Cut regulatory risks and costs by unleashing hidden metrics

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The global anti-money laundering system "has serious structural flaws," according to *The Economist*,[1] citing my research describing conceivably the world's least effective anti-crime policy experiment.[2]

Regrettably, the *Economist* article rehashed common "solution" tropes. Demanding more data, sharing it more widely, pressing politicians to extend anti-money laundering laws, and blaming banks for not properly implementing money laundering controls are convenient fictions obscuring serious problems with the system itself. Moreover, David Lewis, executive director of the Financial Action Task Force—the global anti-money laundering standard setter—recently declared that international standards are "good enough" (thereby excluded from a so-called "major" review), despite decades of contrary evidence in scientific journals. Lewis insisted that everyone just needs to continue implementing "the standards we already have."[3]

Notwithstanding serious problems repeatedly overlooked, leadership for outcomes—in individual banks, other regulated firms, and countries— potentially offers a different future: slashing regulatory risk, compliance costs, and crime, even as the global anti-money laundering juggernaut races toward the impossibility of zero impact and infinite costs seemingly built into its design.[4]

So, while compliance teams assiduously gather all the data demanded by regulators, what they are *not* looking for – because the system's built-in metrics overlook it – can amount to potentially significant, persistent, unknown regulatory risk, but this negative can be turned into a positive. In other words, if what *isn't* being measured hides unknown risk, it can also help unlock new ways to demonstrate value, improve outcomes, and cut risk and costs.

Tip of the iceberg

By some measures,[5] criminals generate $3 trillion annually and anti-money laundering laws help authorities recover about $1.5 billion. The same laws penalize banks more than $8 billion a year, plus at least another $300 billion in annual compliance costs.

Despite huge costs and a global regime marked by cult-like zeal, the impact on criminal finances—termed the "success rate" of money laundering controls by the United Nations[6] —was 0.2% in 2009 and now sits at 0.05%. In other words, a vast industrial compliance complex lets criminal enterprises keep up to 99.95% of the proceeds of serious crime, including sex, drug, human, and arms trafficking; fraud; corruption; and tax evasion on a global scale.

Notwithstanding epic virtue-signaling rhetoric proclaiming anti-crime purpose, resolve, and impact, when amounts taken from banks and other businesses far exceed the financial impact on criminal enterprise, it is reasonable to ask if the anti-money laundering movement has given up trying to disrupt crime in any meaningful way. Banks are an easier target than criminals, apparently.

And ordinary citizens are penalized more than 200 times the impact on criminals. Every cent of compliance cost, penalties, and the costs of thousands of government agencies in 205 countries and jurisdictions are ultimately paid by customers, shareholders, and taxpayers. Ordinary people also bear the brunt of legitimate transactions scrutinized and accounts blocked—and suffer the social and economic harms from crime—while most criminal endeavors avoid any significant impact from laws designed like a stack of colanders to catch water. The United Nations also recently slammed the harms caused by the anti-money laundering system, especially on poor and vulnerable countries and millions of people.[7]

The eccentricities of the anti-money laundering movement also differ from "normal" regulatory compliance regimes, typically keen to monitor rather than obscure outcomes. Bizarrely, the anti-money laundering industry does not robustly or objectively monitor the impact of its activities on money laundering, crime, or terrorism. Other regulatory regimes also typically measure compliance costs as a tiny fraction of benefits, not a staggering 20,000% multiplier.

Rather than help enable better outcomes, compliance systems and metrics locked into fundamental design faults of the global anti-money laundering system perpetuate a high-cost model with almost zero impact on crime.

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