Key Financial Secrecy Indicators
11: Anti-Money Laundering

What is being measured?

This indicator examines the extent to which the anti-money laundering regime of a jurisdiction is considered effective by the Financial Action Task Force (FATF), the international body dedicated to counter money laundering.

In 2003, the FATF established its 49 recommendations[1] concerning the laws, the institutional structures, and the policies deemed necessary to address money laundering and terrorist financing.

Since then, the FATF, regional analogous bodies or the IMF have assessed the implementation of these recommendations through peer-review studies carried out in five-year cycles. The comprehensive reports with results have generally been published online.

The assessment methodology rates compliance with every recommendation on a four-tiered scale, from "compliant" to "largely compliant" to "partially compliant" to "non-compliant".

For our indicator, we have calculated the overall compliance score using a linear scale giving each of the 49 recommendations equal weight[2]. A 100% rating indicates that all recommendations have been rated as "compliant", whereas a 0% rating would mean that all indicators have been rated as non-compliant.

Why is this important?

Many of FATF's anti-money laundering (AML) recommendations touch upon minimal financial transparency safeguards within the legal and institutional fabric of a jurisdiction. Through low compliance ratios with AML recommendations, a jurisdiction knowingly invites domestic money launderers and criminals from around the world to deposit and launder the proceeds of crime (e.g. drug trafficking, tax evasion) in their own financial system.

For instance, recommendation five sets out minimal standards for the identification of customers of financial institutions (such as banks and foreign exchange dealers). If this recommendation is rated "partially compliant", as is the case with the Cayman Islands, this clearly signals that this jurisdiction is prone to money laundering.

The Cayman Islands assessment arises because there is "No legislative requirement to verify that persons purporting to act on the behalf of a customer is so authorised and identify and verify the identity of that person." (see Cayman Islands-assessment here[3]; page 146). In plain language this means that a bank employee does not need to ask questions of, or seek to prove the identity of, a person who routinely runs a bank account although the bank account is effectively in the name of somebody else. The person the bank routinely deals with is only a nominee. This means that financial service providers and their affiliates can act as nominee bank account holders so that the ultimate and effective bank account holder can conceal her/his identity.

Another issue assessed by the FATF relates to shell banks (recommendation 18). In the case of Ireland, a 'partially compliant' assessment reveals: "There is no prohibition on financial institutions from entering into, or continuing correspondent banking relationships with shell banks." (See Ireland's assessment here[4]; page 157).

The FATF defines a shell bank as "a bank that has no physical presence in the country in which it is incorporated and licensed, and which is unaffiliated with a regulated financial group that is subject to effective consolidated supervision." (See here[5]; page 120).

Some secrecy jurisdictions allow or condone shell banks to operate. Often these are little more than money laundering schemes. Therefore, the absence of targeted measures at shell banks allows banks in an apparently respectable jurisdiction (such as Ireland) to enter into business relationships with a shell bank and so to become the connecting interface between a highly dubious shell bank jurisdiction and the regulated banking world. Individual tax evaders, other criminals and banks willing to help facilitate this process can take advantage of this absence of scrutiny.

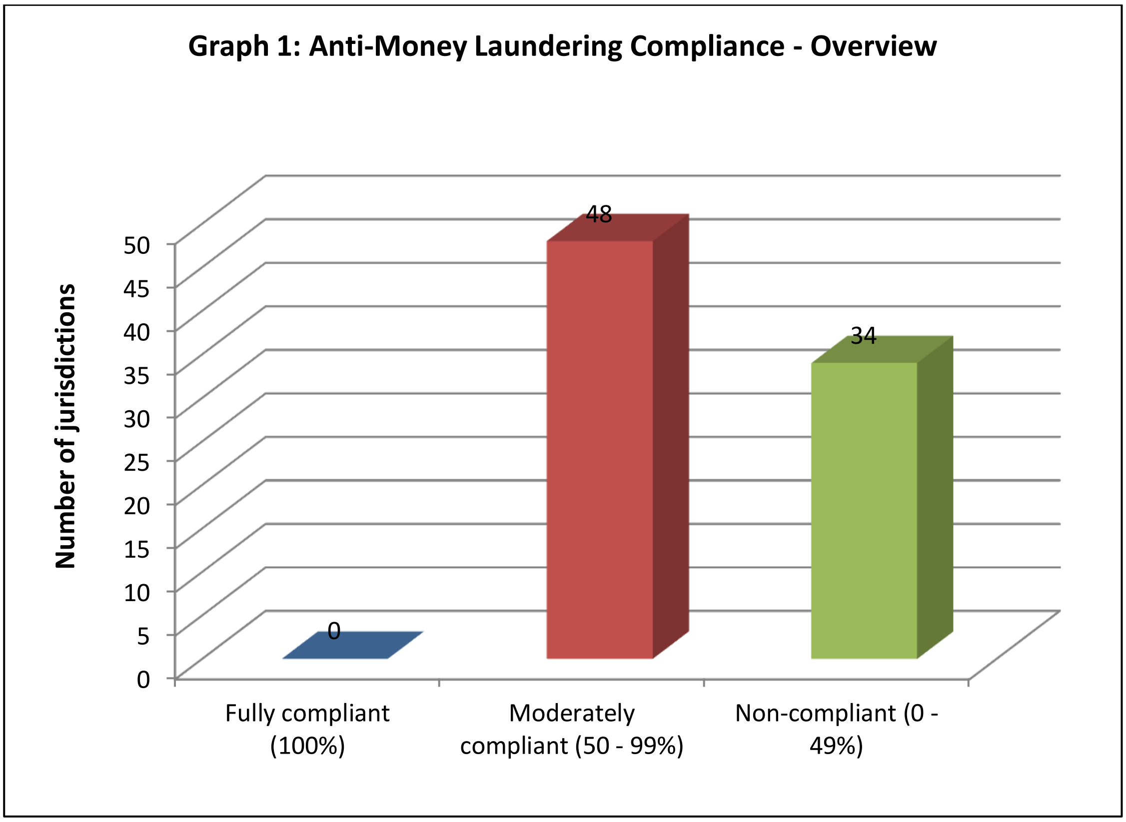
We consider the swift and thorough implementation of all FATF recommendations by all jurisdictions to be of high importance to global financial transparency, to stop the undermining of democracies by organized and financial crime, and to curb tax evasion and capital flight from developing countries.

What are the crimes that might hide behind weak anti-money laundering regulations?

Tax evasion, concealment of the proceeds of corruption, organised crime (especially drug trafficking), illegal arms trading, trafficking in human beings, money laundering, the covering of illicit intelligence activity, infringement of competition rules, non-payment of alimonies, bankruptcy fraud, and more besides might hide behind weak anti-money laundering regulations.

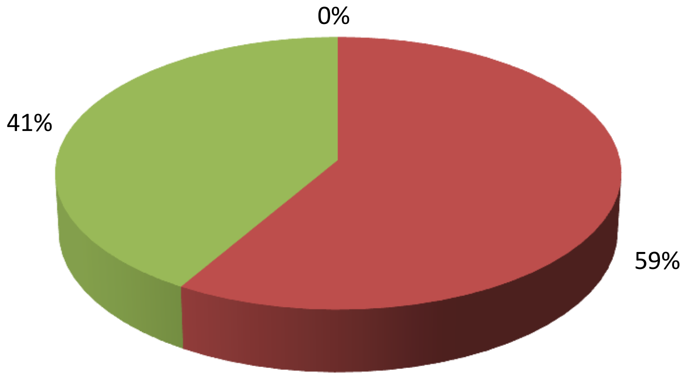
Results Overview

Table 1: Anti-Money Laundering Compliance - Overview	
Number of jurisdictions assessed fully compliant (100%)	0
Number of jurisdictions assessed moderately compliant (50 - 99%)	48
Number of jurisdictions assessed non-compliant (0 - 49%)	34



Results Detail

Graph 2: Anti-Money Laundering Compliance - Details



- Fully compliant (100%): No jurisdictions
- Moderately compliant (50 - 99%): AI; AT; AU; BB; BE; BH; BS; CA; CH; CK; CW; CY; DE; DK; ES; FR; GB; GG; GI; GT; HK; HU; IE; IL; IM; IN; IT; JE; KY; LI; LV; MO; MS; MT; MY; NL; NO; PA; PT; RU; SA; SE; SG; US; UY; VG; VI; ZA
- Non-compliant (0 - 49%): AD; AE; AG; AW; BM; BN; BR; BW; BZ; CR; DM; DO; GD; GH; JP; KN; KR; LB; LC; LR; LU; MC; MH; MU; MV; NR; NZ; PH; SC; SM; TC; VC; VU; WS

Table 2: Anti-Money Laundering Compliance - Transparency Credits

ID	Country	ISO	Credits	ID	Country	ISO	Credits
1	Andorra	AD	0.39	42	Korea	KR	0.42
2	Anguilla	AI	0.58	43	Latvia	LV	0.56
3	Antigua & Barbuda	AG	0.34	44	Lebanon	LB	0.45
4	Aruba	AW	0.23	45	Liberia	LR	0.14
5	Australia	AU	0.52	46	Liechtenstein	LI	0.51
6	Austria	AT	0.54	47	Luxembourg	LU	0.35
7	Bahamas	BS	0.55	48	Macau	MO	0.55
8	Bahrain	BH	0.52	49	Malaysia (Labuan)	MY	0.61
9	Barbados	BB	0.5	50	Maldives	MV	0.09
10	Belgium	BE	0.76	51	Malta	MT	0.69
11	Belize	BZ	0.31	52	Marshall Islands	MH	0.45
12	Bermuda	BM	0.43	53	Mauritius	MU	0.48
13	Botswana	BW	0.24	54	Monaco	MC	0.48
14	Brazil	BR	0.48	55	Montserrat	MS	0.53
15	British Virgin Islands	VG	0.67	56	Nauru	NR	0.43
16	Brunei	BN	0.28	57	Netherlands	NL	0.56
17	Canada	CA	0.51	58	New Zealand	NZ	0.44
18	Cayman Islands	KY	0.68	59	Norway	NO	0.62
19	Cook Islands	CK	0.56	60	Panama	PA	0.67
20	Costa Rica	CR	0.28	61	Philippines	PH	0.42
21	Curacao	CW	0.53	62	Portugal (Madeira)	PT	0.66
22	Cyprus	CY	0.71	63	Russia	RU	0.55
23	Denmark	DK	0.5	64	Samoa	WS	0.28
24	Dominica	DM	0.26	65	San Marino	SM	0.24
25	Dominican Republic	DO	0.3	66	Saudi Arabia	SA	0.54
26	France	FR	0.65	67	Seychelles	SC	0.23
27	Germany	DE	0.53	68	Singapore	SG	0.69
28	Ghana	GH	0.23	69	South Africa	ZA	0.5
29	Gibraltar	GI	0.63	70	Spain	ES	0.61
30	Grenada	GD	0.29	71	St Kitts and Nevis	KN	0.44
31	Guatemala	GT	0.56	72	St Lucia	LC	0.14
32	Guernsey	GG	0.82	73	St Vincent & Grenadines	VC	0.42
33	Hong Kong	HK	0.58	74	Sweden	SE	0.53
34	Hungary	HU	0.78	75	Switzerland	CH	0.61
35	India	IN	0.53	76	Turks & Caicos Islands	TC	0.34
36	Ireland	IE	0.6	77	United Arab Emirates (Dubai)	AE	0.43
37	Isle of Man	IM	0.66	78	United Kingdom	GB	0.72
38	Israel	IL	0.58	79	Uruguay	UY	0.65
39	Italy	IT	0.63	80	US Virgin Islands	VI	0.7
40	Japan	JP	0.45	81	USA	US	0.7
41	Jersey	JE	0.74	82	Vanuatu	VU	0.33

[1] The (old) 2003 recommendations can be viewed at: www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF%20Recommendations%202003.pdf; 15.07.2013. While the FATF consolidated its recommendations to a total of 40 in 2012, the old recommendations are used here because the assessment of compliance with the new recommendations will only begin in 2013. The relevant new FATF recommendations from 2012 are recommendations 37, 38, 39 and 40. In the next FSI, the results of the new assessments will be taken into account.

[2] To see the sources we are using for particular jurisdictions please check out the assessment logic table in Annex C here http://www.financialsecrecyindex.com/PDF/FSI-Methodology.pdf and the corresponding information for individual countries in our database, available at www.financialsecrecyindex.com/database/menu.xml.

[3] https://www.cfatf-gafic.org/index.php?option=com_docman&Itemid=414&task=doc_download&gid=149&lang=en; 15.07.2013.

[4] www.fatf-gafi.org/media/fatf/documents/reports/mer/MER%20Ireland%20full.pdf; 15.07.2013.

[5] www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF%20Recommendations%202003.pdf; 15.07.2013.