Anti Money Laundering (AML) officers will do what is explicitly told to them by the Federal Financial Institutions Examination Council/Bank Secrecy Act (FFIEC BSA/AML) examination manual. Below is the excerpt from the manual on geographic risk.

**GEOGRAPHIC LOCATIONS**

Identifying geographic locations that may pose a higher risk is essential to a bank’s BSA/AML compliance program. US banks should understand and evaluate the specific risks associated with doing business in, opening accounts for customers from, or facilitating transactions involving certain geographic locations. However, geographic risk alone does not necessarily determine a customer’s or transaction’s risk level, either positively or negatively.

Higher-risk geographic locations can be either international or domestic. International higher-risk geographic locations generally include:

- Countries subject to OFAC sanctions, including state sponsors of terrorism
- Countries identified as supporting international terrorism under section 6(j) of the Export Administration Act of 1979, as determined by the Secretary of State
- Jurisdictions determined to be “of primary money laundering concern” by the Secretary of the Treasury, and jurisdictions subject to special measures imposed by the Secretary of the Treasury, through FinCEN, pursuant to section 311 of the USA PATRIOT Act
- Jurisdictions or countries monitored for deficiencies in their regimes to combat money laundering and terrorist financing by international entities such as the Financial Action Task Force (FATF)
- Major money laundering countries and jurisdictions identified in the US Department of State’s annual International Narcotics Control Strategy Report (INCSR), in particular, countries which are identified as jurisdictions of primary concern
- Offshore Financial Centers (OFC)
- Other countries identified by the bank as higher-risk because of its prior experiences or other factors (e.g., legal considerations, or allegations of official corruption)
- Domestic higher-risk geographic locations may include, but are not limited to, banking offices doing business within, or having customers located within, a US government-designated higher-risk geographic location. Domestic higher-risk geographic locations include:
  1. High Intensity Drug Trafficking Areas (HIDTA)
  2. High Intensity Financial Crime Areas (HIFCA)

**TRANSACTIONAL RISK**

The operating reality is that the largest area of concern pertaining to geographic risk for an AML officer involves transactions. By that I mean the risk associated with where funds originate or are sent to. In almost cases this means wire transfer activity. For example, a wire transfer being sent from a customer’s account to a party in Indonesia is something considered “high risk” to an AML officer.

These country risk ratings or scores are used as an essential part of the bank’s transaction monitoring program. Using scores for each country, a bank’s monitoring system is calibrated to weight transactions involving (to or from) high risk countries to make them stand out from other transactions. This weighting has the effect of flagging or alerting on transactions that are then subject to further review by an investigator. The purpose of this scrutiny is to determine if the activity, in this case a wire to Indonesia is suspicious and thus requires a Suspicious Activity Report (SAR).
UNDER OR OVER-INCLUSIVE
A poorly designed country risk policy can have drastic consequences for an AML monitoring program – either the list is under-inclusive and high risk wire transfers go undetected, or the list is over-inclusive and a bank is burdened with investigating numerous wire transfers that are really not high risk at a great cost in personnel and other wasted resources. AML officers are also concerned with the country of citizenship or residence of its customers. For example, a bank in Chicago opens an account for a new customer who is on a work visa but whose country of permanent residence is Panama. A poorly designed high-risk country policy in this regard impacts the number of customers rated as “high risk” by the bank. Like transaction monitoring, under-inclusiveness means high-risk customers go undetected and over-inclusiveness means too many high-risk customers which places burdens on the staff to manage.

HIGH RISK COUNTRIES GET THE MOST ATTENTION
The heightened risk Country List is what dictates the transactions and customers that end up garnering more attention of the AML group. The process of formulating this list is what Country Risk Ranking can best accomplish and by doing so a burden (and annoyance) is lifted from the AML officer’s shoulders. This is the key value of Country Risk Ranking to an AML officer.

How a bank compiles the High Risk country list is prone to regulatory scrutiny and criticism. The regulators inquire about the methodology of how the High Risk list is compiled and because the compilation of the list is more art than science (when left in the hands of the bank), banks find themselves criticized by examiners. For an AML officer to be able to point to a product like Country Risk Ranking and to say, “that’s our methodology” would hopefully eliminate, or reduce at least, the nit-picking of the examiners. Making Country Risk Ranking the defacto standard of geographic risk rating is vital.

FOUR USES OF COUNTRY RISK RANKING FOR AML
1. Jurisdictional risk ranking
2. Transactional investigation
3. Enhanced due diligence
4. Deeper investigation of transactions

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