



**CONFERENCE PROCEEDINGS**

**FOREWARD**

On 22 and 23 January 2020, the Central Bank of The Bahamas hosted an inaugural global research conference focusing on empirical approaches to anti-money laundering and financial crime suppression. This conference’s creation was supported by our co-sponsors: the Caribbean Development Bank, The Inter-American Development Bank, and the Association of Supervisors of Banks of The Americas.

At this conference many of the world’s leading AML researchers, both academic and applied, shared their scholarship with experienced AML practitioners and policy makers. We have been extremely pleased with the quality of the papers presented, and the spirited but civil discussions they generated.

Over 30 papers were submitted for consideration, from which 17 papers were chosen in a blind selection process. These 17 papers came from 31 authors and co-authors, who in turn originated from 17 different countries across Europe, North America, South America, Australia, and the Caribbean. There were 75 conference participants from 27 countries.

The paper presentations and discussions addressed many financial crime questions, including:

- Can we identify regions, countries, banks, or customers presenting high risks of financial crime?
- What are the economic impacts of the global AML architecture?
- What are the links between AML and financial crime issues, de-risking, and other effects?

The conference papers and discussions generated a reasonable consensus on two themes:

- 1) The international AML framework is rendered considerably less effective than it should be by the absence or non-availability of relevant data. This paucity of data contrasts poorly with the data available for, among many examples, prudential supervision, securities regulation, and macroeconomic management.
- 2) The global AML framework has successfully imposed comprehensive and expensive behavioural rules on the world’s nations, financial institutions, and financial customers. None of the papers presented at the conference, however, and none of the discussions, revealed any persuasive evidence that the current global implementation of these rules reduces predicate crime, or facilitates material interception or recovery of illicit funds flows and assets.

The Central Bank of The Bahamas looks forward to continuing this conference series. We welcome any comments on the 2020 conference, or suggestions for the 2021 conference.

Charles Littrell  
Conference Convenor  
Central Bank of The Bahamas



## SPONSOR MESSAGES

The Central Bank of The Bahamas was pleased to host and co-sponsor the Inaugural Empirical Research Conference on Anti-Money Laundering and Financial Crime Suppression. As a major international banking and finance jurisdiction, The Bahamas is resolute in its determination to ensure that the world's financial criminals look elsewhere for any facilitation of their schemes. We thank our co-sponsors of the inaugural conference: The Caribbean Development Bank, the Inter-American Development Bank, and the Association of Supervisors of Banks of the Americas.

We are sufficiently pleased with the inaugural conference that the Central Bank has committed to hosting a second conference in 2021. We will again focus upon empirical research papers, drawing on both the global academic and practitioner AML communities.

The Central Bank considers that the world would be better placed to combat financial crime with a stronger balance between opinion-based and empirically based approaches to anti-money laundering. We are proud that we have been able to contribute to international progress in this area, and look forward to continuing this progress in the years to come.

I commend these Proceedings to you, and welcome your participation in and support of next year's conference.

John Rolle, Central Bank of The Bahamas

The Association of Supervisors of Banks of the Americas (ASBA) was pleased to co-organize, jointly with the Central Bank of The Bahamas, the Caribbean Development Bank (CDB) and the Inter-American Development Bank (IDB), the Inaugural Empirical Research Conference on Anti-Money Laundering and Financial Crime Suppression.

This conference is part of ASBA's ongoing project for Strengthening Financial Transparency in the Caribbean, which is being financed by the IDB Lab, the IDB and the CDB. The project has the objective of contributing to mitigate the negative effects that the phenomenon of de-risking and ML / CFT practices is having. Among the main contributions to this initiative are ASBA's training programs to address the risk of losing correspondent banking relationships from the perspective of bank supervisors and correspondent banks. This Inaugural Empirical Research Conference, hosted and co-sponsored by the Central Bank of The Bahamas, materially assists in this effort.

We celebrate that the Central Bank of Bahamas is committing to host a second research conference on Anti-Money Laundering and Financial Crime. ASBA is pleased to support initiatives that contribute to improve efforts in AML/CFT in the Americas.

Pascual O'Dogherty, ASBA



The IDB and IDB-Lab are delighted to have supported the Inaugural Global Research Conference on Empirical Approaches to Anti-money Laundering and Financial Crime alongside The Central Bank of the Bahamas, the Association of Bank Supervisors of the Americas (ASBA) and the Caribbean Development Bank (CDB). The negative impact of de-risking has become painfully evident across the Caribbean region in recent years, as its effects have been felt beyond the financial sector, spilling out into other sectors, thus becoming an issue that affects economic development. We welcome the contribution that the conference made by putting forward innovative empirical approaches to measure both money laundering and anti-money laundering policies, exposing the challenges presented by existing indicators and methodologies, and showing the need for continued support to research in this area. We see this as a promising area of work, and one that hopefully can help deepen our understanding of this sector and help dispel myths and set a clear work agenda for the countries of the region.

Francesco di Simone, Inter-American Development Bank

**EMPIRICAL AML RESEARCH CONFERENCE AGENDA, 22—23 JANUARY 2020**

**HILTON HOTEL, NASSAU, THE BAHAMAS**

| <b>22 January 2020</b> |   |
|------------------------|---|
| <b>0800</b>            | Conference Registration and light breakfast   |
| <b>0830</b>            | Welcomes: Pascual O’Dogherty, ASBA, and Kevin Hope, Caribbean Development Bank<br><br>Conference format and logistics: Charles Littrell, Central Bank of The Bahamas  |
| <b>0900</b>            | <b>Opening address: “It’s all About the Data”</b><br><br>Mike Levi, University of Cardiff   |
| <b>0930</b>            | <b>Session 1: “European Perspectives”</b><br><br><i>Dirty Money Pushed and Pulled: A Gravity Analysis:</i> Valentina Gullo, University of Sussex; and Pierluigi Montalbano, University of Sussex and Sapienza University of Rome<br><br><i>Estimating Cross Border Corporate Ownership:</i> Alberto Aziani and Michele Riccardi, Università Cattolica del Sacro Cuore; and Joras Ferwerda, University of Utrecht<br><br><i>Wild West Meets Wild East: Russia and The Bahamas:</i> Anastasia Nesvetailova, City University of London |
| <b>1030</b>            | Break   |
| <b>1100</b>            | Discussant (Allan Wright, Central Bank of The Bahamas) and Discussion   |
| <b>1200</b>            | Lunch   |



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|-------------|--|
| <b>1300</b> | <p><b>Session 2: “The Caribbean Story”</b></p> <p><i>De-Risking in the Caribbean: A CFATF Perspective:</i> Risha Pragg-Jaggernaut</p> <p><i>Analysis of Money Laundering and Economic Growth in Trinidad and Tobago:</i> Shanice Moses and Lester Henry, University of the West Indies</p> <p><i>The EU Blacklists: Implications for The Bahamas:</i> Allan Wright, Inter-American Development Bank and Central Bank of The Bahamas; and Alicia Nicholls, University of the West Indies</p>                  |
| <b>1400</b> | <p>Discussant (Chad Kilbourne, Financial Services Volunteer Corps) and Discussion</p>  |
| <b>1500</b> | <p>Break</p>   |
| <b>1530</b> | <p><b>Session 3: “Economic Impacts From the Global AML Architecture”</b></p> <p><i>Drug Money and Bank Lending:</i> Pablo Slutzky, University of Maryland; Mauricio Villamizar-Villegas, Central Bank of Colombia; and Tomas Williams, George Washington University</p> <p><i>Are There Positive Effects for Countries That Launder Dirty Money?:</i> June Buchanan, Yun Shen, and Tom Smith, Macquarie University</p> <p><i>International Financial Regulation and Trade Finance:</i> Julia Morse, UCSB</p> |
| <b>1630</b> | <p>Discussant (Ronen Palan, City University of London) and Discussion on Session 3</p>   |
| <b>1730</b> | <p>Conference Close, Day 1</p>   |

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| <b>1830</b>            | <p>Cocktails and dinner</p>  |
| <b>23 January 2020</b> |  |
| <b>0800</b>            | <p><b>Light breakfast available</b></p>  |
| <b>0830</b>            | <p>Eduardo Apaez: <b>“This conference and De-Risking”</b></p>  |
| <b>0900</b>            | <p><b>Session 4: “AML Jurisdiction Ratings and Rankings”</b></p> <p><i>Banking Bad: A Field Experiment on Regulatory Compliance in the Finance Industry:</i> Michael Findley, University of Texas, Austin, Daniel Nielson, Brigham Young University, and Jason Sharman, University of Cambridge</p> <p><i>The Basel AML Index:</i> Kateryna Boguslavska, Basel Governance Institute</p> <p><i>Comparing Sovereign Debt Ratings to Sovereign AML Ratings:</i> Charles Littrell and Danae O’Brien, Central Bank of The Bahamas</p> |
| <b>1000</b>            | <p>Discussant (Julia Morse) and discussion</p>   |
| <b>1100</b>            | <p>Break</p>   |



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|------|--|
| 1130 | <p><b>Session 5: “Perspectives on De-Risking”</b></p> <p><i>From Hegemony to Hegemony: De-Risking in The Caribbean:</i> Clifford Griffin, North Carolina State University, and June Soomer, Association of Caribbean States</p> <p><i>Who is Driving the Ship? De-Risking and AML Governance:</i> Mark Nance, North Carolina State University, and Eleni Tsingou, Copenhagen Business School</p> |
| 1230 | Lunch  |
| 1330 | <p><b>Session 6: “Using Empirics to assess risk”</b></p> <p><i>A toolkit for Correspondent Banking Supervision:</i> Daniel Brusso and Mayra Gavilan, Superintendency of Banking, Insurance, and AFP, Peru</p> <p><i>Quantitative Analysis of Adaptive Behaviour to Avoid ML/TF Detection:</i> Julia Mold, Wells Fargo Bank</p>   |
| 1400 | Discussant (Kevin Hope, Caribbean Development Bank) and Discussion   |
| 1500 | Break  |
| 1530 | <p><b>Conference summary: What have we learned, and where to from here?</b></p> <p>Rusudan Mikhelidze, OECD<br/>         Joe Ciccollela, Citi Wealth Management<br/>         Peter Reuter, University of Maryland<br/>         Charles Littrell, Central Bank of The Bahamas</p>   |
| 1700 | Conference close   |

## PAPER PRESENTATION AND DISCUSSION SUMMARIES

Each paper discussed in this section is available online with these *Proceedings*, as are (where relevant) any presenter slides.

### Opening Address: “Money Laundering Data: *Status Quo Vadis?*” - Mike Levi

From his perspective as an AML researcher since the 1980s, Professor Levi summarised the development (or lack thereof) over the past three decades of data and analysis to support global efforts to counter money laundering and financial crime.

Levi opened by noting that AML initiatives have “soared in attractiveness, and also in ambiguity”. What do taken-for-granted terms such as *effectiveness*, *deterrents*, and *success* really mean in the AML context? One problem is that we lack a common glossary of terms with clearly agreed terms.

AML in the current global context originated in response to illegal drug sales, then rapidly expanded to terrorism, and nowadays multiple social ills such as people smuggling and wildlife trafficking. The underlying strategy adopted originally and ever since prioritises, and perhaps ritualises, systems and processes over data and analysis. Collection of feedback from the public, the supposed beneficiaries of AML policy, has ranked of even lesser importance.

Levi invited deeper inquiry into public perception of AML strategies: would the public characterize them as just?

Levi’s summary of the current state of affairs: “Reducing commercial sociopathy and externalities is good, but the virtue of the objective does not tell us anything about the impact of the measures taken in furtherance of it.” Levi closed by noting some “issues of balance” for the AML community going forward:

- 1) More prioritization of predicate crime reduction: is the AML architecture actually achieving this?
- 2) More clarity about objects of control: do STRs, fines, prosecution, etc. generate any measurable benefit?



- 3) The countries leading the AML effort need to truly care about data—there is little evidence of this to date.
- 4) More focus (or re-focus) on proportionality. Do the costs of some AML initiatives outweigh their benefits?
- 5) Think about how we test procedural justice in the AML transnational legal order.
- 6) Professionalise AML research, in order to gain a greater purchase on the relevant issues.

### Session 1: European Perspectives

*Dirty Money Pushed and Pulled: A Gravity Analysis:* Valentina Gullo (presenter), University of Sussex; and Pierluigi Montalbano, University of Sussex and Sapienza University of Rome

*Estimating Cross Border Corporate Ownership:* Alberto Aziani and Michele Riccardi (presenter), Università Cattolica del Sacro Cuore; and Joras Ferwerda, University of Utrecht

*Wild West Meets Wild East: Russia and The Bahamas:* Anastasia Nesvetailova, City University of London

*Discussant:* Allan Wright, Inter-American Development Bank, and Central Bank of The Bahamas.

Gullo: The goal of this study was to empirically generate a list of high-risk AML countries using ‘theoretical based financial gravity models.’ In contrast to the dominant AML data collection strategy for gravity models—which sorts information based upon ambiguous concepts such as ‘tax haven’ and ‘offshore financial centre’—this approach sourced the global data by focusing on bilateral relations and flows. This focus expands methodological impact beyond matters of finance to the analysis of flows in many different industries. For this study’s AML-inspired gravity analysis, however, the formula used as its prerequisite, the absorption of a surplus of differences between “source” and “destination” countries with the goal of acquiring a ‘good’ residual. From there, the formula converted the outliers into abnormalities, created an outlier data analysis, then conducted an outlier profit analysis to produce the results.

The results included revelations that a high level of flows exit ‘less’ secret countries to more secret ones, and that countries with higher secrecy quotients are those also identified as corrupt (calculated based upon compliance with international transparency standards). The research team concluded that for a money launderer, the secrecy level of a jurisdiction is more important than its status as tax-free. Herein, if a jurisdiction is flagged as an OFC or ‘tax-haven,’ such a reputation may offer itself as an avoidance indicator to money launderers, as they prefer a jurisdiction that is not ‘under the eye of the radar.’ A secretive “onshore” may likely hold greater attraction to a money launderer than an offshore jurisdiction.

Gullo also emphasised the point that this study suggests that a focus upon bilateral flows is more effective in identifying potentially illicit money transmission, than a focus upon classifying countries as relatively good or bad in AML terms.

Riccardi: Why is there a difference between locations of cross-border relations with legal persons in contrast to natural persons? With several educated guesses known, this study’s goal was to put data behind the guesses. Why was this exercise important? Because when AML professionals know the owner, it becomes easier to locate the money launderer.

Performing a gravity analysis on data sourced from the Bureau van Dijk ORBIS database, this study sought to deduce the extent to which the decision by European business owners to engage in cross-border relations was driven by a desire to also engage in abnormal or illicit financial activity. Abnormal ownership links, characterized by high quantity relationships with countries ranked as having poor financial transparency, were deduced by the researchers via an identification of common denominators between shareholder nationality and cross-border ownership. The research team admitted a data limitation involved the overrepresentation of the Caribbean in comparison to Asia, and there also existed a lack of clarity pertaining to the role of conduit jurisdictions. To that extent, the conclusions drawn indicated secrecy and corruption as drivers of abnormal ownership links.

This study only looked at ownership of European firms. The countries identified as the abnormally high ownership sources tended to be small island jurisdictions. The countries identified as the highest “ownee” groups originated in Eastern Europe. The authors speculate



that this pattern is consistent with high offshore ownership of Russian firms, either directly or flowing through countries neighbouring Russia.

Nesvetailova: While the two previous papers employed gravity analyses to generate insights on money laundering activities and motivations, this paper focused on the shift in Russian regulatory approaches in recent years, and tracked the resultant outbound flows. Although Cyprus is the clear leader, characterized as “the heart of the Russian financial system”, since 2015 The Bahamas has become a substantial secondary destination for Russian funds flows. Nesvetailova argues that beneficial ownership protection and shell company availability offered in The Bahamas may be attractive to the heritage and internationalization of Russia’s financial system.

In providing context to her case-study claim, Nesvetailova opined that Russia’s antiquated legal structure offers residents numerous ways to conceal ownership. Large damaging effects related to this antiquated structure are exacerbated because of the availability and skill of (in particular) Commonwealth nations in facilitating the global movement and expansion of Russian capital. Russia’s financial relationship with Cyprus’ OFC (a British Commonwealth nation) is offered as an example. Without offshore ownership chains, Nesvetailova argues, Russian capital would not be globalized.

In recent years, the global trend of ranking and mapping jurisdictions for AML risk has become so pervasive that the Central Bank of Russia developed their own map classifying offshore transparency. This mapping aligns with “de-offshorization” campaigns and efforts initiated by the Russian government in 2011. Putin’s efforts to penalize and criminalize related illicit financial activity, lure a return of Russian capital, and update the country’s legal structure can be viewed in tandem with the evolution of illicit funds in Russia as moving from trade to financial innovations (funds) and now cryptocurrency. Overall, Although Russian politicians declared the campaign a major success, data tells the opposite story.

Wright: Noted that the papers presented interesting and data-driven perspectives on mapping financial relationships between countries. He suggested that any paper looking over longer periods, say the last ten to fifteen years, would suffer from non-identification of material changes in each country’s approach to AML over that period. He suggested that

splitting the analyses into (say) five year time bands might generate different results and insights. Regarding the Gullo and Riccardi papers, Wright observed that both approaches require estimates on estimates, but then rely upon only one method of measuring the residuals. He suggests that when stacking estimates, deploying multiple analytic methods are likely to generate more robust results.

On the Riccardi presentation, Wright noted that there are many reasons for cross border equity ownership, including most simply, profit motivation. Were any proxies (such as ease of doing business) deployed? Wright also suggested that the paper would benefit from a deeper engagement with the Russia/Cyprus link, as that changed over time.

On the Nesvetailova paper, Wright suggested that other motivations, such as the Russian move to Africa in search of commodities, might have explanatory power.

#### *Discussion*

To Gullo and Riccardi:

- A number of commentators took issue with the model residual being presented as “dirty” or “suspicious” money. In a cash flow analysis, this residual is “hot” money, in the sense of larger flows than the model predicted, but that does not make it “dirty”. Terms such as “unexplained” were suggested as better alternatives.
- Among the outlying country pairs in the Gullo results, the Cayman Islands featured prominently. Two commentators noted legitimate reasons why the Caymans would appear on any list of large inter-country money flows. The first is the use of Cayman by U.S. banks to manage USD deposits which must be non-interest bearing if booked in the United States, but can pay interest in Cayman. The sweep of these deposits in and out generate large and legitimate funds flows. The second example is the Cayman’s historic success in attracting U.S. hedge funds to site operations. This also leads to large but legitimate funds flows.
- Another commentator note that Global Financial Integrity is engaged in a similar exercise; Gullo responded that they have met with this team.



- The model tends to overstate the influence of very small jurisdictions with large financial sectors (with the same comment applying, perhaps with even more analytic force, to the Riccardi paper). It might be good to include a floor in the model’s variables for size proxies such as population, GDP, and the like.
- It is interesting that the first two papers both deploy gravity models to identify potentially suspicious inter-country funds or equity flows—but the list of potentially suspicious flows notably varies between the two models.

To Nesvetailova:

- Please remember that the world has changed a great deal over the course of the data used in this paper, which extends back beyond 2010.
- Did sanctions against Russia generate the policy of returning capital to the country? Nesvetailova: No, the “return to Russia” policy started in 2011, vs. sanctions in 2015.
- Would we get a similar result if we looked at neighbouring countries, such as Ukraine? Nesvetailova: not sure, don’t currently hold that data.
- How can Caribbean jurisdictions better prevent the flow of suspicious Russian money to our jurisdictions? This is a tough issue: how many layers back in a given beneficial owner’s profile should we search?
- A Bahamian regulator noted that the need to better monitor cross border funds flows, including from Russia, have stimulated purchase of a SWIFT data service that will allow much closer monitoring of these flows. This paper has underlined why such monitoring is a good idea.

## Session 2: The Caribbean Story

*De-Risking in the Caribbean: A CFATF Perspective:* Risha Pragg-Jaggernauth

*Analysis of Money Laundering and Economic Growth in Trinidad and Tobago:* Shanice Moses and Lester Henry (Presenter), University of the West Indies

*The EU Blacklists: Implications for The Bahamas:* Allan Wright, Inter-American Development Bank and Central Bank of The Bahamas; and Alicia Nicholls (Presenter), University of the West Indies

*Discussant:* Chad Kilbourne, Financial Services Volunteer Corps

Pragg-Jaggernauth presented the Caribbean Financial Action Task Force’s current paper on de-risking, which includes data on both effects and regional efforts to ameliorate this risk. De-risking has been well-studied, with reports from the World Bank, IMF, ASBA, CARICOM, and CDB, among others. The largest effects have been upon wire transfers and cross border business generally. Nominated methods to address the issue boil down to better supervision and better communication among and between the public and private sectors.

Henry’s presentation outlined the difficulties facing Trinidad & Tobago, as a country featuring on the FATF and other blacklists, and suffering from weak governance, slow legislative processes, and limited ability to grapple with the complexity of international expectations. Currently pressing challenges included proximity to Venezuela combined with porous borders; a large and unregulated gaming sector; and limited ability to investigate and prosecute financial crime.

The model presented in this paper estimates the effects of money laundering on the Trinidadian economy from 1990 to 2017. The proxy used for money laundering volumes is the annual level of prosecutions for narcotics and fraud offences, with GDP the dependent variable. The main findings from this model were that fraud offences are significantly negatively associated with short-term economic growth, and positively (and weakly) associated with long-term growth. Narcotics offences had no short-term relationship with economic growth, and some negative relationship in the long term. Henry acknowledged that data limitations make these finding less robust than anyone would like. As with many aspects of AML, lack of data leads to a choice between no research, or research relying on bad data, and risking unsound outcomes.

Nicholls presented on the interaction between the Bahamian jurisdiction and the EU blacklist, with additional commentary on the FATF blacklisting arrangements. The paper reviewed the fraught history of this blacklist, with the European Commission’s early 2019 publication



rejected by the EU Council, and strongly criticised by others including U.S. authorities. At this point the EC is operating under instructions from the EU Council to come back with another try, this time with more transparency and accountability.

The history of Bahamian recent engagement with the FATF blacklist was also reviewed, with some of the Bahamian responses, including a significant increase in AML prosecutions and convictions highlighted.

Kilbourne: Noted that the papers fit together well, as a description of current AML issues in the Caribbean, particularly as they relate to de-risking. His employer FSVC, has seen increasing demand from smaller and less-developed countries for assistance on AML matters, particularly on creating better programs in support of mutual evaluation reports (MERs). Based on his time engaged with “official Washington”, he sees a few American issues that complicate AML risk management in the Caribbean and other smaller jurisdictions:

- There are a patchwork of U.S. agencies working in this area, not always with the same viewpoints and agendas;
- There is no clear and coherent set of policy goals which have been created and translated down to implementers;
- U.S. regulators seem to see problems as nails, with themselves as hammers; and
- There is a relatively heavy focus on terrorism vs. the broader AML risks.

There is also the problem that many of the world’s international banks run less risk-sensitive “compliance shops” than we might prefer, with bright but unseasoned risk analysts relying unduly upon sanctions lists and the like.

Regarding the Pragg-Jaggernauth presentation, Kilbourne drew attention to the need for a sophisticated risk-based approach. But this is complicated by our inability, at least so far, to sensibly estimate issues such as how much enforcement pushed money, both licit and illicit, from the formal to the informal sectors.

Regarding the Henry presentation, he suggested that Trinidad & Tobago, and similarly placed states struggling with governance, might usefully approach their local U.S. embassies, who seem increasingly inclined to assist with grants and the like.

He concluded by recommending:

- a) That jurisdictions are in his experience doing better at achieving AML improvements, than they are in documenting and publicising these improvements. This is a fairly easy and cheap area of improvement;
- b) That Central Bank governors and other officials make it a point to get to know their jurisdiction’s Transparency International contacts, as TI is important in many assessments of jurisdictional probity; and
- c) That technology such as FinTech is probably not an answer, at least over the next decade, for a jurisdiction’s strategy to improve its AML position and reputation.

#### *Discussion*

In this and subsequent session the experienced correspondent and respondent bankers plus regulators in the room presented the following parameters for de-risking decisions. A longer multi-session discussion is condensed below.

- 1) If we go back to say 2005, correspondent banking was a generally low risk, low return proposition. Since then both the returns and risks have suffered, and in many instances de-risking simply reflects the correspondent’s assessment that a given relationship is insufficiently profitable. Relatively few de-risking decisions have been based solely on perceived AML or similar risk at the respondent.
- 2) Broadly, correspondent banks profit from respondents by the value of balances held with the correspondent, plus fees paid, less operating expenses of the relationship. Since the 2008 financial crisis, interest rates have fallen to or near zero, which means that deposit balances have little value. Furthermore, the Basel Committee’s LCR rules mean that respondent balances must be fully backed by liquid assets, and the Basel



Committee's leverage rules mean that these liquid assets must be backed by considerable equity. Put another way: respondent balances have transitioned from reasonably attractive to generally unattractive, which means that correspondents must lift fee income to cover this lost revenue stream.

- 3) The operating costs of a respondent relationship have increased, with the Wolfsberg questionnaire's evolution demonstrating this trend.
- 4) Therefore, even before any consideration of AML risk, the correspondent banking line of business has become considerably less profitable and lower return in recent years.
- 5) On the other hand, nearly all banks in nearly all countries can obtain correspondent banking services. Furthermore, when measured in volumes of aggregate business, rather than by number of respondent relationships, there is considerably less evidence that de-risking is a problem. There is also the consideration that the global banking industry is shrinking in numbers, and larger banks are on average shrinking their cross border presence, so this also plays into de-risking.
- 6) The experienced correspondent bankers in the room considered that the de-risking trend had about run its course. Other participants weren't so sure of this, but would welcome that outcome.

The other broad discussion stream that came from this session touched on the question of how small countries should engage in the FATF MER process. The Caribbean commentary here particularly touched upon the need for regional jurisdictions to ensure they contribute their best and brightest AML specialists to become MER examiners, generally for CFATF reviews.

There was also the question of whether or not the MER process is fair, and in particular, is there a torque towards larger jurisdictions and away from smaller jurisdictions? The balance of opinion in a room dominated by non-G10 representatives was that the FATF seems more willing to forgive MER "holes" in larger jurisdiction MERs, and more eager to find problems in smaller jurisdictions. This may reflect representation at the conference more (or less) than reality, but in the absence of empirically sound validation methods for MER results, who can know for sure?

The issue of the OECD and EU extending into the blacklist production business was also raised, with a general sense that this is unhelpful and perhaps hypocritical, given both organisation's propensity to rate other countries, but not their own member states.

One academic commented at the close of this session that the papers and discussion had not primarily focused on research. To which a practitioner responded: "Maybe not, but it was good therapy!"

### **Session 3: Economic Impacts From the Global AML Architecture**

*Drug Money and Bank Lending:* Pablo Slutzky, University of Maryland; Mauricio Villamizar-Villegas, Central Bank of Colombia; and Tomas Williams, George Washington University

*Are There Positive Effects for Countries That Launder Dirty Money?:* June Buchanan, Yun Shen, and Tom Smith, Macquarie University

*International Financial Regulation and Trade Finance:* Julia Morse, University of California-Santa Barbara

*Discussant:* Ronen Palan, City University of London

Slutzky et al deployed Colombian public sector datasets on small business financial statements, and bank position statements down to the branch level, to demonstrate how regulatory intensification on "hot" AML geographies translated into depressed business lending, including in "cold" AML geographies. This in turn led to significant reductions in recorded economic activity. The authors then demonstrated with "night light" satellite imagery that the economic activity reductions were real, not a reflection of finance moving to the shadow economy.

Buchanan's paper presented a conventional finance event study, on equity price movements for gaming businesses after announcements of AML events. The most interesting outcome from this work was that:



- Canadian gaming firms reporting AML infractions suffered large negative price movements; but
- In each of the other four countries studies, firms reporting infractions experienced small positive movements; and
- These positive price movements were very similar across all the countries.

The paper at this point in its development offered no model explaining why this is the case, but it is a curious result. The paper considered whether or not there was an effect tied to the general idea that “if there is dirty money in the world, at least it should be in a well-developed economy”, but there was no data or model supporting this speculation.

Morse’s paper examined the effect of intensified financial regulation upon trade finance and trade volumes, from 2010 through 2016. The empiric heart of the paper compared over 100,000 inter-country trade dyads with jurisdictional presence or absence from the FATF list of high-risk jurisdictions. Morse included country risk as defined by the International Country Risk Guide, as a separate item in the analysis. This second perspective is meant to capture countries with poor contract enforcement. Several of other variables (GDP, distance, contiguity, jurisdictional status of democracy or otherwise etc.) were included in the regression model.

The results strongly supported the paper’s two hypotheses, which were that FATF blacklisting would reduce a country’s trade flows, and poor contract enforcement status is also a strong predictor, conditioned on blacklisting. FATF non-complier status is associated with a 41 per cent reduction in trade, relative to other countries in the comparable region. Countries with perceived poor contract enforcement were more affected by FATF listing on average than other countries. Furthermore, trade reductions did not necessarily quickly revert once a country was removed from the FATF blacklist.

*Palan:* The Slutzky paper revealed a sophisticated, multi-layered data approach, and told a success story, while presenting it as a failure. If Colombia’s AML efforts were successful, would that not lead to a GDP reduction? Conversely, did the decline in GDP signal a success at AML?

Regarding the Buchanan paper, Palan concurred that it is a work in progress, and is unsure of the conclusions drawn. There is ambiguity around the definition of financial performance, and more ambiguity around the connections between terrorist finance, money laundering, and gambling. There is also the problem of using corporate announcements as a data source: are they measuring what is important or merely what is required? The HSBC Mexico scandal is a case in point: lots of media, but probably not nearly enough for the gravity of that situation.

On the Morse paper, Palan commented that the compliance issue is significant, using the example of under-reporting by charities of funds movements. The paper notes Basel III as another source of compliance-based suppression of trade, but could do a better job of linking Basel III into the empirical model. Furthermore, the underlying premises of the paper should be conditioned on the idea that the great majority of trade is intra-firm, and open order trade (not requiring finance) needs to be more carefully considered.

#### *Discussion*

Slutzky was asked a version of the Palan question: “If a country suppresses its main export, wouldn’t we expect a reduction in GDP?” To which the response, which clarified the paper: “But there was no reduction in cocaine production and export, and probably no reduction in dirty money generated. The AML crackdown failed to achieve its goals, but still depressed Colombian GDP”. A Latin American participant noted in this discussion that notable inflows from the Colombian crackdown supported economic growth in some of its neighbours, probably in the shadow economy.

A number of participants suggested additional data sources, such as SWIFT for the Morris paper.

Discussants were generally unconvinced by the Buchanan paper’s attempt to extrapolate from corporate announcements to the balance of dirty money between countries, but the event study itself was interesting and deserved more investigation.



The discussion in the previous session on correspondent banking and de-risking was further developed in this session.

Several commentators in this session complimented Morse and Slutzky on the novelty of seeing empirical papers that so clearly map economic effects from AML causes. Although both papers contain arguable elements, and have room for more development, they are important markers on the path to better-founded effectiveness and cost-benefit analysis in the world of AML and financial crime suppression.

### Day 2 Opening: This conference and de-risking

Eduardo Apaez, a partner in the Creel law firm of Mexico City, and formerly a senior Mexican public servant, presented his perspectives on strengthening transparency and rebuilding trust in Caribbean correspondent banking. This presentation reviewed, among other points, the technical cooperation agreement between ASBA and the Inter-American Development Bank, to address Caribbean de-risking. The essential elements in this work include:

- Strengthening financial integrity standards
- Lifting technical capacity among financial institutions; and
- Improving public/private sector cooperation.

The core messages from this presentation included the need for jurisdictions and public agencies in the region not only to ensure technical compliance with the FATF and other standards, but to communicate this compliance effectively. In some case, improvements to current compliance levels are also necessary. In any event, coordinated and well-thought out strategies are necessary to reduce de-risking exposures.

### Session 4: AML Jurisdictional Rankings and Ratings

*Banking Bad: A Field Experiment on Regulatory Compliance in the Finance Industry:* Michael Findley, University of Texas, Austin, Daniel Nielson, Brigham Young University, and Jason Sharman (presenter), University of Cambridge

*The Basel AML Index:* Kateryna Boguslavska, Basel Governance Institute

*Comparing Sovereign Debt Ratings to Sovereign AML Ratings:* Charles Littrell (presenter) and Danae O’Brien, Central Bank of The Bahamas

*Discussant:* Julia Morse, University of California-Santa Barbara

Sharman presented on the current iteration of a long-running research project he has been conducting with his colleagues, and noted that previous research is available on their *Global Shell Games.com* website. The current work has expanded beyond trusts and corporate service providers to international banks.

In brief, the research is conducted via shadow shopping, normally via internet solicitations but including an element of face to face dealing. Actual corporations are constructed, with solicitations based on actual financial results. Solicitations seek information as to the potential provider’s interest in doing business, and the basis (such as required documentation) for undertaking the business. One potential provider is approached with several solicitations, ranging from the non-contentious through the highly suspicious.

At this stage of the current research, the bank results can be summarised as:

- Solicitations 5,000
- Non-responses 3,800
- 600 refusals to do business
- 200 compliant responses (such as requiring appropriate documentation)
- 300 non-compliant responses.

More work is necessary to understand why the non-response rate is so high. This is likely some combination of reasons ranging from bankers not wishing to engage with what appears to be a suspect potential client, to obsolete or unmonitored email addresses.



Among the 1,100 responses, it is disappointing after 30 years of international AML effort to see 300 non-compliant responses from 5,000 solicitations. This suggests that it is still quite easy for cross border money launderers to find channels to move their funds.

Two preliminary findings among responsive banks are:

- a) Banks are not risk sensitive. They either accepted or rejected all solicitations across a range of constructed risk profiles.
- b) Banks are not looking through legal entities for the ultimate beneficiary. They often stop with requests for data on signatories and directors. This may reflect the idea that banks in KYC-noncompliant jurisdictions (such as many American states) are primarily interested in covering their regulatory risk, rather than expending the effort to know the client properly.

In line with previous research, but to a less marked extent, compliance ratios were better in international financial centres (IFCs) than in OECD countries. This result will require further exploration and validation. Similar results were found for corporate service providers.

These results continue past Sharman/Findley Nielson findings that there remain a great many financial and corporate service providers active across borders, who are willing to do business on a less than compliant basis with international standards for AML.

Boguslavskaja's presentation outlined the Basel Institute on Governance's approach to constructing and maintaining their Basel AML Index, and the challenges associated with this work. The Basel AML Index is a weighted index constructed from 15 other indices and sources, among which the FATF country assessments, State Department INCSR list, and Tax Justice Network results are among the most highly weighted.

There is a particular challenge, which has yet to be met, in discovering model inputs that demonstrably relate to the actual level of money laundering in a jurisdiction. Suspicious transaction reports, for example, are not comparable across jurisdictions, and not an indication of AML efficiency in any given country. AML convictions also do not indicate AML efficiency in any country.

There are so far insuperable problems with the time lag between new information (such as receipt of the Panama Papers) and applicability to an annual money laundering country rating system. FATF assessments, most notably, sometimes operate on a decade or longer cycle. It is difficult for countries to demonstrate progress in AML, and difficult for the Basel AML Index to pick up indications of degrading AML performance. It is perhaps remarkable, for example, that Estonia is the Index's lowest risk AML jurisdiction, and has been in the top performing group for many years, based mainly upon a favourable Round 3 FATF MER.

Despite these difficulties, the Basel AML Index is increasingly used by other entities interested in AML assessment, including the Wolfsberg Group, the Economist Intelligence Unit, and the Global Corruption Index.

Littrell's paper compares and contrasts econometric outcomes for rank correlation, between sovereign debt ratings agencies and sovereign AML ratings agencies.

The paper's analysis on debt ratings from Moody's, Standard & Poor's, and Fitch demonstrates the well-known fact that ratings outcomes are very similar between the three groups. Rank correlations by various measures exceed 0.9 and are often close to 1.00.

Given that all three agencies generate such consistent results, they must all be right or all wrong. Which is it? Using time series provided by the ratings agencies to satisfy SEC requirements, it is straightforward to demonstrate reasonable ordinal performance. That is: an AAA-rated (for example) portfolio will usually generate a lower default rate than (for another example) a BBB-rated portfolio.

The heart of the paper applies the same analysis to AML ratings agencies, including the FATF, State Department INCSR, Basel AML Index, Refinitiv, and KnowYourCountry.com. The core findings include:

- There is nothing like the same level of rank correlation among sovereign AML ratings as there is among sovereign debt ratings.
- In fact, the two ratings that are probably most influential, the FATF and the INCSR, are negatively correlated. The better a jurisdiction ranks on FATF technical



compliance or effectiveness, the more likely that jurisdiction will feature on the INCSR list.

Given the broad variation in outcomes, at best only one of the ratings/rankings systems can be “right”, in the sense of a robust ordinal ranking of jurisdiction AML risk. Unfortunately, there is no data that would provide the dependent variable necessary to assess AML rating system accuracy. In fact, there is no commonly accepted definition of what high and low risk AML means.

In summary: sovereign debt ratings “work”, in that informed users can use the ratings opinions with some confidence in them. By contrast, AML sovereign ratings do not work, and given the absence of clear objectives cannot work, to assess the level of actual AML risk for institutions, transactions, or customers in a given jurisdiction.

*Morris:*

*Discussion*

The Findley/Nielson/Sharman paper is a work in progress, and there were several comments and questions regarding the path to completion, with a particular focus on how the research team might better understand the high rate of non-response. There was also discussion on whether or not rejections counted as compliant responses, or simply indicated a lack of interest by the prospective provider. There was also the consideration that the results indicate why professional money launderers are so successful: even if a substantial majority of banks and other intermediaries seek to comply, there remain a more than sufficient minority of providers who are willing to operate outside the rules.

In the case of U.S. noncompliance, the point was made that in several states, the local regulations allow for anonymous legal entities to be formed, so the focus on signatories rather than beneficiaries would make sense. This raises the philosophical issue: if a bank or other intermediary is complying with the local rule, but not the accepted international standard, are they compliant or non-compliant?

There was general sympathy with the Boguslavska paper and presentation, in that the approach is clearly subject to material shortcomings—but nobody had any better ideas on how to form a sovereign AML index, using currently available data sources. Several suggestions arose on potential technical improvements, including:

- a) Remove the INCSR from the index (to which Boguslavska noted that a process is under way that will reduce this weighting);
- b) Down-weight aged index inputs, particularly very old inputs such as legacy Round 3 FATF MERs; and
- c) “Find new data sources”—which is easier said than done.

Participants noted interest in the Littrell presentation on debt vs. AML sovereign ratings, noting that there is a clear problem in the AML sovereign space. If the ratings don’t correlate, or even worse negatively correlate, surely something is wrong. The larger issue is that there isn’t any empirical foundation on which to construct a defensible AML rating; in essence, the lack of a clear dependent variable against which to test the results. This paper identifies the problems with AML sovereign ratings, but we have yet to develop solutions. That solution must involve better clarity of mission, and better data.

#### **Session 5: Perspectives on De-Risking**

*From Hegemony to Hegemony: De-Risking in The Caribbean:* Clifford Griffin (presenter), North Carolina State University, and June Soomer, Association of Caribbean States

*Who is Driving the Ship? De-Risking and AML Governance:* Mark Nance (presenter), North Carolina State University, and Eleni Tsingou, Copenhagen Business School

Griffin’s paper noted that the U.S./FATF approach to the Caribbean seemed based upon the idea that the region’s perceived laxness on AML put it in the “cross-hairs”. This in turn meant that international banks would more likely avoid Caribbean respondents, as relatively low volumes and therefore profitability in these relationships is offset by a risk of enforcement penalties.



But on the other hand, the Caribbean’s sluggish financial performance over the past decade, combined with global retrenchment by banks, may explain Caribbean de-risking as well or better than any concept based on perceived high AML and sanctions risks.

The paper examines the 400+ Caribbean financial institutions on various measures, noting in particular the dominance of three Canadian banks across the English-speaking Caribbean’s retail markets. As these Canadian banks retreat from the Caribbean, larger indigenous banks may have good opportunities for growth—provided they are AML compliant.

In summary, the Caribbean is facing a quandary in that the region has globalized—but the U.S. may have “weaponized” this inter-dependence via access to U.S. Dollar clearing. The region must grapple with its sluggish economies, weak governance, and highly indebted fiscal position.

The Nance/Tsingou paper deploys a sociology of knowledge approach for (mainly) SWIFT message volumes plus correspondent links, and from social media posts, from which keyword searches are prominent. The question addressed is: “Who sets the AML agenda?” with prominent candidates including large countries, large countries plus the FATF, and the international AML compliance industry.

In one data stream, Nance notes that “de-risking” as a topic peaks on social media posts in 2012/13, 2016, and 2018. Comparing these peaks to reductions in correspondent banking relationships (which from 2011 to 2018 declined 30 per cent in Latin America and the Caribbean) does not suggest much if any link between the social media intensity and the de-risking intensity. There is also the consideration that from 2011 to 2018, the global total for correspondent relationships fell 20 per cent, but SWIFT message volumes and values increased about 40 per cent and 20 per cent respectively over the same period. As with many presenters, Nance concluded with a plea for more data.

#### *Discussion*

By this point in the conference, the discussion on the economics of

correspondent/respondent relationships had been more or less fully explored, with both the papers in this session tending to confirm previous discussions. It is reasonably clear that the Caribbean region is facing large challenges in managing its reputation for AML risk management, and consequent challenges in maintaining correspondent banking access.

On the other hand, the Caribbean nations have arguably improved their AML risk management faster than has been generally recognised, and there is a sense that the de-risking trend is slowing down and in limited instances reversing.

#### **Session 6: Using Empirics to Assess Risk**

*A toolkit for Correspondent Banking Supervision:* Daniel Brusso (presenter) and Mayra Gavilan, Superintendency of Banking, Insurance, and AFP, Peru

*Quantitative Analysis of Adaptive Behaviour to Avoid ML/TF Detection:* Julia Mold, Wells Fargo Bank

*Discussant:* Charles Littrell, Central Bank of The Bahamas

Brusso described the Peruvian banking regulator’s approach to assessing correspondent banking money laundering risk among its banks. The Superintendency deploys an in-house model which, for each respondent relationship, assigns a risk score. The risk score for each Peruvian bank is based upon several factors, including:

- The Superintendency’s internal risk ratings, based upon onsite and offsite examinations;
- Exposure level measured by respondent business volumes; and
- The average risk score of each local bank’s foreign correspondents.

The model’s assessment of foreign bank money laundering risk is based upon the bank’s home country, using factors similar to the Basel AML Index discussed earlier in the conference:



- Presence on a FATF blacklist;
- Whether or not the country is a tax haven;
- Ranking on the Tax Justice Network’s Financial Secrecy Index;
- Ranking of the Basel AML Index.
- Each individual bank’s presence or absence on UN, OFAC, or other sanctions lists is also considered.

Broadly, the Superintendency considers that local banks with more than 70 per cent of correspondent business with low risk counterparts are themselves low risk.

Of the \$55 billion in annual correspondent flow, only about one fifth of the foreign bank connections are high risk—but these connections process over half the annual transaction flow. U.S. relationships dominate, comprising about three quarters of total flows.

This Peruvian risk model is not meant to solve the de-risking problem, but it does improve the supervisor’s ability to reduce actual money laundering risk.

The Mold paper gave a detailed but anonymised set of examples from Wells Fargo transaction flow, on how that bank identifies and wards off suspicious transactions and customers. This presentation demonstrated at the transaction level, for example, how a suspected money launderer might test a bank’s systems with an initial transaction test, followed by more flow if the entry is successful. The paper also demonstrated how the money laundering community might move between methods, in this example dealing with use and non-use of trading companies and non-trading companies in a free trade zone.

The main lessons from the Mold paper are:

- Money launderers closely study major bank risk controls and systems, and at the margin are always seeking methods to move money through these systems;
- Major banks invest very considerable funds and management attention to suppress money laundering, but the money launderers can change their modus operandi faster than banks can change their screens (and much faster than regulators can change their approach);

- Banks cannot rely solely on automated transaction checking, because money launderers keep changing their approaches; and
- Serious money laundering in the banking space is much more likely to involve many transactions for modest amounts, such as in the tens of thousands of dollars, rather than a few multi-million dollar transactions. It is very difficult to pick up illicit flows in these amounts, against the background of millions of licit customers and funds flows.

*Littrell:* For Brusso:

- Is the Peruvian regulator satisfied with its model? (Yes, it is working well, particularly in directing limited resources towards banks that appear more risky. The model does not determine the outcome, but is an input into the total supervision approach.)
- Does the model lead to actual supervisory interventions and in need sanctions? (Yes, and has also led to improved guidance material, as it became clear that some Peruvian bankers did not fully understand money laundering risks in correspondent banking)
- How is the model validated? We require banks to validate their Basel II and Basel III models, but can supervisors validate their own models? (It must be confessed that validation is difficult, and perhaps we are not holding ourselves to the same standards as for bank credit risk models. They do seek feedback from the supervised banks on the model outcomes.)
- After this conference, will the Peruvian supervisor reconsider some of its model inputs, such as the FATF? (What can we do? We are using the data we have, which possesses a number of deficiencies. The supervisor is not a research agency, so makes the best it can with the available tools. However, after the lessons of this conference, we will use this and similar lists with “a grain of salt.”)



Littrell: For Mold:

- Does Wells Fargo work with researchers on these issues, and if not, would you be willing to do so? (The circumstances would need to be for a specific goal, but would consider it.)
- Are the tools described in this paper considered valuable to Wells Fargo mainly because they reduce the risk of regulatory sanctions, because they stop criminals, or a combination of the two? (These tools don't necessarily stop criminals, who are very inventive as they move value through financial institutions. This paper is a demonstration of the difficulty associated with suppressing ever-changing criminal money movement patterns. If a financial institution (for example) assesses a customer annually or semi-annually, a great deal could have gone wrong in the meantime. The goal with these tools is to demonstrate how we can be proactive in addressing money laundering.)
- Do the major banks collaborate in this area on what you have learned? (Yes, and with correspondent banks as well. The particular examples presented in this paper are new, and have not yet been shared.)

### Discussion

For Brusso: Can you use your data to see which countries are sending and receiving dirty money, and which indexes are better? (That's not how the data flows in this model, with the focus more on static analysis. Every user will need to make their own call on which indices are better.)

For Mold: Why are we doing so badly at keeping dirty money out of the financial system? (Keeping dirty money out of the financial system is difficult. The tool discussed in this paper, and similar tools, do not necessarily catch dirty money, but allow us to focus our efforts rather than search through thousands or millions of transactions. We are not a law enforcement agency so cannot arrest persons, but we do file STRs and manage risks. What law enforcement agencies do with the STRs we file is outside our control and scope.)

The general sense in this discussion was that both tools presented seem worthwhile, but there is frustration that they may only be shifting the problems elsewhere. Put another way; such tools may protect one country or one bank, but don't protect the entire system if there are any holes in the system elsewhere.

### Conference Summaries

Three participants were asked to provide their views on what lessons were learned from the conference, and where we should go from here:

Peter Reuter, University of Maryland

Rusudan Mikhelidze, OECD

Joe Ciccollella, Citi Wealth Management

Reuter:

This conference has helped build a better institutional foundation for empirical AML research. It is encouraging to see so many researchers in the field, and in particular young and emerging researchers, at one venue. The papers were high quality, not only interesting but thought-provoking. There was however only a limited range of analytic methodologies deployed.

Questions memorably addressed in the conference included:

- What are the consequences of AML activity?
- What are the effects of AML enforcement on economic activity?
- Does a FATF listing have a lasting impact on trade?
- Why does an expensive, intrusive regime with few demonstrable benefits persist with little criticism?



The cost of compliance should be further researched. This cost is essentially invisible; perhaps it should be broken out by financial institutions for their clients.

Research funding opportunities for AML/CFT are limited, and ideally will expand.

Policy-makers should ask two central questions:

- What are the characteristics of a good AML regime?
- What are the measurable effects of AML?

AML and CFT are usually glued together as one phrase, but they are different crimes and should be researched separately.

The academy should take advantage of natural experiments, such as the varying legality of marijuana across American states.

*Mikhelidze*

Per her invitation, Mikhelidze gave a short presentation on the OECD Anti-Bribery Convention and its monitoring mechanism and a new initiative to develop anti-corruption performance indicators for the peer review programme of the Anti-Corruption Network for Eastern Europe and Central Asia (ACN). The ACN is a global relations programme of the OECD Working Group on Bribery. In response to a question, she noted that the OECD does not intend to apply this specific tool to OECD jurisdictions.

In terms of the conference, Mikhelidze found notable:

- We have learnt that there is a lack of reliable and comparable data on AML, and there are limitations in using international and organizational indices.
- The conference laid a solid foundation towards further work in bridging data gaps for evidence based AML.
- While the challenges became evident, the next edition of the conference would benefit from the focus on concrete recommendations and solutions for bridging such data gap.

- Governments, regulators, and international agencies should collaborate, finding synergies to combat international financial crime more effectively, and minimizing unintended consequences. Research community, represented at the conference, should engage with concrete policy solutions based on research and data.
- The next conference would benefit from a thematic focus on law enforcement aspects of fighting financial crime.

*Ciccollella*

The quality of work presented at this conference was interesting, inspiring, and at times frightening. He is eager to see the draft papers finalised and put into practice.

There are real and not always anticipated consequences for AML decisions. There can be far-reaching implications, which are compelling enough for a reality check.

We are living in a world of lists. People create lists based upon their risk tolerances and agendas, and think other people with a completely different risk tolerance or appetite should abide by them.

It would be useful to conduct more research on the composition of indices, based upon specific quality criteria.

More generally, it is clear that more cooperation is better than less, in the fight against financial crimes.

He suggests that future research in this space, or at least this conference, could also include material on jurisdictional secrecy and tax haven status.



### **Closing comment: Charles Littrell**

Littrell once again thanked the authors, sponsors, and attendees who combined to make the inaugural conference such a success. He also thanked the Central Bank of The Bahamas and ASBA staff who organised and managed the conference.

He noted that the conference organisers and paper selection panel were open to empirical arguments on how the global AML and financial crime efforts have succeeded. It has been striking that not a single submitted paper, or any substantial discussion at the conference, had argued for any empirically-demonstrable crime reduction or funds recovery successes from the global AML regime. To some extent this is an artefact of the conference's focus. The international regime has clearly succeeded in imposing a great many rules and procedural changes globally. The difficulty is that the costs of these changes are certainly large and increasingly obvious, but the economic benefits are hard to identify.

We might usefully look to the examples of the global movements to reduce tobacco consumption, and to reduce vehicle deaths, as exemplars of how to proceed. In both those cases, and in some instances over decades, the necessary data and analysis was built up to determine which policies were effective, and which needed revision. After 30 years of rule-making, perhaps the international AML community is ready to embark on a more holistic approach to assess rule and procedure effectiveness. This conference in its current and future iterations is meant to assist in that great work.

### **Speakers Biographies**

#### **Eduardo Apaez**

Eduardo Apaez is currently the counsel in the Mexico City office of Creel, where he specializes in compliance and anti-money laundering. Prior to joining the firm, he was a civil servant in the Ministry of Finance and Public Credit, the Financial Intelligence Unit, the National Banking and Securities Commission, and the Bank of Mexico, where he oversaw the regulation and supervision of the AML/CFT regime.



With the enactment of the Federal Anti-Money Laundering Law in 2012, he directed the drafting and issuing of its secondary regulation, as well as the issuance of interpretative criteria for Designated Non-Financial Businesses and Professions, also known as Vulnerable Activities at the Financial Intelligence Unit.

Likewise, during his tenure as General Director of the National Banking and Securities Commission, he was responsible of the on-site and off-site supervision of compliance of the AML/CFT regime by Banks, Brokerage Houses, Exchange Houses, and Credit Unions.

He has been counsel in terms of compliance with the Financial Action Task Force Recommendations, having participated as a Legal and Law Enforcement expert in the Mutual Evaluation Processes of Brazil and Aruba, and was also responsible of the coordination of Mexico's own evaluation process conducted by the Financial Action Task Force (FATF), the Financial Action Task Force for Latin America (GAFILAT) and the International Monetary Fund.

He is professor of the Course for the Certification on Money Laundering Prevention at the Instituto Tecnológico Autónomo de México (ITAM). Mr. Apáez obtained his Law degree (JD) from Universidad Marista.



### **Kateryna Boguslavska**

Dr. Kateryna Boguslavska works as a project manager at the Basel Institute on Governance. She leads the Basel AML Index, which is an independent country ranking and risk assessment tool that assesses the risk of money-laundering and terrorist financing in countries around the world.

Before joining the Basel Institute, Kateryna worked at Chatham House in London in 2016-2017 as a Robert Bosch Academy Fellow for the Russia and Eurasia Programme. In this role she participated in numerous academic conferences and expert workshops, and provided expert briefings to the UK Foreign & Commonwealth Office, embassies, international development organizations and donors.



From 2013 to 2016, Kateryna worked as a political risk analyst for Polixis Geneva. There she analysed and evaluated the political risks around business development in Commonwealth of Independent States (CIS) countries and provided due diligence services. In 2014, as part of the OSCE Special Monitoring Mission to Ukraine in Kyiv, Kateryna was responsible for identifying early security warnings, offering briefings on political trends and communicating with civil society activists and public officials. She gained her first professional experience as a political analyst at the Analytic Centre of the Bureau of Economic and Social Technologies in Kyiv

Kateryna holds a master's degree in comparative and international studies from ETH Zurich, as well as a master's in political science from the National University of 'Kyiv-Mohyla Academy' in Ukraine and a PhD in political science from the National Academy of Science in Ukraine.

### **Daniel Brusso**

Daniel Brusso is a ML/FT Risks Supervisor in the Superintendence of Banking, Insurance and Pension Funds of Peru, mainly dedicated to the development of risk assessment methodologies and new regulation in the area of ML/FT risks management, specializing in correspondent banking.

He has a degree in Business Administration from the Pontifical Catholic University of Peru (PUCP). Previously he has worked in the Superintendence of the Stock Market, in the supervision of mutual and investment funds.



### **Michael Findley**

Michael G. Findley is Professor of Government and Public Affairs at the University of Texas at Austin. Findley conducts research on political violence, international development, and illicit finance, with extensive fieldwork in Colombia, Kenya, DRC, Sudan, South Sudan, South Africa, and Uganda.

His publications appear in leading presses, journals, and law reviews including *Cambridge University Press*, *American Journal of Political Science*, *Journal of Politics*, *Comparative Political Studies*, *International Organization*, *British Journal of Political Science*, *Annual Review of Political Science*, *Strategic Management Journal*, *Journal of International Business Studies*, *Public Choice*, *World Development*, *Penn Law Review*, *Minnesota Law Review*, *The American Statistician*, *Transactions in GIS*, and *Complexity*. He also works in collaboration with the World Bank, USAID, African Development Bank, UNICEF, UN Peacebuilding Fund, UN Development Program, International Aid Transparency Initiative, and many developing country governments to promote evidence-based policymaking, valuations (and reports), policy publications, official policy working papers, and policy reviews.





### Clifford E. Griffin

Clifford E. Griffin (PhD University of Rochester, NY), is an Associate Professor of Political Science, School of Public and International Affairs, with more than 20 years of research, teaching, commenting and consulting on all aspects of Caribbean Political Economy, including drug trafficking, money laundering and crime (national and transnational), migration (legal and illegal), and trade and development.



He is author of two books: *The Race for Fisheries and Hydrocarbons in the Caribbean Basin: The Barbados-Trinidad and Tobago Maritime Dispute* (2007); and *Democracy and Neoliberalism in the Developing World: Lessons From the Anglophone Caribbean*, (1997); co-author of *The Historical Dictionary of United States-Caribbean Relations* (2017); selected peer-reviewed articles appear in the *Journal of Commonwealth and Comparative Politics*, *Journal of Democracy*, *Journal of Social and Economic Studies*, *Journal of Caribbean Studies*, and *Whitehead Journal of Diplomacy and International Affairs*; and selected book chapters appear in the following volumes: *Immigration, Crime and Justice*; *Freedom and Constraint in Caribbean Migration and Diaspora*; *Intervention, Border and Maritime Issues in CARICOM*; *Governance, Conflict Analysis and Conflict Resolution*; *Caribbean Security in the Age of Terror: Challenge and Change*; *Democracy and Political Economy in the Caribbean*; *Strategy and Security in the Caribbean*; *Democracy and Human Rights in the Caribbean*, and *The Political Economy of Drugs in the Caribbean*. He is a Contributing Editor to the *Handbook of Latin American Studies*, Library of Congress, and Editor of ARA—*Journal of Tourism Research/Revista de Investigación en Turismo*..”

### Valentina Gullo

Valentina Gullo is research fellow at the School of Global Studies of the University of Sussex and a member of the Centre for the Study of Corruption at the University of Sussex.

She received her Ph.D. in Methods and Models for Economics and Finance from Sapienza University of Rome in 2019. Among her main research interests there are dirty money flows, Economic geography of offshore financial centers and Tax Havens, financial secrecy and corruption.



### Lester Henry

Lester Henry, is Senior Lecturer in the Department of Economics at the University of the West Indies, St Augustine. He has a PhD in economics from the University of Massachusetts at Amherst.

He also did graduate studies at the University of California at San Diego. His undergraduate studies were done at the University of Wisconsin at Madison and at Brooklyn College where he obtained his Bachelor’s Degree in Economics with Mathematics and Computer Science.

Dr. Henry has taught at Brooklyn College (CUNY) and the Fashion Institute of Technology in New York and was a Summer Fellow at the Center for Advanced Study in the Behavioral Sciences at Stanford University. His areas of interest include: International Finance, Capital Flight, Monetary Policy, the Digital Divide and Trade.





**Risha Pragg - Jaggernauth**

Mrs. Risha Pragg-Jaggernauth, a national of Trinidad and Tobago, was appointed to the position of Research Officer at the Caribbean Financial Action Task Force (CFATF) effective July 1st, 2017. Mrs. Pragg-Jaggernauth is the holder of a Master’s Degree in International Relations and a Bachelor of Arts Degree in History from the University of the West Indies, St. Augustine She is also a trained Assessor for the Fourth Round of Mutual Evaluations (2018).



As Research Officer at the CFATF, she is a part of the Mutual Evaluation Programme Team where she provides research support to the Council of Ministers, Steering Groups; for CFATF Technical staff; including reviewing adopted mutual evaluation reports (MERs) and conducting comparative reviews/analysis. She is also a member of the CFATF Steering Group sub-committee on Communications, a member of the IDB De-risking Advisory Committee and a member of the Financial Action Task Force’s Global Network e-Learning Initiative Project Team.

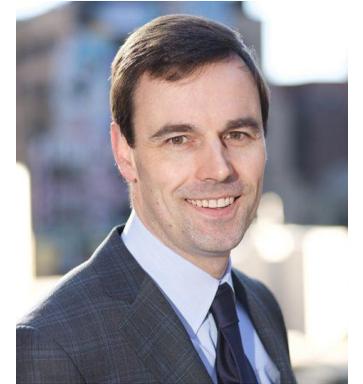
In November 2019, she was a participant/presenter at a Workshop on “Efforts in Reducing the Negative Impact of Loss of Correspondent Banking Relationships in the Caribbean: The Supervisors and Financial Institutions Role” held at the Bank of Jamaica. Additionally, in May 2019 Mrs. Pragg-Jaggernauth presented to the CFATF Plenary on “Monitoring Developments in Virtual Assets in the Caribbean Region” and in May 2018, she chaired the Donors Forum at the CFATF Plenary.

She was a Parliamentary Affairs Officer at the Ministry of the Attorney General and Legal Affairs, Trinidad and Tobago for five (5) years (2012-2017). In her earlier career, Mrs. Pragg-Jaggernauth was employed with the Office of the Parliament of Trinidad and Tobago for a period of seven (7) years (2004-2011). There, she was assigned tasks related to research, data analysis in keeping with focus of Parliamentary Committees/Parliament Conferences. Mrs.

Pragg-Jaggernauth is currently a final year law student reading for her Bachelor of Laws degree (LLB) with the University of London (International Programmes).

**Charles E. Kilbourne**

Charles E. Kilbourne is Managing Director and Secretary of the Corporation of FSVC. He is a member of FSVC’s management group, and directly oversees FSVC’s programs in Albania, Moldova, Somalia and Tajikistan. He is an officer of the Corporation and the liaison to the Board of Directors.



Before joining FSVC in 2002, Mr. Kilbourne served as Vice President of the Financial Services Forum. He previously worked in several capacities on housing and urban policy for the State of New York.

Mr. Kilbourne is a Member of the Board of Directors of the Federal Home Loan Bank of New York (FHLBNY). Mr. Kilbourne serves as an Independent Director, and as a Public Interest Director. He is also a member of the Council on Foreign Relations.

He received a Master’s Degree from Georgetown University in Washington, D.C. and a Bachelor’s Degree from Tufts University in Medford, Massachusetts.



### Michael Levi

Professor Michael Levi has degrees from Oxford, Cambridge, Southampton and Cardiff and has been Professor of Criminology at Cardiff since 1991.

Since his pioneering PhD in 1972, he has contributed enormously to the understanding of the linkages and differences between white-collar and organised crime and their public and private sector controls, from elite corporations/individuals to payment card/bankruptcy fraudsters. His mapping out of the local and transnational aspects of financial crimes and their control (via anti-money laundering and anti-corruption measures, inter alia) has



won him several major awards from the British and American Societies of Criminology for his comparative work on white-collar and organised crime. His current projects include leading an ESRC transnational organised crime study of the impact of technologies on criminal markets in malware, money laundering, drugs and sex; and co-investigator on two Home Office cyber-enabled fraud and money laundering projects. He is writing books on the Organisation of White-Collar Crimes, on Corporate and Individual Shaming, and on White-Collar Crimes and their Victims.

In recent years, he has contributed as a Member of the Law Society Money Laundering Task Force; EU Group of Experts on Corruption; UK Cabinet Office Counter-Fraud Cross Sector Advisory Board; Center for Global Development Working Group on Illicit Money Flows; Committee on the Illicit Tobacco Market, US National Academy of Sciences; and Crime Statistics Advisory Committee (ONS). He is an Advisory Group Member to Europol's EC3 and SOCTA.

See further, <http://www.cardiff.ac.uk/people/view/38041-levi-michael>

### Charles Littrell

Charles Littrell is Inspector of Banks and Trust Companies for the Central Bank of The Bahamas. He is also a member of the Bahamian Group of Financial Services Regulators, and the Group of International Financial Centre Supervisors. He is the Convenor of this conference.



Prior to joining the Central Bank in 2017, Charles spent 15 years as Executive General Manager for the Australian Prudential Regulation Authority (APRA). At APRA he was responsible for Australia's prudential policy in the banking, insurance, and pension industries, for managing the Australian national statistical agency for the financial sector, and for APRA's supervisory risk specialist teams. Charles represented Australia in a number of international forums, including the Basel Committee on Banking Supervision, and that body's Policy Development Group.

Prior to joining APRA, Charles spent 20 years as a banker, mainly with Westpac Banking Corporation in the United States and Australia.

Charles's qualifications include a BA (economics) from Yale University, and a Masters of Economics and Econometrics (with First Class Honours) from the University of Sydney. He has completed the Senior Fellows program at the Australia and New Zealand School of Government.



### Rusudan Mikhelidze

Rusudan Mikhelidze works at the Anti-Corruption Network for Eastern Europe and Central Asia (ACN) of the Organisation for Economic Co-operation and Development (OECD), where she manages country and regional projects and leads anti-corruption monitoring as well as the work on the development of anti-corruption performance indicators and a new methodology of anti-corruption reviews under the Istanbul Anti-Corruption Action Plan.



Her prior experience includes various leading roles on anti-corruption and criminal justice reform projects in Georgia at the Ministry of Justice and the Prosecutor’s Office. Ex officio she has served as the Secretary of the Anti-Corruption Council, the Chair of the Open Government Georgia’s Forum, Secretary of Criminal Justice Reform Council and the Chair of the Juvenile Justice working group. She has also worked with the Crime and Justice Institute in Boston, MA.

As a head of statistics division in the Prosecutor General’s Office of Georgia, she led criminal justice statistic reform in Georgia that resulted in the adoption of Unified Criminal Justice Statistics Methodology in Georgia and worked on the development of the methodology of a large-scale victimization and perception survey in cooperation with the authors of the ICVS and Eurobarometer.

Rusudan holds a law degree from Tbilisi University and University of Helsinki. She has completed executive education programmes at Harvard Kennedy School and Massachusetts Institute of Technologies and has been teaching the law of international organizations and international law of treaties at the Caucasus University in Georgia.

### Julia A. Mold

Julia Mold is a Senior Research Control Officer in Wells Fargo for Middle East, Africa S. Asia, Caribbean and South/Central America Bank’s Financial Institutions Group Risk & Control, serving correspondent financial institutions’ regional financial crime prevention and risk management efforts globally. At Wells Fargo, her efforts focus on identification and reporting of emerging money laundering and related financial crime risks in the correspondent portfolio while providing AML/CFT and anti-corruption guidance to the bank’s internal and external partners. In 2019, she led AML/CFT training programs in Trinidad, Jamaica, Curacao and a country assessment of Trinidad.



Prior to joining Wells Fargo, Julia worked for more than 15 years on AML/CFT, economic sanctions and anti-bribery and corruption issues in the MENA region, Caribbean, India, Indonesia, Kenya, Malawi, Tanzania and the Russian Federation for US and overseas banks.

With the Financial Service Volunteers Corp., she volunteered in more than 20 AML advisory projects in emerging and transitioning economies, most recently in Angola. She co-authored a report on “Financial Inclusion and Anti Money Laundering in Kenya” (Gates Foundation and FSVC, 2012) and is a frequent speaker on AML and related themes.

Julia began her financial industry career as a regulator in the New York Stock Exchange’s Division of Member Firm Regulation and is an economics graduate of New York University.



**Julia C. Morse**

Julia C. Morse is an Assistant Professor in the Department of Political Science at the University of California, Santa Barbara. Her research focuses on international organizations, with particular attention to compliance and market-driven enforcement, information institutions and global governance, and dispute settlement mechanisms. Her work has been published or is forthcoming in International Organization, International Studies Quarterly, and The Review of International Organizations.



Dr. Morse received her PhD from the Woodrow Wilson School of Public and International Affairs at Princeton University, and holds a BA in Public Policy Studies and Political Science from Duke University. She was a post-doctoral fellow at the University of Pennsylvania's Browne Center for International Politics. Prior to graduate school, she worked at the State Department as a Presidential Management Fellow and at the FBI as an Intelligence Analyst.

**Mark Nance, Ph.D.**

Mark Nance, Ph.D. is an Associate Professor of Political Science in the School of Public and International Affairs at North Carolina State University. He teaches International and Comparative Political Economy and European politics.

His research focuses generally on formal and informal means of global governance in the global political economy, especially in the illicit economy. Past work has focused on transnational cooperation in the fight against maritime piracy, illicit weapons proliferation, and money laundering. He has twice been a Fulbright Schuman scholar, most



recently at the Quality of Government Institute in Gothenburg, Sweden. He received his Ph.D. from the University of Wisconsin, Madison.

**Alicia Nicholls**

Alicia Nicholls, B.Sc.(Hons), M.Sc. (Dist.), LL.B. (Hons) is an international trade and development specialist with nearly a decade of experience working in, and writing on, trade and development matters of interest to the Caribbean. Alicia is currently part of the research team of the Shridath Ramphal Centre for International Trade Law, Policy & Services of The University of the West Indies, Cave Hill, the premier trade policy training, research and outreach institution in the Caribbean. Her research interests include international business, AML/CFT issues, investment law and policy and investment migration programmes.



She holds a Bachelor of Science in Political Science (First Class Honours), a Bachelor of Laws (Upper Second Class Honours), and a Masters in International Trade Policy (with distinction) from the University of the West Indies, and an Associate Degree in French, Spanish and German for Business and Tourism from the Barbados Community College. She also holds the FITT Diploma in International Trade from the prestigious Canadian-based Forum for International Trade Training (FITT) and has been a FITT General Member since 2015. She is also a member of the Michigan-based Academy for International Business (AIB) since 2016.

Alicia has presented and written on a wide gamut of trade and development issues for regional and international publications and industry magazines, including IFC Review, Caribbean Export Outlook, The BCSI's The Exporter Magazine and the Caribbean Studies Association's newsletter.



### Daniel Nielson

Daniel Nielson is Professor of Political Science at Brigham Young University. He is a co-founder, principal investigator, and former Chief Social Scientist of AidData. He is also co-founder and former Director of the Global Politics Lab at Brigham Young University. He received his PhD in international affairs from University of California – San Diego in 1997. He has been a visiting scholar at Princeton University’s Niehaus Center for Globalization and Governance, Duke University’s Political Science Department, the Government Department at the College of William and Mary, and the Centro de Investigación y Docencia Economicas (CIDE) in Mexico. He has been a principal investigator on major grants from the U.S. National Science Foundation, the William and Flora Hewlett Foundation, the Bill and Melinda Gates Foundation, and USAID. He has also served as a consultant for the World Bank and UNICEF.



His research focuses on international development, foreign aid, the control of corruption, and international organization. He specializes in the use of transnational field experiments to learn about causal effects in political economy. He is co-author of Global Shell Games: Experiments in Transnational Relations, Crime, and Terrorism (Cambridge University Press 2014) and co-editor of Delegation and Agency in International Organizations (Cambridge 2006). He has also authored and co-authored articles in *Proceedings of the National Academy of Sciences*, *American Journal of Political Science*, *International Organization*, *Journal of Politics*, *British Journal of Political Science*, *Science Advances*, *World Development*, *Comparative Political Studies*, *International Studies Quarterly*, *University of Pennsylvania Law Review*, and *Strategic Management Journal*, among other journals.

### Peter Reuter

Peter Reuter is Professor in the School of Public Policy and in the Department of Criminology at the University of Maryland. He is also Senior Economist at RAND.

In June 2019 he was one of two awardees for the 2019 Stockholm Prize in Criminology, the leading prize in that field.

His early research focused on the organization of illegal markets and resulted in the publication of *Disorganized Crime: The Economics of the Visible Hand* (MIT Press, 1983), which won the Leslie Wilkins award as most outstanding book of the year in criminology and criminal justice. Much of his research has dealt with alternative approaches to controlling drug problems, both in the United States and Western Europe. In recent years he has also been publishing on money laundering control and on the flows of illicit funds from developing nations.



His books include (with Robert MacCoun) *Drug War Heresies: Learning from Other Places, Times and Vices* (Cambridge University Press, 2001) *Chasing Dirty Money: The Fight against Money Laundering* (Institute for International Economics, 2004; with Ted Truman) *The World Heroin Market: Can Supply be Cut?* (Oxford University Press, 2009, with Letizia Paoli and Victoria Greenfield). He founded and directed RAND’s Drug Policy Research Center from 1989-1993. From 2007-2011 Dr. Reuter served as the first president of the International Society for the Study of Drug Policy. He also served as editor of the *Journal of Policy Analysis and Management* from 1999 to 2004. He has chaired three panels for the National Academy of Sciences.

Dr. Reuter received his PhD in Economics from Yale.



### Michele Riccardi

Michele Riccardi is Senior Researcher at Transcrime – Joint Research Centre on Transnational Crime ([www.transcrime.it](http://www.transcrime.it)) and Adjunct Professor of Financial and Business information analysis at the Università Cattolica del Sacro Cuore and of Risk Assessment Methods at the University of Palermo.



He has coordinated or contributed to numerous research projects, at national and international level, in the field of organised crime, money laundering, financial crime, retail crime. He is member of the ARO – Asset Recovery Office of the European Commission, of the Experts group of the European Union Supranational money laundering risk assessment and the National ML risk assessment of the Italian Ministry of Economy and Finance. He is member of the United Nations working group in the measurement of illicit financial flows (SDG 16.4). He has been consulted in the FATF/GAFI Mutual evaluation of the Italian AML/CFT regime. He is author of various publications in the field of money laundering, organised crime, accounting manipulations. He holds a MSc in Accounting and Financial Economics at the University of Essex (UK) and a MA in International Relations at the Università Cattolica del Sacro Cuore (Italy).

### Jason Sharman

Jason Sharman is the Head of the Department of Politics and International Studies at the University of Cambridge, as well as the Sir Patrick Sheehy Professor of International Relations and a fellow of King’s College, Cambridge. Sharman’s research is focused on the regulation of global finance, especially as relates to money laundering, tax, corruption and offshore financial centres, and the international relations of the early modern world.



His latest books are *The Despot’s Guide to Wealth Management* (Cornell University Press 2017), and *Empires of the Weak: The Real Story of European Expansion and the Creation of the New World Order* (Princeton University Press 2019). Aside from his academic research, Sharman has worked as a consultant with the World Bank, Asian Development Bank, Financial Action Task Force, Asia-Pacific Group on Money Laundering and with a variety of groups in the private sector.

### Yun Shen

Yun Shen is currently a Student Assessor in Finance, School of Commerce, University of South Australia pursuing a PhD in Finance. She is also a former Research Assistant and Tutor, Finance Department, Waikato Management School, University of Waikato. Shen holds a Bachelors Degree of Economics in International Economics and Trade, School of Economics and Management, Shanxi Agricultural University, a Master of Management Studies in Finance, Waikato Management School, University of Waikato and a PhD in Finance, Waikato Management School, University of Waikato. She was awarded a University of Waikato 180 Point Masters Scholarship.



Shen has experience in teaching the following courses:- Directed Study, Computer Modelling in Finance, Corporate Finance, Personal Wealth Management, Capital Markets.

She has released a publication in 2019 entitled “CEO characteristics: a review of influential publications and a research agenda. Accounting & Finance”. Additionally, Shen has published a research paper entitled " To Launder or not to Launder: Are there Positive Effects for the Economies of Countries who Launder Money?" with June Buchanan and Tom Smith.



### Pablo Slutzky

Pablo Slutzky is an Assistant Professor of Finance at the Smith School of Business, University of Maryland. His research interests lie at the intersection between crime and corporate finance.

Prior to joining the Smith School, Slutzky earned his Ph.D. in Finance from Columbia University in 2017. He also holds an MBA from IAE Business School, Argentina, and is an Actuary from the University of Buenos Aires, Argentina.



### CONFERENCE ATTENDEE LIST

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