

Summary

Exploratory study on methods and data for the Dutch National Risk Assessment of money laundering and terrorist financing

The objective of this study is to gain insight in the methods and data that are available and applicable for the execution of the first National Risk Assessment (NRA) money laundering and terrorism financing for the Netherlands. The NRA has to map the risks with respect to money laundering and terrorism financing. Due to a lack of experience with the execution of a NRA and its insecurities and complexity, WODC splits the NRA project into different parts: two NRAs for money laundering, two NRAs for terrorism financing, two policy monitors for money laundering, one policy monitor for terrorism financing and a study dubbed money laundering pyramid. The first subproject of the NRA project is this exploratory study on methods and data.

The results of this study are based on a number of points of departure and an analysis of diverse sources. The starting point of the NRAs is a Guidance of the FATF with guidelines for the execution of a NRA. Other points of departure are the legal and economic definitions of money laundering and terrorism financing for the Netherlands and the criteria of WODC for the NRAs. The NRAs will have a scientific approach in which transparency of the results is important and replication should be possible. WODC therewith maximizes the objectivity of the NRAs. Next to this, the NRA should be able to trace risks that have not been signaled yet (in the Netherlands) and that can happen in the future. A last point of departure is that money laundering and terrorism financing are treated in separate full NRAs.

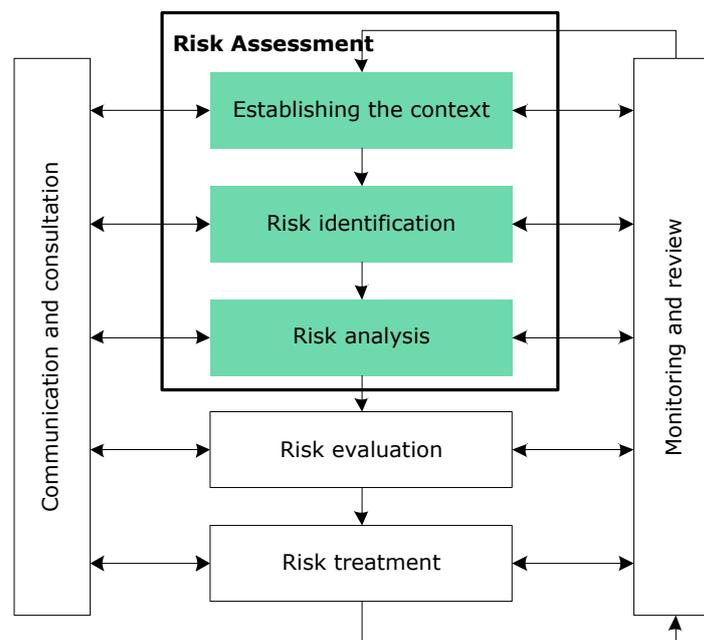
The sources that we analyze are the NRA methodologies applied in five countries: the US, the UK, Canada, Italy and Sweden. Next to this, general frameworks for risk management and the methods for risk assessment that follow from that are analyzed. We also search for available additional methods useful for NRAs. Finally, we analyze what we can learn from risk valuations that are done (partly in other fields) in the Netherlands.

Although this exploratory study presents diverse methods and discusses different data, we have to conclude that a first NRA cannot directly map all risks objectively and in a completely quantitative manner. We therefore suggest a growth model in which successive risk assessments use the lessons learned from former assessments. The goal of the first NRA on money laundering and the first NRA on terrorism financing is therefore not only to analyze the risks, but also to identify blind spots, incompleteness and vulnerability of the data, methods and other information.

The proposal is to execute the Dutch NRA within the framework of ISO 31000. This is an international standardized framework in which we can apply different methods. Also the FATF-Guidance generally follows this structure. Contrary to ISO 31000, the Dutch NRAs on money laundering and terrorism financing will also include a context analysis. The context analysis is described in ISO 31000, but is not part of the actual risk assessment. For money laundering and terrorism financing the context is so important, especially for the first NRA, that this should be part of the risk assessment. The context analysis is important to determine which threats will be analyzed in the NRA. The risk evaluation on the other hand is included in the ISO 31000

framework but will not be part of the NRA, because risk evaluation includes political decision making about which risks should be accepted or tolerated. Taking such normative decisions opposes the scientific approach that is chosen for the Dutch NRA.

Figure S1 The risk management process according to ISO 31000 adapted for the NRA: addition of context analysis and removal of the risk evaluation



The ISO 31000 framework allows embedding specific research methods for each part of the risk assessment. The most relevant methods for the first NRA are Check-lists, Brainstorming, Delphi and Multi Criteria Analysis. This means we choose for the first NRA relatively qualitative methods. Even though this is in line with the other NRAs done internationally, this is still far away from the ambition to execute a data-driven quantitative NRA. Although this ambition stays, we think it is necessary to choose an approach in which the Dutch NRAs develops and data is made available step by step. Important in this growth model is that we use the lessons we learned from previous steps as much as possible. For this learning process it is crucial that there is transparency of the analysis in the NRA and its results. Transparency allows the replication of the analyses, which is important for to the scientific nature of the NRA. This transparency is in contrast with NRAs from other countries that we analyze in this exploratory study.

The manifestations of money laundering and terrorism financing that need to be studied are not determined in this report. We discuss a method how experts and stakeholders, with the use of a long list, can determine them. Therefore, it is not relevant yet to analyze in this report which data is needed. Which data is needed depends on the threats for which the risks have to be determined. This will be done during the execution of the NRA and cannot be done beforehand.

Part of the growth model for the NRAs are the policy monitors and the study dubbed money laundering pyramid. The policy monitors can be used for the context analysis and are also relevant for determining the probability that threats materialize and for determining the defensibility of the current policies against money laundering and terrorism financing. To which degree the risks with respect to the selected manifestations of money laundering and terrorism financing are dealt with by the current policy framework will be checked in the risk assessment. Next to that, a research project dubbed money laundering pyramid will be carried out. This research can improve the insights on the context in which money laundering and terrorism financing takes place and hence will provide useful information for the context analysis. This research can also contribute to additional insights into the consequences of money laundering and perhaps also on the likelihood of occurrence of the selected manifestations.

In concrete terms, this gives us a growth path for the NRA that consists of the following elements:

- A *context analysis* in which the situation is depicted with special attention for the factors that are related to the prevention of money laundering and terrorism financing in the Netherlands. Context factors from earlier research can be used for the context analysis, such as PESTLE analyses, as well as the CIA World Factbook and context indicators proposed by the FATF.
- At the *risk identification* stage we propose to limit the number of threats that are analyzed in the first NRA: five threats for money laundering as well as five for terrorism financing. The threats will be chosen out of an extensive long list (checklist) of manifestations that experts and stakeholders can complement. For the prioritization of the threats we can achieve transparency by using the Delphi method and optionally Multi Criteria Analysis.
- Next, we determine the *probability that these risks will materialize*. This likelihood assessment is based on the results of the context analysis and our understanding of the vulnerability and resilience of the current policy framework to fight money laundering and terrorism financing. This knowledge is based on the start version of the Policy Monitor Anti-Money Laundering from 2015, and the NRAs' Policy Monitors Anti-Money Laundering and Terrorism Financing that will be executed in parallel. Insights from the triage method regarding the prioritization of risks will be used as well. We will assess the likelihoods with the use of experts and stakeholders, in which the application of acknowledged and tested methods like Delphi and Multi Criteria Analysis increases the objectivity and makes sure that the assessment of these likelihoods will take place as transparent as possible.
- In the various phases of the risk assessment, the experts and stakeholders are asked to indicate:
 - Which relevant (quantitative) *data* are already *available* and can be used in the next NRA to map risks reliably.
 - Which *quantitative data* probably *could be made available* to map risks in the next NRA.
 - Which *threats* are not signaled yet, but *may be later important*.
- Experts and stakeholders will constantly be asked to *support their judgments and decisions* and, if not possible, to indicate which information or data are needed to do this in the future.
- Reproducibility will be achieved by *transparent reporting* so the lessons learned can be an added value in the next NRA.
- De *consequences of money laundering and terrorism financing will not be considered in the first NRA*, because there is not sufficient empirical basis to do so.

The number of risks that are analyzed can be increased in the next NRA, in which we will try, for the first time, to also include phenomena that are not signaled yet in the Netherlands, such as manifestations that already occurred abroad but not yet in the Netherlands. Although also the second NRA will be qualitatively based, this NRA can already include some quantitative analyses. This exploratory study already discusses some methods to do so. The data mentioned by the experts and stakeholders in the first NRA can be used for that. Because the money laundering pyramid study will probably provide some insights on the consequences of money laundering, the second NRA might be able to include also the consequences of money laundering, though probably only in rough classifications.

It is important for the growth model of the NRA to detect the lessons learnt in each NRA and to make them explicit. Eventually, the next NRAs should be more data-driven and preferably are less dependent on expert judgments. The dependency on expert judgments can decrease by additionally applying quantitative methods and validating the results of these methods by means of triangulation. However, it has to be stressed that a totally quantitative design for a NRA never will be feasible. NRA's will always require human effort, especially for assessments of phenomena that have not yet been materialized.

Literatuur

- Analistennetwerk Nationale Veiligheid, M. Mennen (red.) (2014). *Nationale Risicobeoordeling 6*. Bilthoven: RIVM.
- Boerman, F., Grapendal, M., Nieuwenhuis, F., & Stoffers, E. (2012). *Nationaal Dreigingsbeeld 2012: Georganiseerde criminaliteit*. Zoetermeer: KLPD-IPOL.
- Knoop, J. van der, & R., Rollingswier (2015). *De bestrijding van witwassen, beschrijving en effectiviteit 2010-2013: Startversie monitor anti-witwasbeleid*. Den Haag: Dutch Group – Decide.
- Duyne, van, P.C. (2003). Money laundering, fears and facts. In P.C. van Duyne, K. von Lampe & J.L. Newell (red.), *Criminal Finances and organizing crime in Europe* (pp. 67-104). Nijmegen: Wolf Legal Publishers.
- FATF (2013a). *Guidance national money laundering and terrorist financing risk assessment*. Parijs: FATF.
- FATF (2013b). *Methodology for assessing technical compliance with the FATF recommendations and the effectiveness of AMF/CFT systems*. Parijs: FATF.
- FATF (2015a). *Emerging terrorist financing risks*. FATF Report. Parijs: Uitgever.
- FATF (2015b). *AML/CFT-related data and statistics*. FATF Guidance. Parijs: FATF/OECD.
- Ferwerda, J. (2013). The effects of money laundering. In B. Unger & D. van der Linde (red.), *Research handbook on money laundering* (pp. 35-46). Cheltenham: Edward Elgar Publishing.
- Ferwerda, J., & Unger, B. (2016). Organised crime infiltration in the Netherlands: Transportation companies hiding transit crimes. In E. Savona, M. Riccardi & G. Berlusconi (red.), *Organised crime in European businesses*. Abingdon: Routledge.
- Ferwerda, J., Deleanu, I.S., & Unger, B. (2016). Corruption in public procurement: Finding the right indicators. *European Journal on Criminal Policy and Research*, 1-23.
- Gjerdrum, Dorothy & Mary Peter (2011). The new international standard on the practice of risk management: A comparison of ISO 31000:2009 and the COSO ERM framework. *Risk Management*, (21), 8-12.
- Goede, M. de (2007). *Literatuurstudie terrorismefinanciering 2004-2006: Rapport aan de Nationaal Coördinator Terrorismebestrijding*. Amsterdam: Universiteit van Amsterdam, Faculteit der Geesteswetenschappen.
- IMF (2013). *The International Monetary Fund Staffs' ML/FT NRA Methodology*. Geraadpleegd op 1 augustus 2016: www.fatf-gafi.org/media/fatf/documents/reports/Risk_Assessment_IMF.pdf.
- Iseron, K., & Moskop, J. (2007). Triage in medicine, part 1: Concept, history, and types. *Annals of Emergency Medicine*, 49(3), 275-281.
- ISO 31000:2009 (2009). *Risk management: Principles and guidelines*. International Organization for Standardization.
- ISO/IEC 31010:2009 (2009). *Risk management: Risk assessment techniques*. International Organization for Standardization.
- Koningsveld, T.J. van (2008). Witwassen: De fasen van het witwasproces getoetst. *Tijdschrift voor Onderneming en Financiering*, 4, 88-104.
- Ministerie van Veiligheid en Justitie (2014a). *Handreiking risicomanagement Veiligheid en Justitie*. Directie Financieel-Economische Zaken. Niet gepubliceerd.
- Molen, I. van der (2015). *Risicomanagement 2.0: Van risico-bewust naar risico-gestuurd in een politiek-bestuurlijke omgeving: Onderzoek naar risicomanage-*

- ment bij het directoraat-generaal Politie, ministerie van Veiligheid en Justitie.*
 Enschede: Kenniscentrum Risicomanagement en Veiligheid, Universiteit Twente.
- Oftedal, E. (2015). *The financing of jihadi terrorist cells in Europe*. S.l.: Norwegian Defence Research Establishment (FFI). FFI-rapport 2014/02234.
- Renn, O., Klinke, A., & Asselt, M. van (2011). Coping with complexity, uncertainty and ambiguity in risk governance: A synthesis. *AMBIO* 40(2), 231-246.
- Soudijn, M., & Akse, Th. (2012). *Witwassen Criminaliteitsbeeldanalyse 2012*. Driebergen: KLPD.
- Takáts, E. (2007). A theory of crying wolf: The economics of money laundering enforcement. S.l.: IMF. IMF Working paper 07/81.
- Unger, B. (2006). De omvang en het effect van witwassen. *Justitiële verkenningen*, 32(2), 21-33.
- Unger, B. (2013). Money laundering regulation: From Al Capone to Al Qaeda. In B. Unger & D. van der Linde (red.), *Research handbook on money laundering* (pp. 19-32). Cheltenham, Engeland: Edward Elgar.
- Unger, B., & Ferwerda, J. (2011). *Money laundering in the real estate sector: Suspicious properties*. Cheltenham, Engeland: Edward Elgar.
- Unger, B., & Walker, J. (2009). Measuring global money laundering: The walker gravity model. *Review of Law and Economics*, 5(2), 821-853.
- Unger, B., Rawlings, G., Busuioc, M., Ferwerda, J., Siegel, M., Kruijf, W. de, & Wokke, K. (2006). *The amounts and the effects of money laundering*. Den Haag: Ministerie van Financiën.
- Vlek, C. (2013) How solid is the Dutch (and the British) National Risk Assessment? Overview and decision-theoretic evaluation. *Risk Analysis*, 33(6), 948-971.
- World Bank (2013). *The World Bank Risk Assessment Methodology*. Geraadpleegd op 1 augustus 2016: www.fatf-gafi.org/media/fatf/documents/reports/risk_assessment_world_bank.pdf

NRA's

- Department of Finance Canada (2015). *Assessment of inherent risks of money laundering and terrorist financing in Canada*.
- Department of the Treasury (2015). *National Money Laundering Risk Assessment*.
- Financial Security Committee (2014). *Analysis of Italy's National Money Laundering and Terrorist Financing Risks – Methodology*.
- HM Treasury and Home Office (2015). *UK national risk assessment of money laundering and terrorist financing*.
- Swedish Companies Registration Office, The Swedish National Council for Crime Prevention, The Swedish Economic Crime Authority, The Swedish Estate Agents Inspectorate, Finansinspektionen (the Swedish financial supervisory authority), The Swedish Enforcement Authority, The Swedish Gambling Authority, Stockholm County Administrative Board, Västra Götaland County Administrative Board, Skåne County Administrative Board, The Swedish Supervisory Board of Public Accountants, The Swedish National Police Board, The Swedish National Tax Board, The Swedish Bar Association, The Swedish Security Service, Swedish Customs, and The Swedish Prosecution Authority (2014). *Terrorist Financing. A National Risk Assessment*. 28 March 2014. Joint report.
- Swedish Companies Registration Office, The Swedish National Council for Crime Prevention, The Swedish Economic Crime Authority, The Swedish Estate Agents Inspectorate, Finansinspektionen (the Swedish financial supervisory authority), The Swedish Enforcement Authority, The Swedish Gambling Authority, Stockholm County Administrative Board, Västra Götaland County Administrative Board,

Skåne County Administrative Board, The Swedish Supervisory Board of Public Accountants, The Swedish National Police Board, The Swedish National Tax Board, The Swedish Bar Association, The Swedish Security Service, Swedish Customs, and The Swedish Prosecution Authority (2013). *Anti-Money Laundering. A National Risk Assessment*. Joint report.