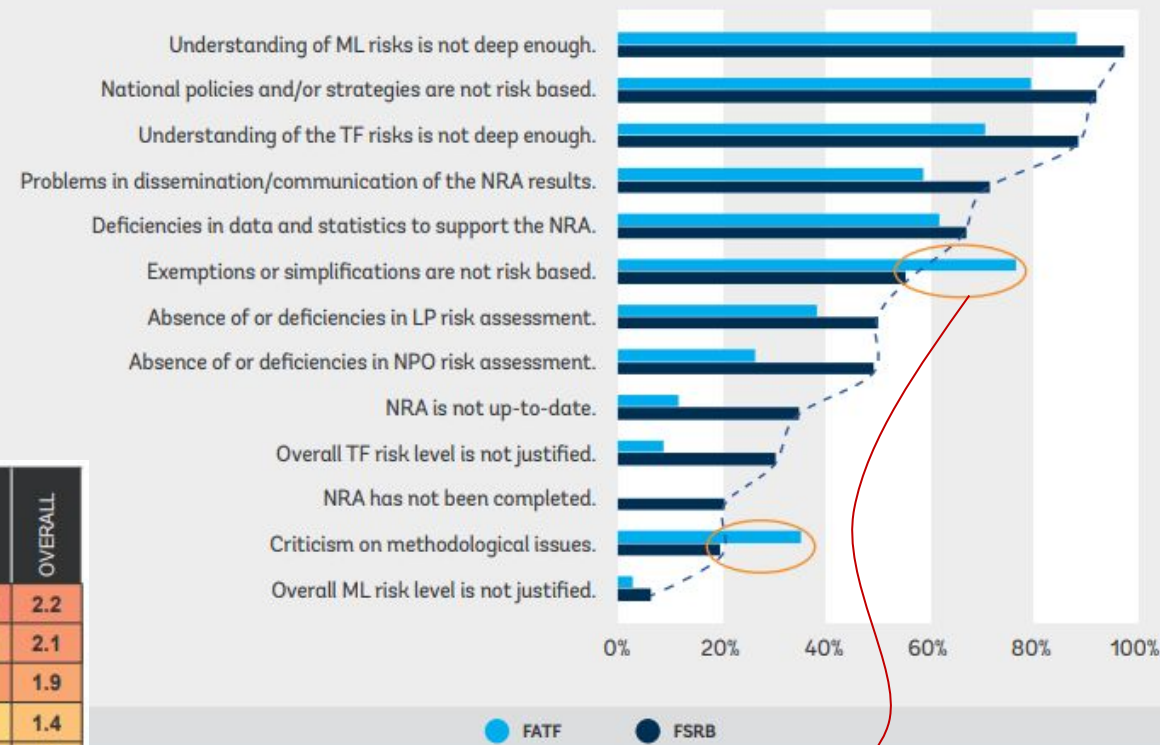
Outlook of the global network

Issues Related to Risk-Based Approach (in IO1) in FSRBs

Degree of criticism in the FATF and FSRBs	APG	CFATF	EAG	ESAMLG	FATF	GABAC	GAFILAT	GIABA	MENAFATF	MONEYVAL	OVERALL
Understanding of ML risks is not deep enough.	2.5	2.1	2.0	2.4	1.7	2.7	1.9	2.4	2.5	2.4	2.2
National policies and/or strategies are not risk based.	2.2	2.4	1.3	2.7	1.7	2.7	2.0	2.6	2.4	1.9	2.1
Understanding of TF risks is not deep enough.	1.8	2.4	1.5	2.6	1.0	2.7	1.8	2.3	1.9	2.1	1.9
Problems in dissemination/communication of the NRA results.	1.8	1.9	0.8	1.9	1.0	3.0	0.5	2.2	1.9	1.1	1.4
Problems in data and statistics to support understanding of risks.	1.1	1.3	1.5	0.8	1.0	2.7	1.4	2.5	1.5	1.2	1.3
Exemptions or simplifications not risk based.	0.6	0.7	0.5	0.4	0.8	0.3	0.4	0.6	0.4	0.8	0.6
Absence of or deficiencies in legal persons risk assessment.	0.7	0.6	0.5	0.6	0.4	0.3	0.1	0.7	0.3	0.7	0.5
NRA is not up-to-date.	0.4	0.9	0.5	1.0	0.2	0.3	0.3	0.5	0.9	0.2	0.4
Absence of or deficiencies in NPO risk assessment.	0.5	0.5	1.0	0.5	0.3	0.3	0.2	0.8	0.5	0.5	0.4
Overall TF risk in the NRA is not justified.	0.5	0.6	0.8	0.5	0.1	0.7	0.5	0.8	0.1	0.4	0.4
Criticism on methodological issues.	0.2	0.2	0.5	0.1	0.7	0.3	0.2	0.8	0.0	0.4	0.4
An NRA has not been completed yet.	0.3	0.7	0.0	1.4	0.0	0.7	0.0	0.3	1.0	0.0	0.3
Overall ML risk in NRA not justified.	0.1	0.0	0.0	0.0	0.1	0.0	0.2	0.3	0.1	0.1	0.1

* A score of 3 represents the highest level of criticism. A higher score implies a more negative impact on IO1.

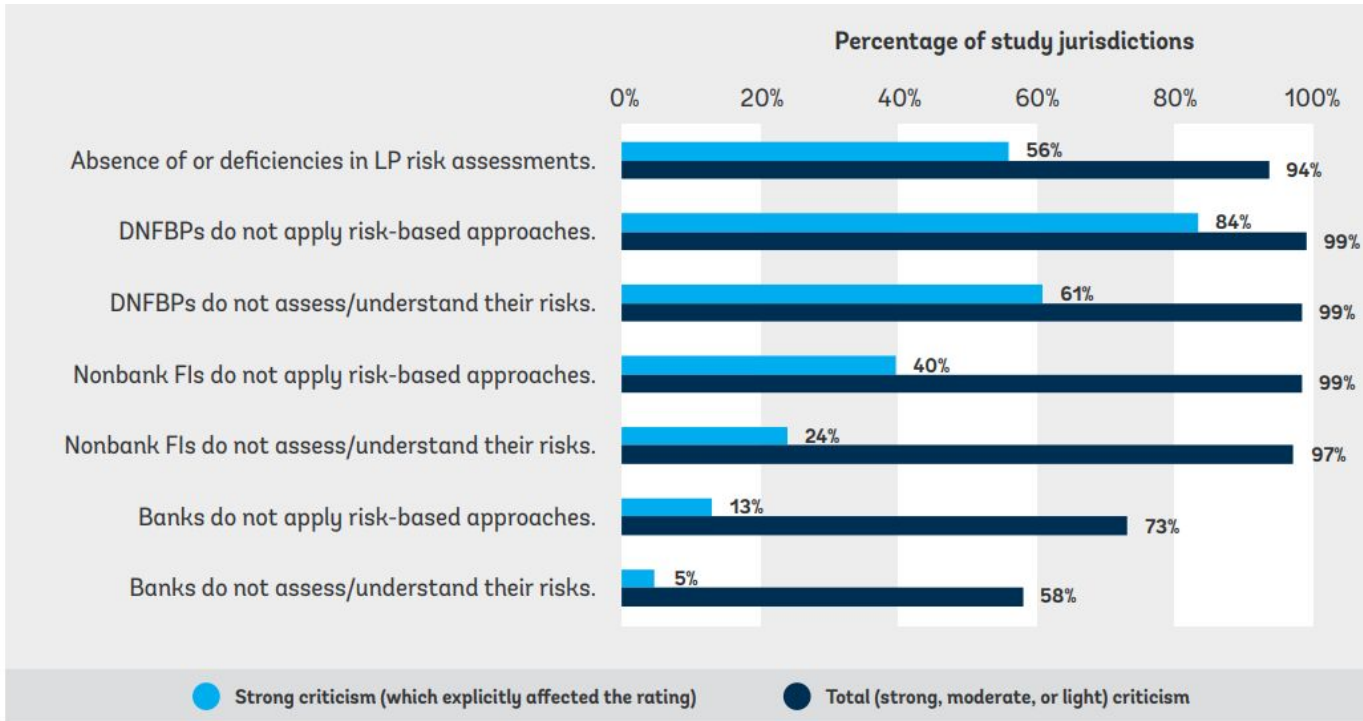
Frequency of Criticisms of FATF and FSRB Jurisdictions



Not because FSRBs are performing better, but rather because FATF countries use exemptions and simplifications more, confirming the findings of an earlier WB study.

Risk-based Approach at non-bank sectors: Problematic

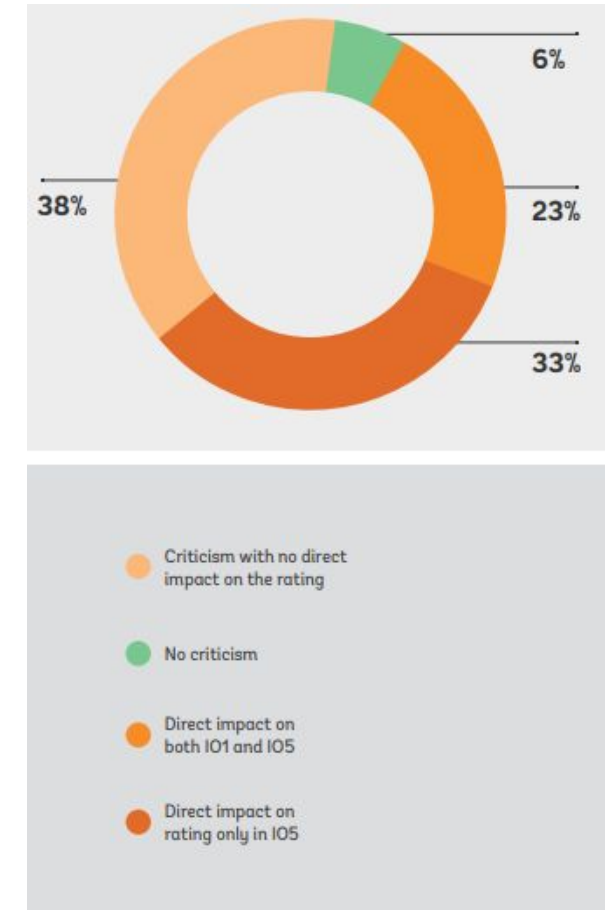
Criticism on Risk-Based Approach at Various Sectors (Considering IO4 and IO 5)



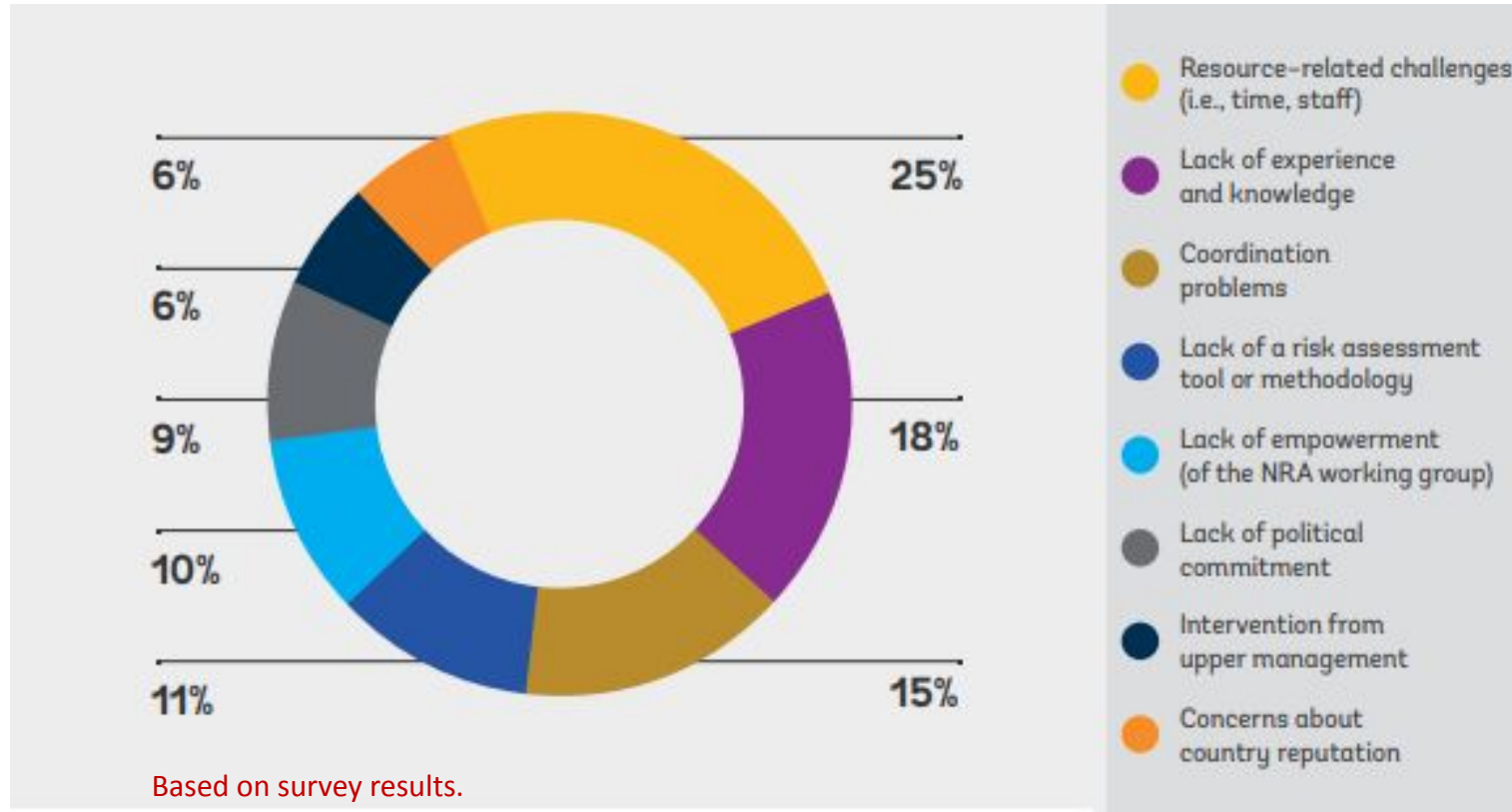
Source: Study data based on mutual evaluation reports.

Note: Nonbank FIs = nonbank financial institutions; DNFBPs = designated nonfinancial businesses and professions; LP = legal person.

Impact of Deficiencies in ML/TF Risk Assessment of Legal Persons in IO1 and IO5, as a Percentage of Study Jurisdictions



Common challenges



Some Jurisdictions Commended for the Strengths in Their Risk-Based Approach (in MERs)

Antigua and Barbuda, Aruba, Bermuda, Canada, Cyprus, Ghana, Greece, Hong Kong SAR, China, Indonesia, Ireland, Isle of Man, Israel, Italy, Republic of Korea, Moldova, New Zealand, Philippines, Russian Federation, San Marino, Saudi Arabia, Spain, United Kingdom.



Some common characteristics that received positive feedback from the assessors



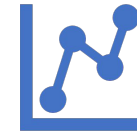
- The political commitment to assess and understand the risks



- The continuous/dynamic nature of the risk assessments



- Good understanding of risks based on dependable evidence and sound judgment



- Reliance on diverse information sources that are both qualitative and quantitative



- Good organization and strong collaboration among government agencies



- Strong public-private collaboration during the risk assessments



- Strong collaboration with academia



- Identification of data/information problems and plans for addressing them



Lessons Learned & Recommendations to Countries

Overarching recommendations



Do it for your own good. Avoid seeing the process as a “checking the box” type of exercise to satisfy an external audience, particularly the FATF and the FATF-style regional bodies; rather, take advantage of this resource-intensive effort to develop a real diagnosis and prognosis.

Identify the objective and the target audience clearly. Clearly identify the objective and the target audience and guide the NRA technical experts accordingly.

Find the right person to lead the NRA and invest in leadership. Invest in good leadership to ensure success. Making an extra effort and a greater investment in leadership and coordination will save more costly resources along the way. Ensure high-level buy-in for the NRA process.

Empower the assessors. Authorize, support, and protect the assessors. Treat them as doctors who are making a diagnosis. The right diagnosis will lead to the right treatment.

Recommendations for more robust assessments and understanding of ML/TF risks



Do not miss the big picture. Adopt a holistic perspective and be aware of biases and groupthink. Do not be distracted by the details of an assessment methodology. Balance the use of available quantitative and qualitative information and employ review mechanisms to prevent myopia during the risk assessment.

Invest in data collection and academic research. Rather than relying on ad hoc efforts to collect data on ML/TF risks, invest in data and information collection for the long term, develop and use tools to this end, and educate the stakeholders about the value of the data. Engage academia and invest in academic research on ML/TF risks.

Make the best use of feedback during and after the NRA. During the risk assessments, benefit from reviews and feedback from external experts and academics. Test the quality of your risk assessment before it is tested in a mutual evaluation. Get candid feedback from the audience and consumers of the ML/TF risk assessments, including the private sector.

Recommendations for turning the NRA results into real risk-based approaches



Find innovative and country-specific solutions to turn NRA results into risk-based policies, strategies, and actions. An NRA is an expensive diagnosis exercise— don't waste it. Be ready to challenge and change the current AML/CFT regulatory and institutional framework if it is not risk based and effective. The risk-based approach comes with flexibility; take advantage of it. Rather than looking for best practices, be the best practice yourself.

Establish a culture of risk-based approach. Consider establishing a culture and permanent mechanisms and units for assessing, understanding, and monitoring risks. This will help build relevant expertise and human capacity as well as institutional memory to cope with evolving risks.

Be flexible and efficient in reporting and dissemination. Although it can have benefits, the publication of a risk assessment report is not the only and most effective way of disseminating and communicating risk assessment results. Benefit from other dissemination tools such as sector-specific forums, training materials, focused briefs, and updates in red-flag indicators.



A roadmap proposal for WB and other TA providers

A roadmap for the WB's Technical Assistance

Going forward, the World Bank's focus may be on selective and more in-depth global and country engagements, such as

- Supporting the development and implantation of risk-based national AML/CFT policies, strategies, actions, and implementation of these;
- Better data collection and analysis on the proceeds of crimes, and academic research that can support understanding of the proceeds of crimes and their movement at the global level and in client jurisdictions;
- Implementation of risk-based approaches to new technologies—including virtual assets—legal persons, company and trust service providers, and other DNFBPs; and
- Implementation of the risk-based approach in support of financial inclusion, including remittances, digital financial products, and merchant payments.

Recommendations to international organizations, technical assistance providers, and donors

- Further supporting the academic work on the proceeds of crimes and criminal financial flows and investing in independent research and data collection at the international and national levels, and
- Improving the guidance and facilitating the sharing of best practices in the areas in which the jurisdictions are struggling most—notably, in deepening the understanding of ML and TF risks, developing risk-based policies and strategies, and effectively communicating risks to public and private stakeholders.



Questions & Discussion

