

ELUCIDATE FINCRIME INDEX (“EFI”)

WHITE PAPER SUMMARY V2.0





1. Elucidate's outlook

Elucidate is committed to performing comprehensive data analysis for the measurement, assessment, standardisation and reporting of financial crime risk, including money laundering, terrorism financing, sanctions, corruption, tax evasion, employee misconduct, and fraud. The genesis of Elucidate lies in a series of systemic misalignments: between respondents and correspondents, between supervisors and regulated entities, between trading partners and counterparties. This misalignment manifests itself in numerous operational contradictions as well as the ongoing and costly regulatory exposure experienced by many financial institutions. Critically, this focus on regulatory exposure often overshadows the commercial, moral and social imperatives behind the need to ensure that all parties are protected from financial crime.

We aim to bring about a paradigm shift in the way the market views financial crime risk management, and in doing so to bring greater clarity to financial crime risk. Our position is that compliance is achieved by focusing on risk and taking commensurate mitigating actions. Compliance is, therefore, a factor which exists to measure the results of risk management against legal and regulatory expectations, rather than an independent objective.

2. The Elucidate FinCrime Index

The introduction of the risk-based approach ("RBA") as a conceptual change has yet to be fully integrated into and optimised within the financial sector for the assessment and mitigation of financial crime risk.

The EFI platform aims to provide consistency within the risk assessment process, while providing tailored inputs for risk mitigation. The goal and intent is to use proven best practices in risk management to enable the industry through a common basis for outcomes-focused and fact-based interactions on risk profiles and mitigation. Management of risk should be data-driven. It is for this reason that we have built our model on the basis of an extensive dataset that substantially exceeds existing compliance mechanisms, assessing transactions, customers, and control process outcomes. The index is enabled by supervised machine learning to ensure that results are further enhanced as increased data becomes available.

Finally, the EFI uses institutions' data to assess the effectiveness of the financial crime risk management controls and their proportionality to inherent risks identified. The combination of the Wolfsberg Group Correspondent Banking Due Diligence Questionnaire ("DDQ") responses and the [EFI Data Protocols](#) enables the identification of risks that may have been otherwise overlooked by manual or basic due diligence practices and procedures.

3. The EFI Risk Model

The EFI utilises a structured framework built upon the DDQ and enhanced by more than 1200 specific tests, referred to as eventualities, aimed at further assessing financial crime risk based on a combination of public data, institutional data and sub-models. These eventualities have multiple purposes, such as:

- The testing of control effectiveness (e.g. Do >98% of outgoing payments include account name, address and number?)



- The assessment of customer or product risk (e.g. Does the private banking portfolio consist of >25% of total clients, with >25% offshore?)
- The assessment of conduct and culture risk (e.g. Do >2% of employees have an outside business interest?)

These eventualities are classified as inherent risk contributors or control effectiveness contributors, and are assessed on a zero to four risk-driven impact scale. Eventualities indicating the presence of a significant inherent risk factor or control failure, including a potential violation of law, are marked as “functional irregularities.” Should such an eventuality be found to be valid, the user will receive notice within their EFI report as a matter for immediate attention.

The next stage in the EFI model’s procedure is to determine risk probability. Along with its aforementioned impact rating, each eventuality is also subject to probability rating. These probabilities have been determined by the regularity with which the underlying risk factor is present in substantiated risk events. These substantiated risk events consist of data extracted from over 10,000 regulatory actions across 17 public authorities and publically-available Suspicious Activity Report (“SAR”) statistics, as well as anonymised and aggregated data provided by EFI users.

The impact and probability ratings are used to determine the weighting of specific eventualities within a set of nine aggregated risk themes:

- 1. Organisational reputation**
- 2. Culture and employee conduct**
- 3. Bribery and corruption**
- 4. Geographic footprint**
- 5. Sanctions**
- 6. Customer portfolio**
- 7. Products and channels**
- 8. Transactional activity**
- 9. Governance framework**

Each of these themes are thereafter assigned an aggregated risk score. This is the primary tool for designating and monitoring financial crime risk appetites. The theme level scores are measured on a scale from 0 to 100, where 100 is the best possible score. All risk themes are aggregated to produce the overall EFI Rating. This rating is displayed as a letter grade, with AAA as the highest possible rating and CCC the lowest.

The EFI model was designed in order to adapt to varying levels of data availability; a score can be generated as a result of a preliminary assessment, an intermediate assessment or an extended assessment. The preliminary assessment is based on public data and is intended to be a preliminary evaluation of the inherent risk of the entity in question. The intermediate assessment includes eventualities validated solely on the basis of the information included in the DDQ. In other words, the



intermediate assessment is performed based on generally unverified disclosures. The extended assessment uses the DDQ combined with the [Elucidate Data Protocols](#) to validate DDQ disclosures and measure additional risk elements, which feed into the score calculation.

To account for data availability, the model issues a certainty level alongside theme-level risk scores. The certainty level corresponds to the percentage of eventualities for which the platform had the necessary data for validation. The total of the data required for the intermediate model (i.e. a fully completed DDQ) is said to equal 10% of the data required and the data included in the [Elucidate Data Protocols](#) constitutes the remaining 90%. The certainty score acts as a multiplier of the risk score. As a result, institutions which are subject to the intermediate assessment receive a rating between 1 and 10 and no overalled EFI Rating.

4. Model Governance

To ensure adequate governance of the platform, we have established a model control lifecycle which includes:

- The identification of model risks through the performance of regulatory gap analyses against key financial crime and risk modelling regulations and guidance issuances.
- The quantitative validation of the model through the establishment of key model performance indicators combined with extensive stress testing.
- Model risk mitigation through continuous model optimisation.

The model is overseen by the EFI Model Governance Mechanism (“MGM”), wherein results from model validation and model changes are reviewed before being communicated to the users through the platform.



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