

INTRODUCTION TO THE NATIONAL RISK ASSESSMENT TOOL

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INTRODUCTION

The World Bank Group has developed an analytical risk assessment tool to guide countries in conducting their money laundering / terrorist financing (ML/TF) risk assessment at the national level. The development of the World Bank Group's National Risk Assessment Tool ("tool") was commenced by the Financial Markets Integrity team in 2007 and incorporated the intellectual contributions of a wide range of experts, as well as the World Bank's experience in assisting many countries in performing their national risk assessments.

The tool comprises several Excel-based and interrelated modules that enable countries to assess their ML/TF threats and vulnerabilities. "Threats" here refer to the scale and characteristics of the proceeds of criminal activities or financing of terrorism in the jurisdiction. "Vulnerabilities" refers to weaknesses or gaps in a jurisdiction's defenses against money laundering and terrorist financing. Threats or vulnerabilities may exist at the national or sector level, and all together determine the ML/TF risk level in a jurisdiction.

Objectives of the Tool

The objectives of the tool are the following:

- To guide jurisdictions in assessing their ML/TF risks, with a view to helping them use the information gained to design a more effective, risk-based anti-money laundering and combating the financing of terrorism (AML/CFT) regime.
- To contribute to capacity building in the country, not only for assessing the ML/TF risks but also for improving the data and information collection framework and practices.
- To raise awareness, and trigger interaction and cooperation among the stakeholders from governments and the private sector.

Although the tool takes these factors into account, it is not aimed for:

- A quantitative estimate of the size of the illicit economy or financial flows in the country.
- Assessing the risks of predicate offenses (drug trafficking risk, fraud risk, corruption risk, etc.)
- Making cross-country comparisons of ML/TF risks.

The General Structure of the Tool

The tool consists of nine modules that make it possible to assess money laundering and terrorist financing risks. The tool is centered around the seven modules that focus on the money laundering risk assessment. In addition, the tool includes a module to assess the risk of terrorism financing and another module to assess the risks of financial inclusion products.

National Vulnerability Module (Module 2) and the modules designed for the vulnerability assessment of various sectors (Modules 3 to 7) have a unique and relatively complex logic that utilizes weighted averages, built-in preconditions, and formulas. However, the modules for Threat Assessment, Terrorism Financing Assessment, and the Assessment of Financial Inclusion Products and Services rely on relatively simple matrix based structures.

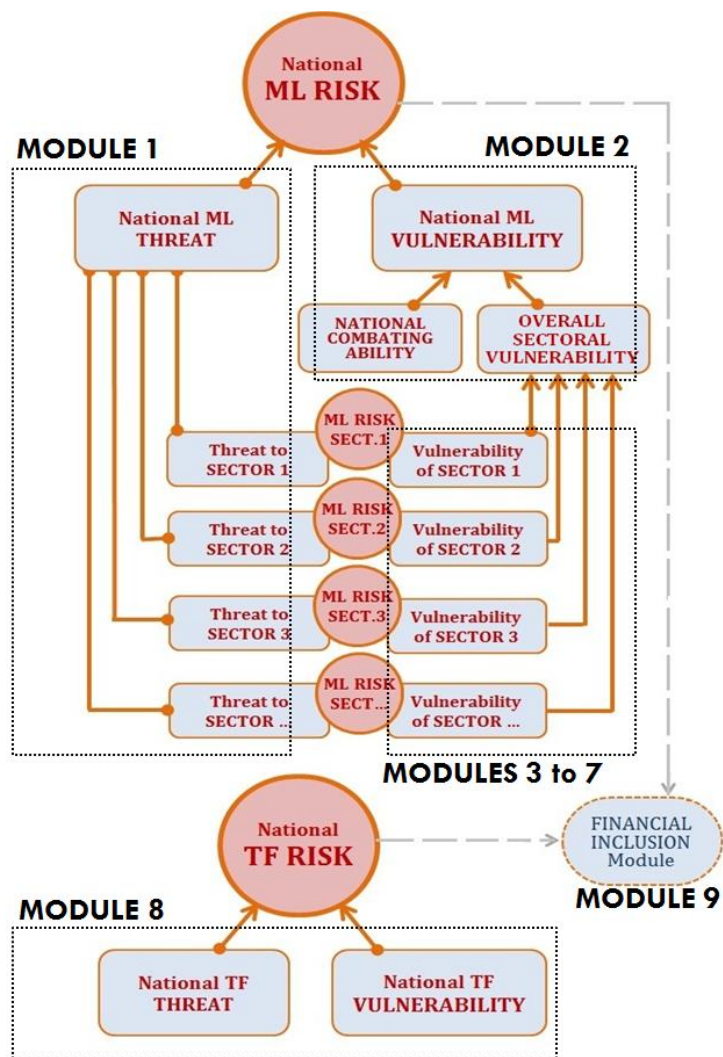
During the National Risk Assessment (NRA) process, the country establishes a national Working Group (WG) to undertake the risk assessment. This Working Group divides into several teams, each of which focuses on one of the modules. Table 1 presents the three main parts of the tool and lists the modules in each part. Figure 1 displays the structure of the tool.

Table 1. The National Risk Assessment Tool's Three Main Parts

Money Laundering Risk Assessment	Terrorist Financing Risk Assessment	Financial Inclusion Product Risk Assessment
<ul style="list-style-type: none"> •Module 1-Threat Assessment •Module 2-National Vulnerability •Module 3-Banking Sector Vulnerability •Module 4-Securities Sector Vulnerability •Module 5-Insurance Sector Vulnerability •Module 6-Other Financial Institutions' Vulnerability •Module 7-DNFBP Sectors Vulnerability 	<ul style="list-style-type: none"> •Module 8-National Terrorism Financing Threat and Vulnerability 	<ul style="list-style-type: none"> • Module 9-Financial Inclusion Product Risk Assessment

Note: DNFBP = Designated Non-Financial Businesses and Professions.

Figure 1. General Structure of the National Risk Assessment Tool



PART 1. MONEY LAUNDERING RISK ASSESSMENT (Modules 1 to 7)

The seven modules that help assessing the national money laundering risk are closely interrelated. Essentially, the overall national money laundering risk is determined by assessing: (1) the national threat of money laundering; and (2) the national vulnerability to money laundering.

Money Laundering Threat Assessment Module

The Threat Assessment Module helps determine the national money laundering “threat level”, which ranges from “low” to “high” on a five-point scale. In the Threat Assessment Module, the Working Group identifies the main predicate offences, origins and flows of criminal proceeds, and money laundering techniques and trends in the jurisdiction. The module also facilitates systematic collection of data on money laundering threats and analysis of cross-border money laundering threats. The higher the threat of money laundering, the higher the national money laundering risk is.

Money Laundering Vulnerability Assessment Modules

On the other side, the National Vulnerability assessment is based on the analysis of the national combating ability as well as the vulnerability of the various sectors to money laundering. Combining the vulnerabilities of the relevant sectors and taking the deficiencies in national combating ability into account, the National Vulnerability Module yields a “vulnerability score” (which ranges from 0.0 to 1.0, and corresponds to one of five levels ranging from “low” to “high”).

The overall money laundering risk level is set at the level where the results of the threat assessment and the vulnerability assessment intersect (see figure 2). For example, if the threat has been assessed as “medium” and the vulnerability has been assessed as “medium-high,” the money laundering risk will be “medium high.” This means that although the threat level in the assessed jurisdiction is at a medium level, the overall money laundering risk is medium-high, given the higher vulnerability level (the weaknesses in the country’s defense mechanisms). In figure 2, overall risk levels have been color-coded, with low levels green, medium levels yellow, and high levels red.

Figure 2. Overall Money Laundering Risk in a Jurisdiction

OVERALL MONEY LAUNDERING RISK IN A JURISDICTION						
OVERALL THREAT	H	M	M	MH	H	H
	MH	M	M	MH	MH	H
	M	ML	M	M	MH	MH
	ML	ML	ML	M	M	M
	L	L	ML	ML	M	M
		L	ML	M	MH	H
OVERALL VULNERABILITY						

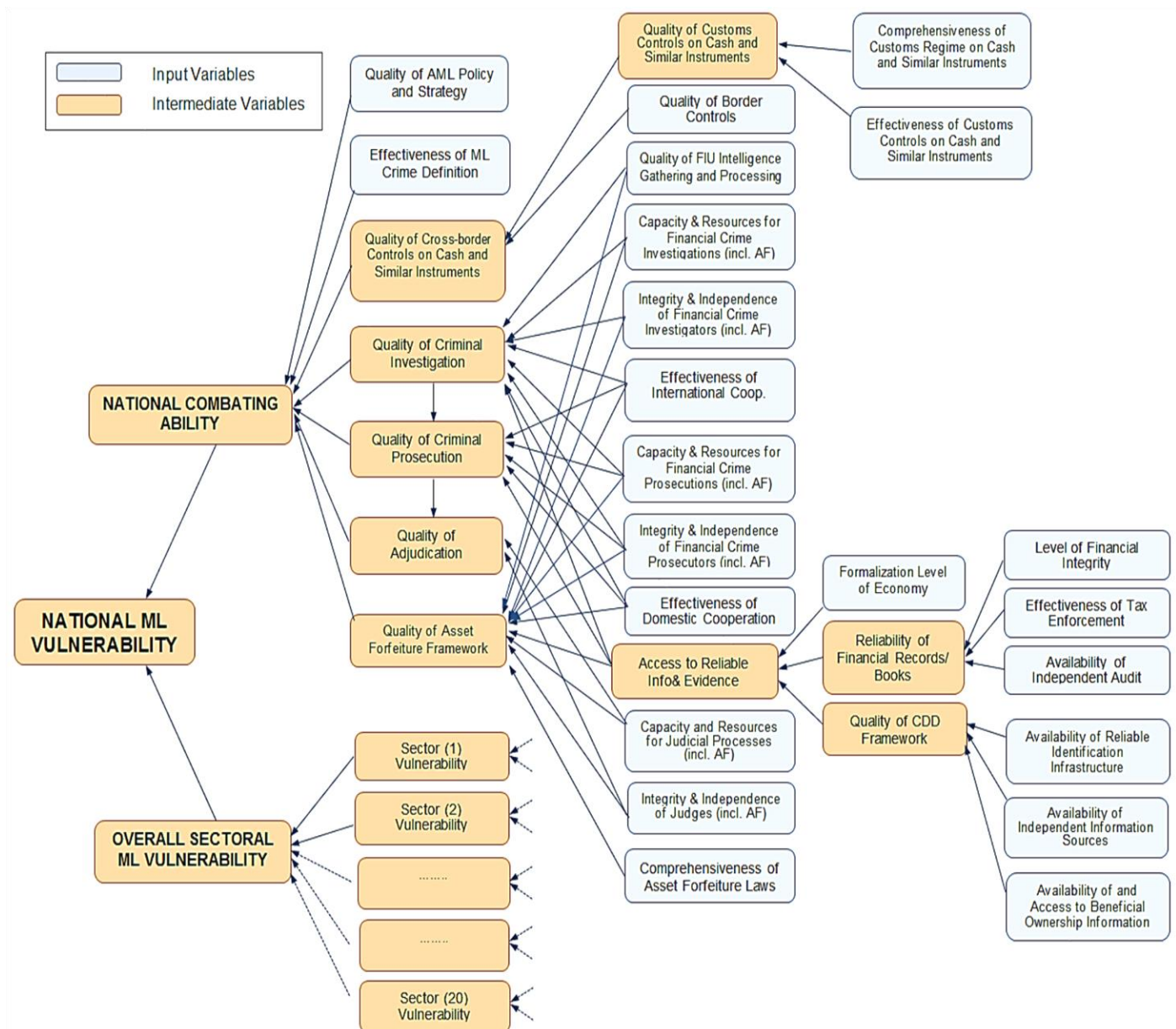
Note: L = low; ML = medium-low; MH = medium-high; H = high.

Performing the Assessment: A Closer Look at the National Vulnerability Module

To further demonstrate how the National Risk Assessment Tool works, the design of one of the modules—the National Vulnerability Module—is explained in more detail next.

National Vulnerability Module provides a methodological process, based on an understanding of the causal relations among vulnerability factors (variables) relating to the regulatory, institutional, and economic environment in the jurisdiction. Following figure shows the structure of the National Vulnerability Module.

Figure 3. The Structure of the National Vulnerability Module

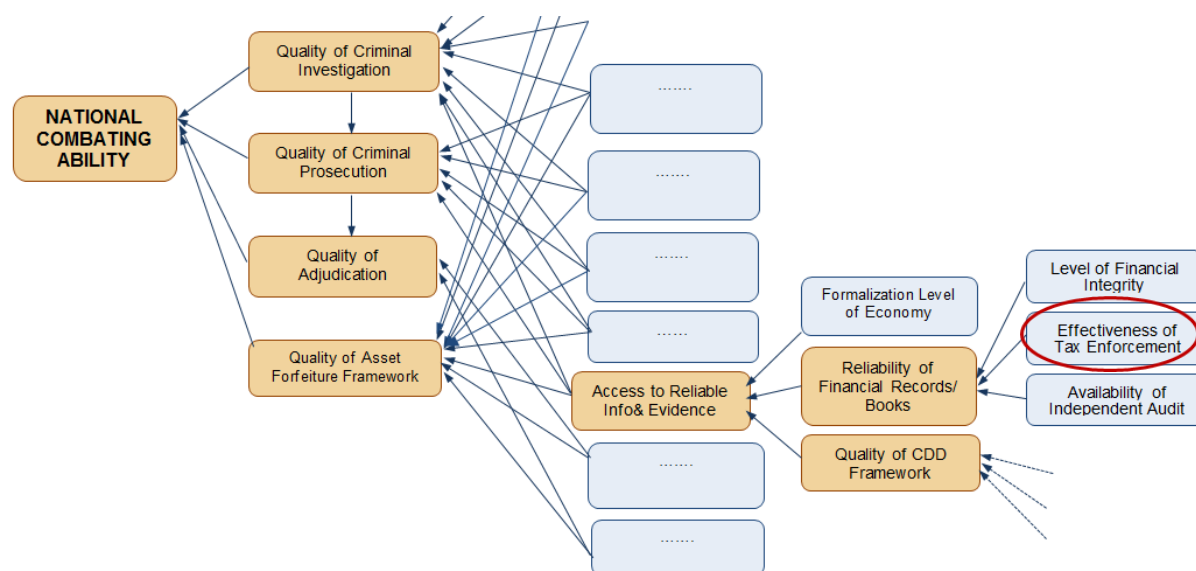


Note: AF = asset forfeiture; CDD = customer due diligence; FIU = financial intelligence unit; ML = money laundering.

The overall National Vulnerability Module is composed of two major parts: the overall sectoral vulnerability, which is determined by the outcomes of the vulnerability assessments of the various sectors, and the national combating ability. The national combating ability is a comprehensive assessment based on 22 input variables assessed by Working Group. These variables attempt to capture the high level factors in the country such as the quality of the judicial processes, the effectiveness of the law enforcement, domestic and international cooperation. The ratings given to these input variables by the assessors, as well as the built-in assumptions and properties of the tool such as weights and pre-conditions all together generate an overall score for national combating ability. The tool also contains some intermediate variables, which are assessed by the tool automatically based on the entries for input variables. The relationship between the variables can be seen in figure 3, which captures the structure of the National Vulnerability Module. Colors are used to distinguish the input variables from intermediate variables. The blue boxes are the input variables, and the pink boxes are intermediate variables.

Figure 4 illustrates the structure through a partial snapshot of the lower section of the network diagram for the National Vulnerability Module. As an example of an input variable, consider *Effectiveness of Tax Enforcement* (in the middle of the final column in the figure). If a country's tax enforcement regime is effective, this will naturally have a positive effect on the country's ability to combat money laundering. But this effect is indirect, as can be seen by tracing the various connections through the chart. Effective and efficient tax enforcement improves the reliability of financial records and books, which in turn helps to trace the flow of proceeds of crime in money laundering cases. The availability of reliable financial and identification data will enable authorized (AML) agencies to have access to reliable information and evidence and thus achieve greater success in their criminal investigations. In this way, the effectiveness of tax enforcement can have a tangible effect on a country's ability to combat money laundering.

Figure 4. Part of the Network Structure



Effectiveness of Tax Enforcement is just one of three input variables combining to affect the reliability of the financial records and books in a country. Others are *Level of Financial Integrity* and *Availability of Independent Auditing*. By assessing all three of these input variables and combining the results in an intuitive and realistic way, a good impression of the *Reliability of Financial Records/Books* in the country

can be determined. It is not necessary to perform a separate assessment of the intermediate variable *Reliability of Financial Records and Books*. This illustrates clearly the difference between input variables, which require input from the Working Group, and intermediate variables, which do not require such input.

As an example, the following four steps explain the use of the National Vulnerability module to give a better idea of the national risk assessment tool's Part 1 (ML risk assessment)

Step 1. *Assessing the input variables in the National Vulnerability Module*

The Working Group assesses the input variables using the guidance manual that is part of the NRA Tool package. A separate guidance manual document has been prepared for each module. The guidance manual explains the objective of assessing the variable, provides criteria that can be used to perform the assessment, and suggests information sources that may help to underpin the assessment rating. After considering the assessment criteria, the Working Group needs to assign a score that ranges from 0.0 to 1.0. For example, a rating of 0.3 corresponds to a low level. Figure 5 presents an excerpt from the guidance manual for Module 2-National Vulnerability to assess the effectiveness of domestic cooperation.

Figure 5. Assessment Criteria for Effectiveness of Domestic Cooperation

(from Guidance Manual for Module 2 – National Vulnerability)

Variable description										
This variable assesses whether, when required, the country's relevant AML agencies cooperate effectively and coordinate domestically with each other to combat money laundering.										
Assessment criteria										
Relevant AML agencies involved in combating money laundering, are able to cooperate and coordinate effectively, when required, if:										
<ul style="list-style-type: none"> The FIU, intelligence services, investigators of financial crime, asset forfeiture investigators, regulators, customs and tax authorities and, when appropriate, the prosecutors of financial crime, meet regularly to share information and discuss joint initiatives, especially when they have joint committees and structures that meet regularly to exchange intelligence and information. There is a legal framework that allows for joint investigations by relevant investigative units and such investigations are undertaken, where required. There is effective cooperation between relevant AML agencies and reporting entities. There is a fully functional interagency cooperation committee or similar high-level committee in the AML area, such as the National AML/CFT Coordination Committee. 										
Possible sources of information and data										
<ul style="list-style-type: none"> Experience of relevant AML and other domestic agencies. Information on any operational coordination and cooperation issues among law enforcement, The FIU, prosecutors, judicial authorities and supervisory agencies. Information on cooperation between relevant AML agencies and reporting institutions. Information on an interagency cooperation committee or similar high-level committee in the AML area, such as the National AML/CFT Coordination Committee. Which agencies are represented on this committee? How often does this committee meet? How effectively does it work? What have been the outcomes of the committee's activities so far? How many joint investigations have been conducted so far? Please give details. 										
Assessment										
Based on the assessment criteria and the information/data collected, decide the appropriate rating for this variable.										
Excellent	Close to Excellent	Very High	High	Medium High	Medium	Medium Low	Low	Very Low	Close to Nothing	Does not Exist
1.0 ■	0.9 ■	0.8 ■	0.7 ■	0.6 ■	0.5 ■	0.4 ■	0.3 ■	0.2 ■	0.1 ■	0.0 ■

It is important that the NRA Tool is used as part of a process that includes a broad range of stakeholders. A key element in the assessment is the discussion that takes place during the assessment of the variable. Once a rating of a variable has been decided on, the Working Group is advised to record the discussion, grounds, and documentary sources for the assigned rating. This is crucial, as the process needs to capture the available data and statistics supporting the assessment. The record made at the time will contribute to the assessment report that countries are advised to draft as a result of the NRA tool process. A Worksheet for Records has been included in the Guidance Manual to help Working Group structure their documentation.

Step 2. *Making entries into the National Vulnerability Excel File*

Once the assessment for each of the 22 input variables has been established and the ratings for all the variables have been determined, the assessment results can be inserted into the Excel file of the NRA Tool. Each module has its own Excel file.

Once a rating has been inserted, the entry will be automatically color-coded to show how the rating will affect the rating for the national money laundering vulnerability. High ratings that relate to the combating ability have a positive implication on the national vulnerability and will appear in green.

Figure 6. Entering Ratings for the Input Variables in the Excel file

1 Please complete the entries on this page as well as Entry Page (Sectors), before saving the scenario/case. Buttons to save the cases/s

A. INPUT VARIABLES/NATIONAL ML COMBATING ABILITY FACTORS		ASSESSMENT RATING
4 Quality of AML Policy and Strategy	(1.0) Excellent	1
5 Effectiveness of ML Crime Definition	(0.9) Close to Excellent	0.9
6 Comprehensiveness of Asset Forfeiture Laws	(0.8) Very High	0.8
7 Quality of FIU Intelligence Gathering and Processing	(0.7) High	0.7
8 Capacity and Resources for Financial Crime Investigations (incl. AF)	(1.0) Excellent (0.9) Close to Excellent (0.8) Very High (0.7) High (0.6) Medium High (0.5) Medium (0.4) Medium Low (0.3) Low (0.2) Very Low (0.1) Close to Nothing (0.0) Does Not Exist (-0.3) Low	0.6
9 Integrity and Independence of Financial Crime Investigators (incl. AF)		0.5
10 Capacity and Resources for Financial Crime Prosecutions (incl. AF)		0.4
11 Integrity and Independence of Financial Crime Prosecutors (incl. AF)		0.3
12 Capacity and Resources for Judicial Processes (incl. AF)	(0.2) Very Low	0.2
13 Integrity and Independence of Judges (incl. AF)	(0.1) Close to Nothing	0.1
14 Quality of Border Controls	(0.0) Does Not Exist	0

ENTRY PAGE ENTRY PAGE (Sectors) SCENARIO ANALYSIS SCENARIO ANALYSIS (Sectors) OUTPUT CHARTS VULN

The vulnerability ratings for the different sectors (Banking, Securities, Insurance, Remittance, Lawyers etc.) also need to be inserted into the National Vulnerability Excel file (see figure 7). For these ratings, it should be noted that a higher vulnerability rating of a sector negatively impacts the overall national vulnerability outcome. The Working Group assigns a weight to the sector, depending on its importance in the country's economy, which also affects the vulnerability scores of the sectors.

Figure 7. The Vulnerability Scores of the Different Sectors Affect the Rating of the National Vulnerability
(from the National Vulnerability Entry Page [Sectors] tab)

List the sectors assessed in column A. Final Vulnerability score for each of the sectors assessed to be received from the respective sector's Working Group.
Assign a weight between 1 and 10 for each sector. More important the sector, higher the weight.
Please press the scenario buttons below to save the cases.

SECTORS	FINAL VULNERABILITY SCORE	WEIGHTS
Banking Sector	0.5	10
Securities Sector	0.8	2
Life Insurance	0.4	1
Money Remitters	0.7	8
Exchange Offices	0.6	7
Casinos	0.9	1
Real Estate Agents	0.8	6
Lawyers	0.6	1

Working Group determines weight of each sector, based on its share or importance in country's economy. Scores and weights of the sectors impact the National Vulnerability score.

The scores of the vulnerability of the different sectors are the outputs from modules 3, 4, 5, 6 and 7.

Open Door Approach (OD) vs. Weighted Approach (W) *

* Please type W into the cell B26 if the Working Group decides to use the Weighted Approach.

Figure 7 shows the ratings inserted for the first year or scenario in the Excel file for the National Vulnerability Module. The NRA Tool is designed to accommodate entries for up to 10 years or 10 different scenarios, which allow for entries from different assessment years as well as for scenario analysis.

Step 3. Determining the outcome of the National Vulnerability Assessment

Once the ratings for all the input variables have been entered, the tool calculates the ratings for the intermediate variables (such as *Quality of AML Policy and Strategy*, *Quality of Criminal Investigation*, or *Quality of Criminal Prosecution*), based on the assessment ratings of the input variables, network structure, weighted averages, and defined conditions.

Then a similar calculation takes place, generating a score for National Combating Ability. This is then combined with the outcomes of the vulnerability assessments of various sector modules to arrive at the final National Vulnerability level, as shown in figure 8.

The outcomes of the assessment are presented in two output pages. One output page presents bar charts indicating the levels of national vulnerability and other main assessment outputs, and allows for a comparison of the assessment results for 10 years (or 10 different scenarios) (see figure 8). The other output page contains a Vulnerability Map, which provides a quick visual summary of the assessment results (see figure 9). This color-coded map highlights the level of vulnerabilities resulting from the various components of the anti-money laundering environment and illustrates the linkages between the various nodes.

Figure 8. Example of the Assessment Outputs for National Vulnerability

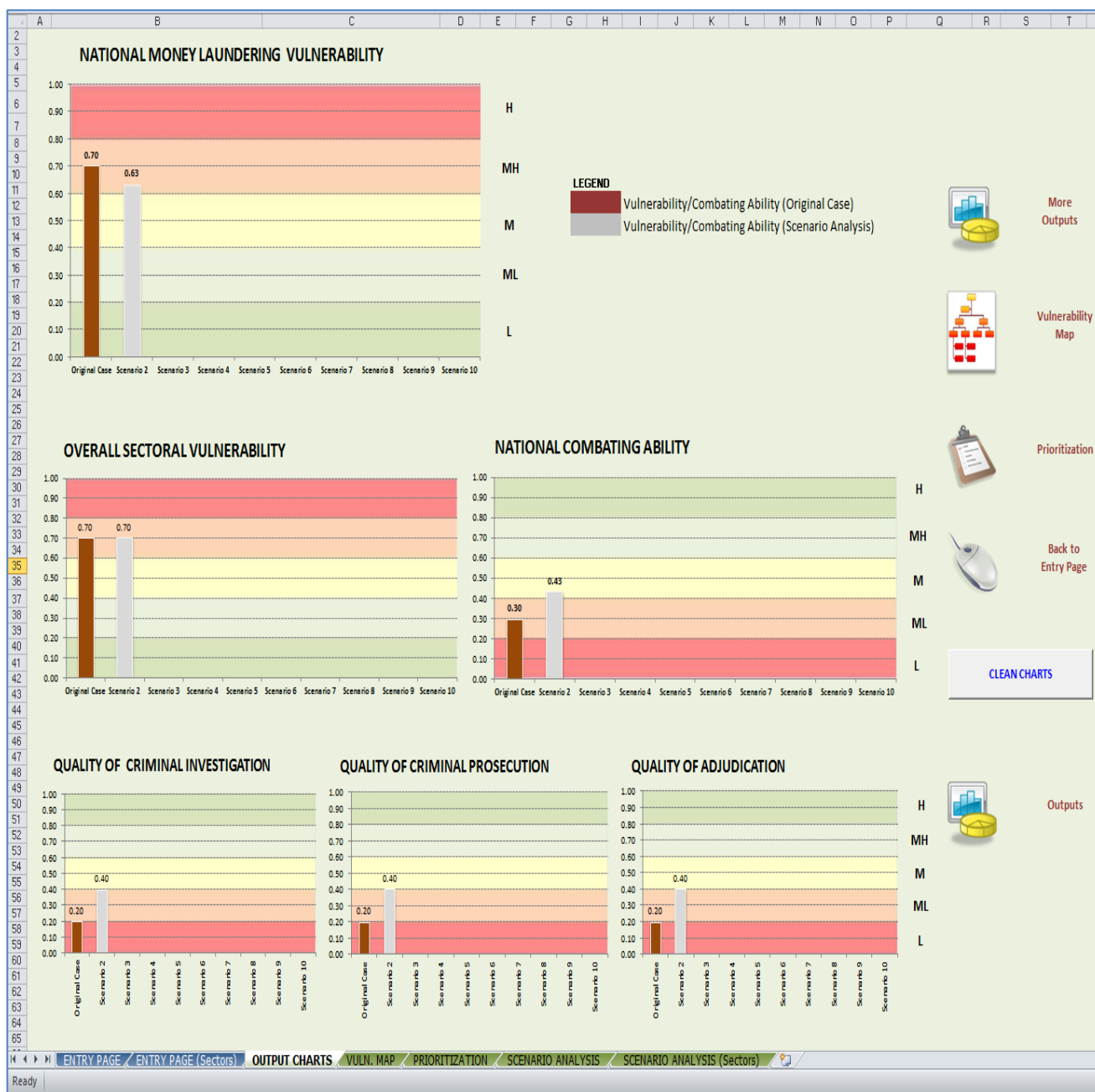
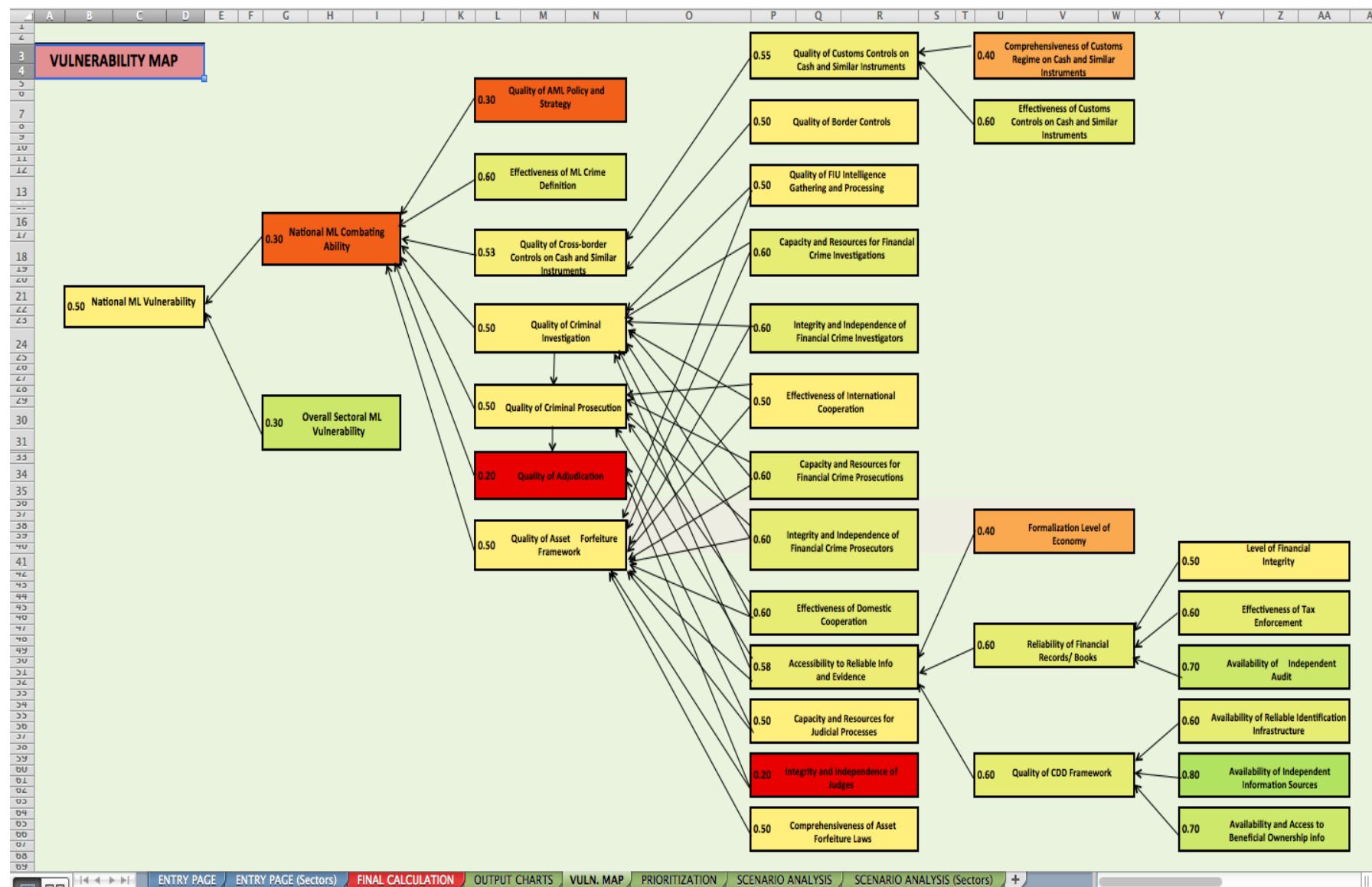


Figure 9. Example of the National Vulnerability Map



Step 4. Prioritizing/sequencing potential actions and designing the action plan

NRA tool generates a priority ranking to help guide relevant authorities to prioritize actions to strengthen national ML combating ability factors and AML controls in the country. This helps the relevant authorities in deciding on what needs to be done first to improve the national combating ability. Figure 10 shows such priority rankings. The lower the ranking a variable receives, the higher the priority should be to improve in that area. In other words, if a variable is given a ranking of 1 (which also has the darkest red color), the associated item needs to be addressed first to improve the country's vulnerability to money laundering. The ranking is calculated by the formulas in the Excel file, which in turn are based on the potential impact of each item on national vulnerability (taking into account the current state of the item). As an example, in the screenshot from the tool shown in figure 10, the variable *Quality of AML Policy and Strategy* has the highest priority for improving national combating ability.

Figure 10: Example of Priority Rankings for the National Vulnerability Module

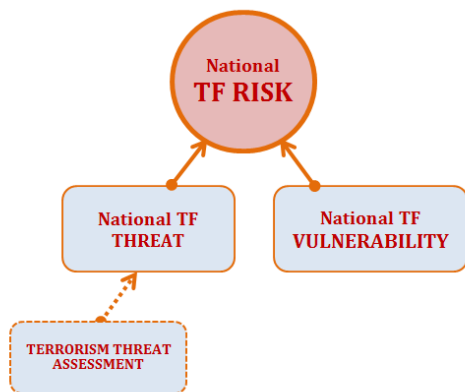
	A	D
	PRIORITY RANKING FOR INPUT VARIABLES/NATIONAL ML COMBATING ABILITY FACTORS - LAST CASE/SCENARIO*	PRIORITY RANKING**
81		
82	Quality of AML Policy and Strategy	1
83	Effectiveness of ML Crime Definition	2
84	Comprehensiveness of Asset Forfeiture Laws	10
85	Quality of FIU Intelligence Gathering and Processing	11
86	Capacity and Resources for Financial Crime Investigations (incl. AF)	3
87	Integrity and Independence of Financial Crime Investigators (incl. AF)	5
88	Capacity and Resources for Financial Crime Prosecutions (incl. AF)	6
89	Integrity and Independence of Financial Crime Prosecutors (incl. AF)	7
90	Capacity and Resources for Judicial Processes (incl. AF)	8
91	Integrity and Independence of Judges (incl. AF)	4
92	Quality of Border Controls	18
93	Comprehensiveness of Customs Regime on Cash and Similar Instruments	17
94	Effectiveness of Customs Controls on Cash and Similar Instruments	15
95	Effectiveness of Domestic Cooperation	14
96	Effectiveness of International Cooperation	12
97	Formalization Level of Economy	9
98	Level of Financial Integrity	19
99	Effectiveness of Tax Enforcement	16
00	Availability of Independent Audit	
01	Availability of Reliable Identification Infrastructure	13
02	Availability of Independent Information Sources	
03	Availability and Access to Beneficial Ownership Information	
04		
05		
ENTRY PAGE		ENTRY PAGE (Sectors)
OUTPUT CHARTS		VULN. MAP
PRIORITIZATION		SCENARIO ANALYSIS
		SCENARIO

Priority rankings do not necessarily correspond to the assessment ratings assigned to variables during the assessment process. A variable that receives a more favorable rating than other input variables may still end up having a higher priority and therefore require more attention. This is because the rating assigned by the Working Group, though essential, is not the only determinant of the national vulnerability level and the priority ranking. Other factors, such as the network structure (shown in figure 3), weights, and pre-conditions have been programmed into the Tool and will influence the ultimate vulnerability level and priority rankings. As mentioned, these factors can be viewed by the Working Group. Any changes require administrative access and can be made by a World Bank administrator, if a country has good reasons for requesting a different weight or pre-condition.

PART 2. TERRORISM FINANCING RISK ASSESSMENT MODULE (Module 8)

The Terrorism Financing Risk Assessment Module largely follows the same logic as the Money Laundering Assessment Modules in terms of performing an intuitive and methodical analysis. The structure of the module is shown in figure 11. The module consists of three areas of analysis, as follows.

Figure 11. Structure of the Terrorism Financing (TF) Risk Assessment Module



1. First, the level of the terrorist threat for the jurisdiction is assessed through the review of quantitative and qualitative information on terrorist acts in the jurisdiction, such as enforcement data, intelligence sources, and terrorism research. The rationale for this assessment is that the level of the terrorist threat impacts the level of terrorism financing. It should be emphasized that this is not the focus of the module.
2. Second, the direction of movement of terrorist financing funds, as well as their sources and channels, are analyzed.
 - a. *Directions.* By determining the direction of the funds, the Working Group assesses whether funds are generated in the home jurisdiction but used for terrorist operations elsewhere, or the other way around. Another possibility is that funds simply pass through the jurisdiction.
 - b. *Sources.* The assessment then turns to the sources of the terrorist funds. Financing may come from legitimate sources (such as nonprofit organizations, or import/export businesses) or from criminal activities (such as natural resource theft or drug trafficking).
 - c. *Channels.* Subsequently, the Working Group should examine which channels are being used to move terrorist funds. In addition to using enforcement and intelligence data, an estimate must be made of undetected terrorist funds, based on qualitative indicators.
3. The last part of the module supports the assessment of the strength of the jurisdiction's defense mechanisms: the controls that have been adopted to detect and counter terrorist financing.

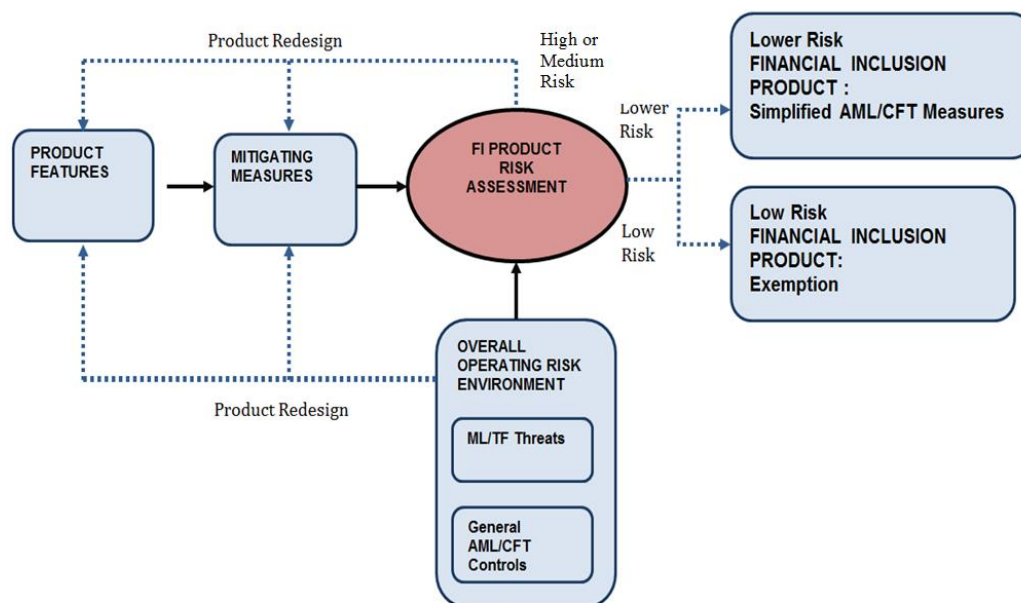
Based on the analysis in the module, the Working Group must then make an overall assessment of the risk of terrorist financing in the jurisdiction.

PART 3. FINANCIAL INCLUSION PRODUCT RISK ASSESSMENT MODULE (Module 9)

The Financial Inclusion Product Risk Assessment Module aims to assist national authorities by providing a logical, user-friendly framework for evaluating the risk of money laundering and terrorist financing in their jurisdiction that arise from financial inclusion products (current, new, or emerging). In this way, countries can effectively facilitate financial inclusion while mitigating potential risks of money laundering/terrorist financing. The module can also be used by regulators to design financial products or features with low ML/TF risk, or to assess whether an existing financial product can be classified as low-risk.

The general structure of the module is shown in figure 12.

Figure 12. Structure of the Financial Inclusion Product Risk Assessment



In the first section of the Tool, regulators answer key questions about the specific product features of the financial inclusion product. In the second section, regulators answer key questions about the overall money laundering and terrorist financing risk environment in the country, taking into account the potential threats of ML/TF in the country and the associated control measures in place for financial inclusion products. Given the inputs received by authorities from these two sections, the third section provides authorities with the initial ML/TF risk level regarding each specific product feature. Following this risk assessment (and in the same section), the tool offers guidance questions to authorities on how they can mitigate any potential high risks.

The process of assessing the risk posed by financial inclusion products suggested by the tool is not a static one. Rather, it is a dynamic process by which product features and mitigation measures can be fine-tuned, depending on the outcome of the risk assessment.

The structure of the Financial Inclusion Product Risk Assessment Module is different from the rest of the National Risk Assessment Tool modules. The assessment in this module utilizes the findings and assessments of other modules, rather than feeding into the National Risk Assessment. Financial inclusion products also need to be assessed separately in the relevant sectoral modules in order to capture their impact on national vulnerability.