

# Basel AML Index 2015 Report

Basel Institute on Governance | 18 August 2015

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# 1 Introduction

This is the fourth edition of the Basel Anti-Money Laundering (AML) Index report developed by the Basel Institute on Governance. The Basel Institute published the Basel AML Index for the first time in 2012 and has since then been the only non-profit organisation to rank countries according to their risk of money laundering and terrorist financing.

This year covering 152 countries, the Basel AML Index provides an annual risk rating of money laundering and terrorist financing. It is based on the assessment of the quality of countries' anti-money laundering and countering the financing of terrorism (AML/CFT) frameworks and related factors such as financial sector standards and public transparency. The 2015 version includes a slightly adjusted methodology to take into account changes in the Financial Action Task Force (FATF) evaluations, which is one of the key components used to calculate the Basel AML Index. The new results and key findings are presented in chapter 4.

The Basel AML Index overall score is derived from 14 indicators based on publicly available sources such as the FATF, Transparency International, the World Bank and the World Economic Forum. The scores are aggregated as a composite index using a qualitative and expert-based assessment. The Basel Institute has conducted extensive research in calculating the final results following academic best practices. However, because some level of subjectivity may not always be entirely avoided in the process of creating a composite index, the highest level of transparency in relation to our assessment methodology has been adopted, and we stress that it is essential to understand the approach before interpreting the results. Our methodology section in chapter 5 describes in detail the steps conducted in calculating the overall score of the Basel AML Index.

As an additional measure, and further to an internal cross-check of data, the Basel AML Index is also reviewed each year by a panel of external experts to validate the methodology and ensure that the rating is valid, plausible and continues to capture the latest developments in the area of AML/CFT risks. Following this year's annual expert review meeting, some methodological changes were adopted. A key adjustment for this 2015 edition was to take into consideration the modifications brought to the evaluation mechanism of the FATF Mutual Evaluation Reports, which for the first time include an effectiveness assessment in addition to the assessment of legal compliance with the FATF standard. Chapter 6 provides further details and summarises the decisions made after the annual review.

Each year the Basel AML Index is issued in two versions, the Public Edition and the Expert Edition. The Expert Edition provides for a more comprehensive data set and allows for a selection of individual sub-indicator of the Index. The Expert Edition is also periodically updated, covers some 50 additional countries and includes sanctions lists. It therefore serves as a sophisticated country risk assessment tool for regulatory purposes, particularly for compliance officers, and caters for users' diverse needs in view of different compliance and regulatory requirements. The subscription-based Expert Edition is offered free of charge for public and academic institutions and non-profit organisations; commercially oriented enterprises are charged an annual fee of CHF 2000 or more, depending on user intensity. Further details concerning the Expert Edition are described in chapter 7.

The Basel Institute continues to actively facilitate the exchange of knowledge on the challenges of AML/CFT risk rating. We therefore encourage comments and feedback on the Basel AML Index as we strive to advance the use of AML country risk ratings for both research and compliance purposes.

## 2 Basel AML Index Scores and Rankings

























































































































































1		Iran	8.59	52		Bangladesh	6.43	103		United States	5.18
2		Afghanistan	8.48	53		Philippines	6.40	104		Taiwan, China	5.16
3		Tajikistan	8.26	54		Costa Rica	6.34	105		Moldova	5.15
4		Guinea-Bissau	8.15	55		Honduras	6.27	106		Uruguay	5.13
5		Mali	7.97	56		Kyrgyzstan	6.27	107		Uzbekistan	5.11
6		Cambodia	7.93	57		Russia	6.26	108		Spain	5.02
7		Mozambique	7.90	58		Kuwait	6.25	109		Netherlands	5.02
8		Uganda	7.86	59		Indonesia	6.23	110		Cyprus	5.00
9		Swaziland	7.85	60		Vanuatu	6.19	111		Latvia	4.98
10		Myanmar	7.78	61		Mongolia	6.13	112		South Africa	4.97
11		Kenya	7.71	62		Papua New Guinea	6.11	113		Australia	4.94
12		Nepal	7.62	63		China	6.05	114		Qatar	4.93
13		Paraguay	7.56	64		Ecuador	6.05	115		Israel	4.92
14		Guinea	7.55	65		Suriname	6.01	116		Singapore	4.91
15		Burkina Faso	7.45	66		Ghana	6.00	117		Jordan	4.91
16		Liberia	7.42	67		Timor-Leste (east Timor)	5.99	118		Egypt	4.91
17		Bolivia	7.38	68		Brazil	5.95	119		Azerbaijan	4.90
18		Laos	7.37	69		Kazakhstan	5.93	120		Armenia	4.89
19		Zambia	7.36	70		Turkey	5.93	121		Montenegro	4.80
20		Haiti	7.35	71		Luxembourg	5.93	122		Georgia	4.80
21		Sao Tome And Principe	7.33	72		United Arab Emirates	5.88	123		El Salvador	4.79
22		Lesotho	7.21	73		Nicaragua	5.87	124		France	4.79
23		Panama	7.13	74		Botswana	5.85	125		United Kingdom	4.68
24		Sierra Leone	7.11	75		Greece	5.83	126		Slovakia	4.66
25		Ethiopia	7.09	76		Japan	5.80	127		Tunisia	4.63
26		Tanzania	7.07	77		Guatemala	5.78	128		Colombia	4.60
27		Nigeria	7.07	78		Malawi	5.78	129		Norway	4.60
28		Lebanon	7.06	79		India	5.77	130		Belgium	4.58
29		Cape Verde	7.00	80		Samoa	5.76	131		Romania	4.58
30		Niger	6.99	81		Mauritius	5.74	132		Czech Republic	4.55
31		Zimbabwe	6.98	82		Bosnia-Herzegovina	5.64	133		Macedonia	4.50
32		Rwanda	6.89	83		Trinidad And Tobago	5.63	134		Dominica	4.41
33		Mauritania	6.87	84		Morocco	5.56	135		Peru	4.39
34		Angola	6.76	85		Bahrain	5.56	136		Ireland	4.27
35		Yemen	6.75	86		Albania	5.56	137		Iceland	4.24
36		Argentina	6.71	87		Hong Kong Sar, China	5.52	138		Denmark	4.23
37		Vietnam	6.71	88		Switzerland	5.51	139		Jamaica	4.16
38		Gambia	6.69	89		Germany	5.48	140		Croatia	4.13
39		Namibia	6.67	90		Saudi Arabia	5.47	141		Portugal	4.12
40		Dominican Republic	6.63	91		Austria	5.45	142		Hungary	4.06
41		Algeria	6.57	92		Senegal	5.40	143		Malta	4.03
42		Ukraine	6.56	93		Malaysia	5.32	144		Chile	4.02
43		Seychelles	6.53	94		St. Vincent And The Grenadines	5.28	145		Sweden	3.99
44		Pakistan	6.52	95		Canada	5.26	146		Poland	3.99
45		Thailand	6.52	96		St. Lucia	5.25	147		Bulgaria	3.79
46		Venezuela	6.51	97		Mexico	5.24	148		New Zealand	3.78
47		Marshall Islands	6.51	98		Italy	5.23	149		Lithuania	3.67
48		Benin	6.48	99		Grenada	5.21	150		Slovenia	3.41
49		Cote D'ivoire	6.47	100		Korea, South	5.20	151		Estonia	3.19
50		Guyana	6.46	101		Serbia	5.20	152		Finland	2.53
51		Sri Lanka	6.44	102		Barbados	5.19				

Table 1: Results 2015: The scores range from (0) low risk to 10 (high risk) and provide and overall score of countries' money laundering/terrorism financing risk.

## 3 What does the Basel AML Index measure?

The Basel AML Index measures the risk of money laundering and terrorist financing of countries based on publicly available sources. A total of 14 indicators that deal with AML/CFT regulations, corruption, financial standards, political disclosure and rule of law are aggregated into one overall risk score. By combining these various data sources, the overall risk score represents a holistic assessment addressing structural as well as functional elements in the AML/CFT framework. As there are no quantitative data available, the Basel AML Index does not measure the actual existence of money laundering activity or amount of illicit financial money within a country but is designed to indicate the risk level, i.e. the vulnerabilities of money laundering and terrorist financing within a country.

The Basel AML Index ranks countries based on the overall score and provides data that is useful for comparative purposes. However it should be stressed that the primary objective is not to rank countries in comparison to each other. Rather, the Basel AML Index seeks to provide an overall picture of a country's risk level and to serve as a solid starting point for examining progress over time.

# 4 Basel AML Index 2015 - Findings

## 4.1 High risk countries

Compared to the previous year, Iran, Afghanistan, Tajikistan, Guinea-Bissau, Mali, Mozambique and Uganda remain almost unchanged at the top of the Basel AML Index 2015 risk rating. Although Cambodia and Swaziland are still among the top 10 highest risk countries in the Basel AML Index 2015, they have seen the greatest improvement in their scores. Liberia is also a country with relative high risk that showed significant improvements, through addressing deficiencies in their AML/CFT legislation. Guinea on the other hand has significantly worsened its scores from 7.37 to 7.52.

The data from the Basel AML Index 2015 illustrates that the majority of high-risk countries are characterized by intrinsic weaknesses in both preventing and enforcing multiple aspects of the AML/CFT framework. Low-income countries remain at the top of the Basel AML Index, the reasons likely to be found in structural and functional vulnerabilities such as high rates of perceived corruption, lack of judicial strength, lack of resources to control the financial system, and lack of public and financial transparency. While it is the overall deficiencies in a country’s AML/CFT framework that weigh most heavily on the result, the final score is made up of a combination of factors, including structural deficiencies noted above, as well as the size of a country’s financial centre or its potential attractiveness as destination country for illicit financial flows.

**Top 10 highest risk countries**

<i>Country</i>	<i>Score</i>
Iran	8.59
Afghanistan	8.48
Tajikistan	8.26
Guinea-Bissau	8.15
Mali	7.97
Cambodia	7.93
Mozambique	7.90
Uganda	7.86
Swaziland	7.85
Myanmar	7.78

## 4.2 Low risk countries

Finland and Estonia remain the lowest risk countries based on the Basel AML Index 2015 data. Their risk rating, which is still below the risk threshold of 3.3, indicates a strong AML/CFT compliance level, high public and financial transparency and low levels of corruption. Particularly in Estonia’s case, the FATF Mutual Evaluation Report (MER) has a large impact on its score. Other countries grouped near the low risk rating include Bulgaria, Lithuania, New Zealand, Slovenia and Sweden. All these countries demonstrate positive compliance with AML/CFT standards and strong performances in other relevant variables. As in previous years, however, it should be noted that the actual implementation and effectiveness of a country’s AML/CFT framework cannot yet be adequately reflected in the Basel AML Index because, until the recent modifications brought to the FATF evaluation mechanism, this aspect was not taken into account in any of the relevant underlying indicators. Only a few FATF evaluation reports so far were published under the new methodology and have in fact resulted for most of the concerned countries in a worsening of their scores in the 2015 Basel AML Index, as they have been assessed according to the effectiveness of their AML/CFT framework.

## 4.3 Greatest Improvements and largest deteriorations

The greatest improvements from the previous 2014 edition have been made by Azerbaijan, Cambodia, Spain, Tunisia, Turkey and United Arab Emirates. Recent evaluations and follow up reports by the FATF

have re-assessed their AML/CFT framework and rated their compliance levels more positively. Uzbekistan has also improved its overall score, driven by a stronger performance in relation to the World Bank Business Disclosure and Financial Transparency standards.

Countries that have seen their risk increase the greatest according to the Basel AML Index include Guinea, Guatemala, Jamaica, and Montenegro. Their scores significantly worsened due to remaining deficiencies in the AML/CFT framework as identified in the FATF follow-up reports.

#### **4.4 Notes on the findings**

Given these findings, there are a few trends worth noting: The findings and our own assessment indicate that a number of countries have been improving their AML/CFT legislations to comply with the FATF recommendations. This is also reflected in the FATF follow-up reports and consequently in the results of the Basel AML Index. It should be noted however that the FATF follow-up reports are not consistently available for all regions, which may be considered as putting at a disadvantage certain countries in the Basel AML Index if they have updated their frameworks in the meantime without this being reflected yet in an FATF report. Moreover, most of the FATF MERs only assess the technical compliance of a country's legal and institutional AML/CFT framework with the FATF recommendations. As previously stated, the new FATF evaluation methodology which includes an assessment of effectiveness and actual enforcement of FATF standards has so far only been applied in five countries. Therefore, the Basel AML Index ratings are not directly comparable in all instances. The countries that were assessed under the new FATF methodology are marked in the ranking with an asterisk.

The Basel AML Index scores provide an overall picture of a country's risk level and serve as a solid starting point for examining progress over time. While the Basel AML Index scores summarize a complex and multidimensional issue, they should not be viewed as an actual quantitative measurement of money laundering and terrorist financing activity or as a specific policy recommendation for countries or institutions. For a detailed country diagnostic, the Basel AML Index should be complemented by a more fine-grained country profile study. Researchers, policy-makers and compliance officers who are interested in better understanding a country's risk rating/result are encouraged to consult the specific sub-indicators employed in the construction of the Basel AML Index. The sub-indicators provide for each country a score that might be more relevant to a specific risk assessment such as for different client segments. A detailed view on the sub-indicators can be accessed via the Expert Edition. For more information on the Expert Edition see chapter 7.

## **5 Methodology**

### **5.1 Methodological approach**

Ranking countries according to their risk of money laundering and terrorist financing presents several methodological challenges. To date there has been no universally agreed definition or methodological approach that prescribes whether a particular country represents a high risk. Experts and regulatory institutions may have different requirements on the best method of assessing a country's risk. To address these challenges the Basel Institute conducted extensive research and created a conceptual framework to be considered for assessing money laundering and terrorist financing risk. In developing

the Basel AML Index, a simplified approach, as prescribed in the best practices of creating a composite indicator<sup>1</sup>, has been used.

Figure 1 provides an overview of the steps that are being conducted to develop the Basel AML Index overall score:

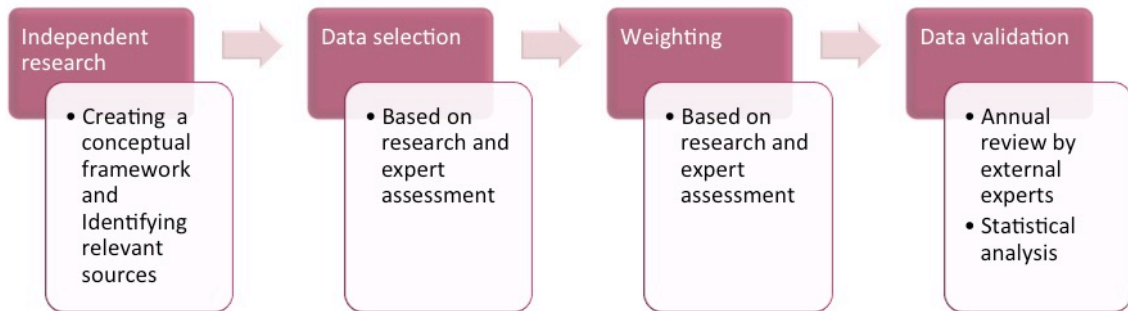


Figure 1 - Methodological overview

In sum, the development and conceptual framework of the Basel AML Index model is characterised by:

- A scientific approach in its creation (using the OECD composite index guidelines)
- Research and expert based selection of indicators
- A transparent annual review testing and validating its methodology and results with external experts from the AML community

## 5.2 How is the overall score calculated?

The Basel AML Index is a composite index. This entails that the overall score is a weighted average of 14 indicators. The Basel Institute does not generate its own data but relies on data from various publicly available sources such as the FATF, Transparency International, the World Bank and the World Economic Forum. The indicators are grouped into five categories, based on the selected indicators and the conceptual framework to capture the multidimensionality of data (see figure 2).

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<sup>1</sup> Handbook on constructing composite indicators: methodology and user guide, OECD, 2008.



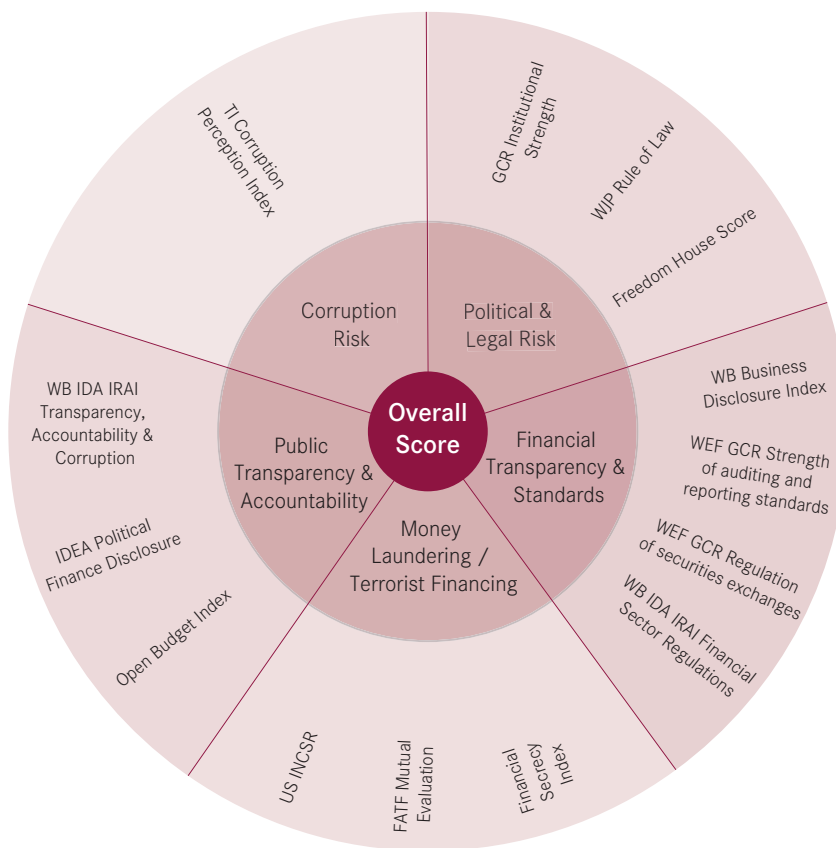


Figure 2 – Basel AML Index Overall Score (without the weighting scheme)

### 5.3 Selection of data

The Basel AML Index attempts to capture the whole scope of money laundering and terrorist financing risk and therefore applies a holistic approach in selecting the relevant risk indicators. Although, there is no universally accepted list of indicators in assessing a country’s money laundering and terrorist financing risk, some guidance exists on what to look out for. A key consideration is whether a jurisdiction has an adequate AML/CFT framework in place. Other factors include the level of corruption and rule of law. Additional factors such as financial and public transparency as well as a country’s global role in the financial system should be considered to assess the whole picture. The criteria for the selection and inclusion of indicators are:

- Relevance and relationship to risks of money laundering and terrorist financing (related survey questions or assessment of relevant financial standards and regulations)
- Methodology of sources
- Availability of recent data (maximum age of data is 3 years with the exception of FATF Mutual Evaluation Reports)
- Country coverage
- Public availability
- Low overlap with other indicators

Annex 1 contains a table of sources including the individual weightings.

## 5.4 Scaling

Most indicators chosen for the Basel AML Index have their own scoring system. The individual sources (raw data) are rescaled to run from 0 – 10 where 0 indicates the lowest risk level and 10 the highest risk level. In order to reach a unified coding system all raw data or individual indicator scores were collected and rescaled using the Min-Max method into a 0 – 10 system. Only after rescaling the data is the indicator then applied in our composite index.

## 5.5 Weighting/Aggregation

In creating a composite index, each indicator or component receives a weight to aggregate all scores into one overall score. A standard and comparatively simple system would consist of adding all indicators and weighting them equally.<sup>2</sup> This assumes however that all indicators are equally relevant in the context of money laundering and terrorist financing. The Basel AML Index though resorts to a diverse set of indicators, each of them measuring a different issue. Consequently, certain indicators are more important than others in assessing money laundering and terrorism financing risk. The Basel Institute has been applying its own weighting scheme in order to reflect an appropriate overall score. These individual weightings are given by senior anti-money laundering experts from the Basel Institute and International Centre for Asset Recovery (ICAR) and are annually reviewed by independent external experts.<sup>3</sup> The Basel AML Index team is also in contact with regulatory and supervisory institutions that are subscribed to the Expert Edition to discuss the weighting scheme. During our review and feedback phase no major criticism was received to change the current weighting methodology.

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<sup>2</sup> Another method would be through statistical models, such as factor analysis and data development analysis. Weights are in this case chosen to reflect the statistical quality of the data. Statistically more reliable data with broad coverage are assigned with more weighting. The OECD Handbook on Composite Indicators states however that “this method could be biased towards the readily available indicators, penalising the information that is statistically more problematic to identify and measure” OECD Handbook on Constructing Composite Indicators: Methodology and User Guide, OECD (2008): <http://www.oecd.org/dataoecd/37/42/42495745.pdf>

<sup>3</sup> This approach is also known as expert weighting scheme or so-called participatory method, where experts rank or categorize each of the identified indicators in terms of their degree and relative importance. For example, the FATF Mutual Evaluation Reports which deal specifically with the topic of AML/CFT have been weighted stronger than, for example, indicators reflecting the civil rights or political risk indices, which should be also factored in but in a less representative way.

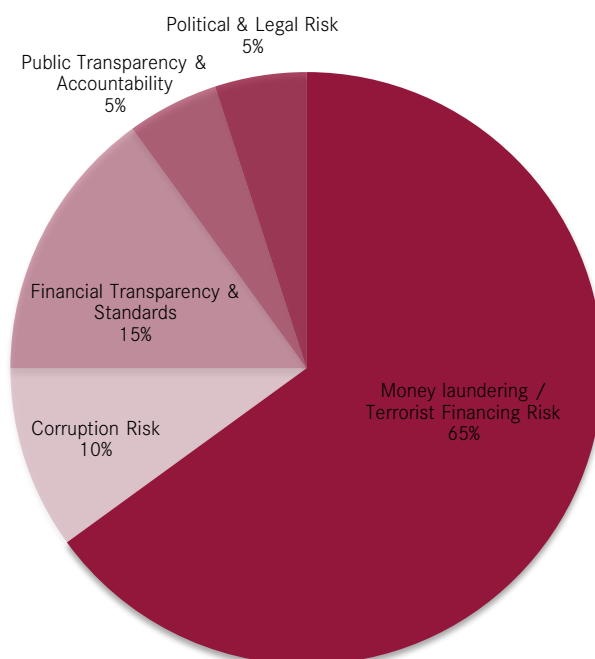


Figure 3 - Weighting scheme

### 5.6 Missing Data / Imputation of Missing Data

There is not always a complete set of 14 indicators available for all countries. A country’s overall score is calculated based on available data only, and missing values are not replaced. In the Public Edition of the 2015 Basel AML Index, only countries for which data is available for a minimum of 8 out of 14 indicators are included in the ranking. Countries for which data is missing in relation to all three indicators in the key category (ML/TF Risk) were excluded as well, regardless of whether in total data on 8 or more indicators was available for them<sup>4</sup>. Applying these criteria, the 2015 version of the Public Edition of the Basel AML Index features 152 countries. By contrast, in the Expert Edition 203 countries are included because also those countries that are failing the above criteria are included to a certain extent. These are specifically marked and indicated in the Expert Edition.

### 5.7 Data validation

As a final step, data is validated and cross-checked against a qualitative expert assessment and through an annual review. Each year a review meeting is conducted to assess the methodology anew and ensure that the country risk rating is being tested independently. The annual review meeting process entails verifying the quality of data/indicators and provides an additional layer of analysis to identify possible mistakes or inconsistencies within the ranking. The results of the annual review are published each year in the annual Basel AML Index report (see chapter 6 below), which allows for public scrutiny and verification by external experts, researchers and academics.

<sup>4</sup> Due to our own weighting scheme, the impact of certain missing indicator such as the ones within the ML/TF risk categories is higher than in other categories.

The 2014 annual review also included an internal statistical analysis to test the model, using for example a correlation analysis and testing the weighting scheme and comparing it with alternative weighting schemes. A summary can be read in [last year's report](#).

## 6 Annual Review 2015

In order to provide a reliable risk ranking on AML/CFT, a regular quality check on the methodology and selection of indicators is necessary. The Basel AML Index team assesses and tests the methodology and its country risk model outputs through a comprehensive annual review process based on external independent expert review. An annual review meetings bring together experts from the financial industry, law enforcement, and dedicated international and non-profit organisations thereby enabling a participatory approach to ensure the Basel AML Index continues to provide the most accurate and independent rating of countries' money laundering and terrorist financing risks. The following paragraphs outline the key discussion points of this year's annual review meeting and any actions taken in response to these discussions which affect the 2015 Basel AML Index.

### 6.1 General methodological approach and selection of indicators

The review group supported the proposal to maintain the principles underpinning the methodology and weighting scheme, confirming the robustness and accurate nature of the weighting scheme and the different weighting levels allocated to the individual indicators and categories.

For comparative purposes, it was suggested to explore alternative approaches to the weighting scheme by surveying a number of experts. The survey would allow experts to allocate their own preferred weighting based on certain countries and scenarios as examples. The Basel Institute, based on specific research or client requests, can test and provide alternative weighting schemes.

### 6.2 Review of existing indicators

#### 6.2.1 Replacing Bertelsmann Transformation Index Rule of Law sub-indicator with World Justice Project Rule of Law Index

The group considered the proposal to replace the Bertelsmann Transformation Index (BTI) Rule of Law score with the World Justice Project (WJP) Rule of Law Index, or to use both indicators jointly. The new WJP Rule of Law Index 2015 version includes new data and covers more countries than its previous versions. It has updated scores and rankings for 102 countries across 8 primary rule of law indicators and 47 sub-factors. In contrast to the BTI, the WJP indicators are more comprehensive and updated annually. The WJP Index's scores are built from the assessments of country residents (1,000 respondents per country) and local legal experts, ensuring that the findings reflect the conditions experienced by the population, including marginalized sectors of society.

While both indicators provide a viable source of data, the necessity to use both indicators combined was refuted due to the low (1.67 %) percentage in the overall weighting for this indicator category. Due

to the comparative advantages of the WJP Rule of Law Index described above, the decision was taken to replace the BTI Rule of Law score with the WJP Rule of Law Index as of this year.

### **6.2.2 Organised crime indicators**

Feedback received in the past referred to adding indicators providing a better reflection of a jurisdiction's organised crime situation. While the Basel AML Index contains some indication of specific forms of organised crime activities through the corruption indicator and the use of the US International Narcotics Control Strategy Report (INCSR) on money laundering, an overall picture of organised crime is not being provided.

One view was that the assessment of organised crime might be beyond the scope of an Index, which focuses on money laundering and terrorist financing. However, other experts agreed that the organised crime indicators represent predicate offences for money laundering and therefore should be included. The Basel Institute shares the view that generally, organised crime rates within a jurisdiction could provide a better assessment because they reflect the predicate offences and therefore the risk of money laundering. Unfortunately, no reliable cross-country wide data exist in this regard to be considered.

One option would be to include the World Economic Forum (WEF), Executive Opinion Survey on organised crime, but it does not cover accurately the organised crime circumstances of a jurisdiction. For example, the survey question addresses the costs of businesses instead of the organised crime rate of a country:

*"In your country, to what extent does organized crime (mafia-oriented racketeering, extortion) impose costs on businesses? [1 = to a great extent; 7 = not at all]"<sup>5</sup>*

The expert group considered the WEF organised crime rate as not sufficient to be used in the Basel AML Index. Given the lack of consistent data on organised crime, no further actions will be taken at this stage. The Basel Institute will continue to monitor and review appropriate indicators that could reflect the predicate offences and organised crime exposure of a jurisdiction. In case of new data being available, the Basel Institute shall make suggestions to include them for next year's annual review.

### **6.3 Use of the new FATF Mutual Evaluation Reports (4<sup>th</sup> Round) incorporating the effectiveness rating**

The FATF had originally developed 40 recommendations (published and revised in 1996). The FATF then updated its 40 recommendations in 2003 to include 9 Special Recommendations (regarding counter terrorist financing). The FATF recommendations were revised again in 2012 in order to merge the 40 + 9 Special recommendations into a total of 40 recommendations.

Since its inception, the Basel AML Index has been using the FATF Mutual Evaluation Reports (MER) and their table of compliance for assessing AML/CFT frameworks. Since last year, the FATF conducted and published five new MERs for Australia, Belgium, Ethiopia, Norway and Spain under a new assessment methodology which reflects the revised 40 recommendations and includes not only a technical compliance component, but also an effectiveness rating. During the annual review meeting, the Basel Institute presented its adapted methodological approach towards incorporating the new FATF MERs, which includes the effectiveness risk rating (see figure 4).

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<sup>5</sup> [http://www3.weforum.org/docs/WEF\\_GlobalCompetitivenessReport\\_2014-15.pdf](http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2014-15.pdf)

FATF 40 Recommendation				FATF Effectiveness			FATF Technical + Effectiveness	
Country	Rec. 1	Rec. 2	...Rec. 40	Technical Compliance average (normalised)	Effect. 1	Effect.2	Effectiveness Average (normalised)	Weighted Average 1:1
Australia	6.6	3.3	0	4.17	3.3	0	4.85	4.51
Belgium	3.3	3.3	3.3	3.33	3.3	3.3	5.45	4.39
Ethiopia	10	6.6	10	4.19	6.6	6.6	9.94	6.79
Norway	3.3	3.3	6.6	4.42	6.6	3.3	6.06	5.24
Spain	0	3.3	0	1.50	0	3.3	3.94	2.72

**Technical Compliance :**  
 Compliant = 0  
 Largely Compliant = 3.3  
 Partly Compliant = 6.6  
 Non Compliant = 10

**Effectiveness Compliance:**  
 High level = 0,  
 Substantial level = 3.3  
 Moderate level = 6.6  
 Low level= 10

Figure 4 - Use of the new FATF MER including effectiveness

The main discussion during the latest review meeting was if and how the Basel AML Index would integrate the new FATF MERs in assessing the effectiveness of the AML/CFT framework, and if so, whether or not the compliance rating and the effectiveness rating should be weighted equally.

**6.3.1 Inclusion of the new FATF MERs overall**

Given the low number of countries assessed so far (five countries until July 2015), it was discussed whether the new effectiveness component of the FATF MERs should be considered for the Basel AML Index. From a strictly comparative standpoint, the effectiveness rating of the new FATF MER should not be included, as this can disadvantage countries undergoing the 4th round of FATF assessments. In the 2015 Basel AML Index ranking only five countries would include their effectiveness rating, whereas the other countries’ ratings are based on the previous FATF assessment methodology addressing technical compliance only. As shown in figure 4, the new effectiveness component leads to a more stringent and negative rating for countries undergoing the new FATF MERs.

Despite this concern, most experts favoured the inclusion of the new FATF MERs in the 2015 Basel AML Index rating in order to have recent data and accurate information available about a country. The new information provided on the countries’ effectiveness should not be ignored in determining the latest risk situation of the assessed countries. From our perspective, the availability of the latest available data should override the comparative aspect, as the primary focus of the Basel AML Index is on assessing the risk and not rating countries against each other. Also, as all other indicators on which the Basel AML Index is based may undergo methodological revisions in the future, this element of

limited comparability can never be excluded and should not prevent the Basel AML Index from adapting to developments. Particularly for compliance purposes, the Basel AML Index should consider the most recent data available even at the cost of comparing it to countries with previous FATF MER. Waiting until all countries have undergone the new FAT MERs may take several years. The Basel Institute supports the approach of including the new FATF MERs as soon as they are released and will include them from now on in calculating the overall score. This decision would be in line with the aim of the Basel AML Index to assess the risk of money laundering and terrorist financing based on the most recent and relevant information available.

In order to ensure transparency for the different type of assessments, the Basel AML Index will mark those countries that are assessed using the new FATF methodology in the ranking with an asterisk.

### **6.3.2 FATF technical compliance and effectiveness weighting**

When including the new FATF MERs, the expert group discussed whether technical compliance and effectiveness should be weighted equally or if effectiveness should be given more importance.

The rationale for weighting technical compliance and effectiveness equally is based on the FATF's statement described in their report<sup>6</sup>, which makes reference to equal importance of technical compliance and effectiveness. Another argument is the fact that the assessment of effectiveness is a relatively new feature and only a small number of countries have been assessed according to it so far. In addition, the criteria for the effectiveness ratings are more prone to a subjective judgement call of the assessors. This would suggest applying a more careful approach when it comes to the weighting of the new effectiveness assessments of the FATF's MERs.

However, during the annual review phase, external experts had also expressed the need to place more importance on the effectiveness rating than the suggested use of equal weighting. Specifically the suggestion was to double the weighting of the effectiveness with respect to technical compliance. Some experts shared the views that the lack of actual implementation of AML/CFT legislation has been identified as a key deficiency in assessing money laundering and terrorist financing risk. The effectiveness of AML/CFT legislation is becoming more important because most countries are increasingly passing AML/CFT legislation to satisfy the technical compliance "on paper", but do not translate this into actual implementation yet. Experts thus argued that the ratings of technical compliance are becoming less relevant if there is a weak or ineffective AML/CFT framework in place. The Basel AML Index score should illustrate more strongly the AML/CFT situation in practice and not their measures "on the books", therefore experts felt the need for a higher weighting of the effectiveness ratings.

The Basel Institute has reviewed the feedback received from external experts on this issue and came to the conclusion to place more weighting for the effectiveness rating for the reasons outlined above. While effectiveness is still prone to more subjectivity and so far has been assessed in five countries only, the importance of effectiveness should be still placed higher and considered with strong impact from now on. The Basel Institute therefore takes up the arguments and feedback that were expressed in favour of giving more weighting to the effectiveness ratings and will implement this for the 2015 Basel AML Index rating. The effectiveness rating will count twice as much as the technical compliance level rating (ratio 2:1) in calculating the overall FATF score.

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<sup>6</sup> <http://www.fatf-gafi.org/media/fatf/documents/methodology/FATF%20Methodology%2022%20Feb%202013.pdf>

## 6.4 Further points and discussions

During the review meeting some additional suggestions were made by the expert group for the Basel Institute team to review.

### 6.4.1 Double-weighting of certain priority FATF recommendations

It has been noted by one of the experts that the FATF Report “Procedures for the FATF Fourth Round of AML/CFT Mutual Evaluations”<sup>7</sup> places countries immediately into enhanced follow-up if it is rated non-compliant or partly compliant on one or more of FATF recommendations 3, 5, 10, 11 and 20. It was suggested to weight these recommendations twice as much as the others. After testing the results, we noticed that the suggested double weighting of these recommendation showed no significant impact on the FATF scores. The FATF recommendations 3, 5, 10, 11 and 20 are only five out of total 40 recommendations and are then combined with the 11 other higher weighted effectiveness ratings. Due to insignificant impact the Basel Institute decided for simplicity reasons not to modify the weightings within the 40 recommendations.

### 6.4.2 Use of FATF membership and exits of the follow-up process to reward countries

Countries with FATF membership and those who are no longer subject to the FATF's on-going global AML/CFT compliance process could be rewarded with positive scores. The Basel Institute rather avoids providing positive points for this type of progress as it classifies countries into two groups only, namely those with and without FATF membership (or those in the follow-up process and exiting the follow-up process). Given the large number and variety of FATF members, the Basel AML Index prefers not to evaluate countries based on membership only, as this does not provide for a solid basis upon which to assess the risk level. In terms of the methodology this would also mean to assign binary scores (Yes or No values). For example a country would receive a score of 10 (highest risk score for being on the FATF lists) or a score of 0 (lowest risk for not being on the list). The Basel AML Index will continue to mention the countries on the FATF follow-up process separately in the Expert Edition.

# 7 Expert Edition

The Basel AML Index offers a subscription-based Expert Edition, which is a more comprehensive country risk assessment tool to assist financial institutions and other stakeholders to deal with diverse compliance and regulatory purposes. In contrast to the Public Edition, it provides:

- An overview of 203 countries according to their risk level in money laundering and terrorist financing;
- Online access to web-interface including the option to download the data as an Excel file;
- Monitoring of U.N. sanctions, U.S. State Sponsor of Terrorism lists and FATF Public Statements; and
- Periodic updates and email notifications/alerts.

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<sup>7</sup> <http://www.fatf-gafi.org/media/fatf/documents/methodology/FATF-4th-Round-Procedures.pdf>



<i>Public version</i>	<i>Expert Edition</i>
Overall score	Overall score, 14 sub-indicators and sanctions list
152 countries	203 countries
Online only	Download the data and integrate it into your assessment system
Update annually	Periodic Updates
For general public	For financial institutions, compliance & due diligence experts, AML/CFT regulators, Financial Intelligence Units (FIUs), academics & researchers
Provided as-is	Expert advice and tailor-made solutions are available upon request

Table 2: Public vs. Expert Edition

### 7.1 Why use the Expert Edition?

The rationale for creating the Expert Edition is to assist financial institutions and reporting entities that are facing considerable regulatory, legal and reputational risk. With a subscription to the Expert Edition, financial institutions and other reporting entities have a new standardised AML country risk-rating tool at their disposal to mitigate money laundering and terrorist financing risk. The Expert Edition can be used as a stand-alone solution to satisfy regulatory requirements or as an independent benchmarking tool to validate in-house risk assessments.

Our in-house experts on anti-money laundering and compliance have extensive experience and insight into industry practice and regulatory requirements regarding country risk models. In the development stages and during the Basel AML Index annual review, the Basel Institute further extensively consults with key stakeholders and representatives from academia, finance (e.g. Wolfsberg Group and its member banks), international organisations (e.g. UNODC), law enforcement and regulatory institutions.

The financial industry considers the Expert Edition an invaluable tool for regulators and financial institutions, and particularly values its foundation in scientific research and the independence of its developers. Within the first year of its existence, the FATF listed the Basel AML Index in its publication as one of the **Indexes to be considered for country or geographic risk factors**.<sup>8</sup>

Since the launch of the Basel AML Index in 2012 more than 80 institutions have subscribed to the Expert Edition and consider it an indispensable tool for their risk assessment. Subscribers include not only financial institutions and firms, but also public institutions and financial regulatory authorities such as the:

- UK HM Treasury;
- Reserve Bank of New Zealand;
- Dubai Financial Service Authority;
- International Finance Corporation of the World Bank; and
- Various FIUs and Central Banks.

Since the Basel Institute is a non-profit organisation, access to the Expert Edition is provided free of charge to academics, public and supervisory institutions and other relevant non-profit organisations.

<sup>8</sup> FATF Report *Specific Risk Factors in the Laundering of Proceeds of Corruption - Assistance to reporting institutions*, FATF 2012: 31. <http://www.fatf-gafi.org/media/fatf/documents/reports/Specific%20Risk%20Factors%20in%20the%20Laundering%20of%20Proceeds%20of%20Corruption.pdf>

Commercially oriented institutions are charged an annual subscription-based fee of 2000 CHF (or more depending on usage levels), which is used for non-commercial purposes and serves to fund the research, development and maintenance costs of the Basel AML Index.

For more information regarding the Expert Edition please see this link:

<http://index.baselgovernance.org/index/expert-edition>

## 8 About the Basel Institute on Governance

The Basel Institute on Governance is an independent not-for-profit competence centre specialized in corruption prevention and public governance, corporate governance and compliance, Collective Action, anti-money laundering, criminal law enforcement and the recovery of stolen assets.

Based in Switzerland, the Basel Institute's multidisciplinary and international team works around the world with partners in the public and private sector to counter corruption and other financial crimes, and to improve the quality of governance globally.

The Basel Institute is affiliated with the University of Basel and regularly works with international organisations and other institutions, including the World Bank, United Nations Office for Drugs and Crime (UNODC), Organisation for Economic Cooperation and Development (OECD), Council of Europe, International Monetary Fund, the Egmont Group and Interpol.

## 9 Annex 1

### Overview of risk indicators including weighting

This table provides you with our table of sources and weightings in compiling the Basel AML Index.

Risk Indicators	Weighting	Type	Link
ML/TF Risk	65%		
1.) FATF Member countries Mutual Evaluation Reports; Assessment of the 40+9 recommendations	30%	Expert Assessment (Mutual Evaluation Country Report)	<a href="http://www.fatf-gafi.org/">http://www.fatf-gafi.org/</a>
2.) Financial Secrecy Index (Tax Justice Network)	25%	Composite Index Score (qualitative + quantitative data)	<a href="http://www.financialsecrecyindex.com/introduction/fsi-2013-results">http://www.financialsecrecyindex.com/introduction/fsi-2013-results</a>
3.) US State Department International Narcotics Control Strategy Report (INCSR): Volume II Money Laundering and Financial Crimes	10%	Expert Assessment (List of jurisdictions according to their level of concern)	<a href="http://www.state.gov/j/inl/rls/nrcrpt/2014/vol2/index.htm">http://www.state.gov/j/inl/rls/nrcrpt/2014/vol2/index.htm</a>
Corruption Risk	10%		
4.) TI Corruption Perceptions Index (CPI)	10%	Composite Index (Survey/perception based data)	<a href="http://www.transparency.org/cpi2014/results">http://www.transparency.org/cpi2014/results</a>
Financial Transparency & Standards	15%		
5.) Doing Business Ranking (World Bank) Business extent of disclosure index	1.875%	Expert Survey	<a href="http://data.worldbank.org/indicator/IC.BUS.DISC.XQ">http://data.worldbank.org/indicator/IC.BUS.DISC.XQ</a>

6.)	WEF Global Competitiveness Report (GCR) - Strength of auditing and reporting standards	5.625%	Expert Survey	<a href="http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2014-15.pdf">http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2014-15.pdf</a>
7.)	WEF GCR - Regulation of securities exchanges	5.625%	Expert Survey	<a href="http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2014-15.pdf">http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2014-15.pdf</a>
8.)	World Bank IDA Resource Allocation Index (IRAI) - Financial Sector regulations	1.875%	Expert Assessment	<a href="http://www.worldbank.org/ida/IRAI-2013.html">http://www.worldbank.org/ida/IRAI-2013.html</a>
Public Transparency & Accountability		5%		
9.)	International IDEA Political Finance (Political disclosure)	1.6667%	Public data assessment	<a href="http://www.idea.int/political-finance">http://www.idea.int/political-finance</a>
10.)	Open Budget Index - Budget transparency score	1.6667%	Expert Assessment	<a href="http://internationalbudget.org/what-we-do/open-budget-survey/">http://internationalbudget.org/what-we-do/open-budget-survey/</a>
11.)	World Bank IDA Resource Allocation Index (IRAI) - Transparency, Accountability and Corruption	1.6667%	Expert Assessment	<a href="http://www.worldbank.org/ida/IRAI-2013.html">http://www.worldbank.org/ida/IRAI-2013.html</a>
Political & Legal Risk		5%		
12.)	Freedom House - Freedom in the World (Political Rights and Civil Liberties) & Press Freedom Index	1.6667%	Expert Survey	<a href="https://freedomhouse.org/report-types/freedom-press#.VcHQvrelXL8">https://freedomhouse.org/report-types/freedom-press#.VcHQvrelXL8</a> & <a href="https://freedomhouse.org/report-types/freedom-world#.VcHQ37elXL8">https://freedomhouse.org/report-types/freedom-world#.VcHQ37elXL8</a>
13.)	WEF GCR - Institutional Pillar	1.6667%	Expert Survey	<a href="http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2014-15.pdf">http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2014-15.pdf</a>
14.)	WJP - Rule of Law	1.6667%	Expert and Public Survey	<a href="http://worldjusticeproject.org/rule-of-law-index">http://worldjusticeproject.org/rule-of-law-index</a>

