EU Benchmark Regulation - Benchmark Statement v. 3
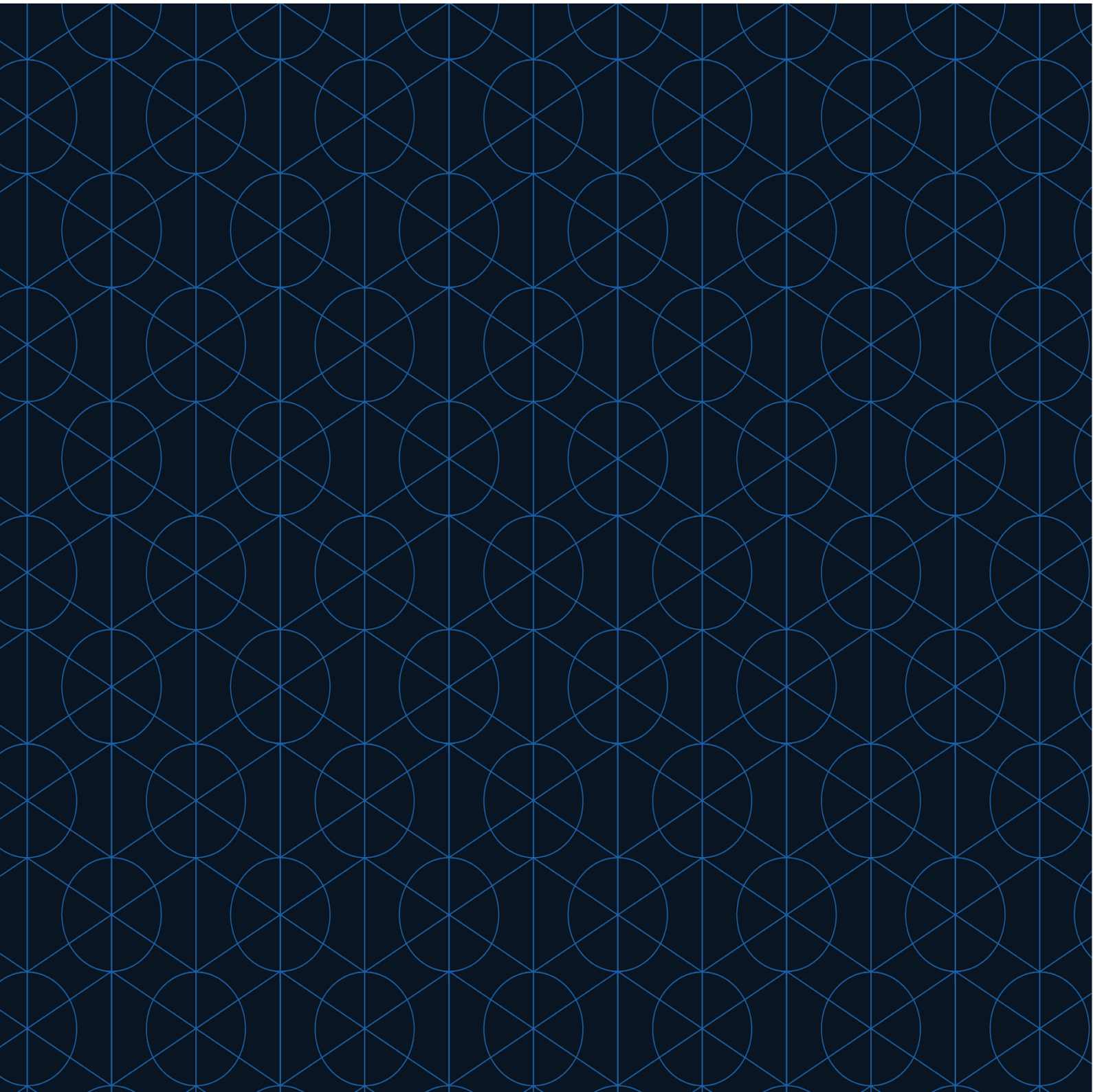
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1. General information[1]

This benchmark statement was first published on 23 July 2020 and has been most recently updated on 1st of September 2022. This statement applies to the Elucidate FinCrime Index (EFI)[2]. The EFI does not rely on data contributors for the provision of the benchmark. Under Title III of Regulation (EU) 2016/1011, Article 26(2) the EFI qualifies as a non-significant benchmark as it does not yet meet the threshold described in point (a) of Article 24(1).

2. Market reality[3]

The correspondent banking market is progressively shifting from volume-based pricing to risk-based pricing of transaction banking services. This is done by factoring operational and compliance costs associated with contracts at initiation and maintenance, as well as assessing the potential for financial losses (regulatory fines, market cap loss, remediation costs, reputational loss, etc.) due to a financial crime risk event. These costs are generally in excess of the revenue generated by the contract. The EFI is global and uses institutions' data to assess the effectiveness of the financial crime risk management controls and their proportionality to inherent financial crime risks identified. The data utilised enables the identification of financial crime risks, beyond those that may have been otherwise overlooked by manual or basic due diligence practices and procedures.[4]

3. Definition of key terms[5]

Key terms related to the EFI assessment are listed and defined below:

Key term	Definition
EFI Rating	The EFI rating is the average of the scores (see below) generated for a given entity. An EFI rating is considered indicative when data completeness (see below) is below 50%.
Score	The EFI produces nine scores aligned to specific financial crime risk themes.
Due Diligence Questionnaire (DDQ)	The questionnaire, issued by the Wolfsberg Group, "aims to set an enhanced and reasonable standard for cross-border and/or other higher risk Correspondent Banking Due Diligence"[6]

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[1] Article 27 of the Regulation (EU) 2016/1011

[2] No International Securities Identification Number (ISIN) available.

[3] Article 27 of the Regulation (EU) 2016/1011
  Article 27(1) (a) of Regulation (EU) 2016/1011

[4] Article 27(2) (b) of Regulation (EU) 2016/1011

[5] Article 27(2) (a) of Regulation 2016/1011

[6] The Wolfsberg Group, 2018, https://www.wolfsberg-principles.com/wolfsbergcb

Risk themes	Impact and probability ratings are used to determine the weighting of specific eventualities within a set of nine risk themes: 1. Organisational reputation: This theme includes eventualities which have been shown to lead to regulatory enforcement action and negative press. 2. Culture and employee conduct: This theme includes eventualities related to an organisation's culture and employee conduct. 3. Bribery and corruption: This theme includes eventualities which affect the risk of engagement in bribery and corruption-related criminal activity by employees, vendors, or other parties. 4. Geographic footprint: This theme includes eventualities related to financial crime risk associated with jurisdictions where there is variance in terms of transparency, the rule of law, enforcement, economic policy, and financial infrastructure. 5. Sanctions: This theme includes eventualities related to economic sanctions issued by authorities for key currencies. 6. Customer portfolio: This theme includes risk and control eventualities which relate to an institution's client base. The risk profile and required controls vary based on the market targeted by an institution. 7. Products and channels: This theme includes risk and control eventualities which relate to the products and services offered by an institution and how those products are made available to clients (e.g. online, branch, intermediaries, etc.). 8. Transactional activity: This theme includes risk and control eventualities which relate to the transactions executed by the institution on behalf of itself or its clients. 9. Governance framework: This theme includes eventualities which relate to the governance and design of the institution's anti-financial crime programme. Each of these themes are thereafter assigned an aggregated risk score. This is the primary tool for designating and monitoring financial crime risk appetites.
Eventuality	An eventuality is a test performed on the data set which can be evaluated as either be true or false. Eventualities are mutually exclusive and each is applied to one risk theme for the calculation of the score.
Impact	Impact is used as a risk metric to measure exposure. It is a proxy for the magnitude of the potential risk event linked to a given eventuality. This variable is applied to each eventuality.
Conditional probability	The probability that the applicability of a given eventuality will be associated with the occurrence of a risk event. The probability metric is then applied as a multiplier of the impact for eventualities which are evaluated as true.
Functional irregularities	Sets of eventualities which, if evaluated as true, can be indicative of a non-existent or significantly deficient control, a sanctions match, contradictory data points, or other deficiencies identified.
Data completeness	The data completeness corresponds to the percentage of eventualities for which the platform had the necessary data for validation.
Data protocols	Data protocols needed for the extended assessment.
Anomaly Detection	Some eventualities are defined as 'anomaly detection' eventualities. This means that they are not often found to be true. The EFI emphasize instances where these anomaly detection eventualities are true within the model calculation and deemphasize instances when they are false in order to bring only important information to a user's attention.

4. Methodology

The EFI model segments financial crime risk into relevant risk themes and calculates a score for each theme. Each risk theme is then combined to form an overall EFI rating. The EFI uses the Wolfsberg Group DDQ as a structural baseline in addition to proprietary data, and user data as per the [Elucidate data protocols](). The answers provided in the DDQ are processed through a set of tests, called eventualities. Some of these eventualities make use of market analyses to assess risk. These market analyses are included in the EFI as sub-models, which are documented and available to users. Some eventualities are only used in cases to detect anomalies in a bank's anti-financial crime risk program.

The EFI produces risk scores across the following nine risk themes:

1. Organisational Reputation
2. Culture and Employee conduct
3. Bribery and Corruption
4. Geographic Footprint
5. Sanctions
6. Client Portfolio
7. Products and Channels
8. Transactional Activity
9. Governance Framework

These risk themes were derived by expert opinion, reflecting current industry practice and regulatory expectations, to cover key aspects of financial crime risk.

The DDQ responses and additional risk evaluations sum up to over a thousand eventualities being analysed. The EFI score per theme is calculated using the list of eventualities related to each theme, the impact and the conditional probability score, and the data completeness associated with all eventualities across each theme.[7] Each theme is assigned a score based on the aggregation of the risk associated with its underlying eventualities. The theme score ranges from 0 (worst possible score) to 100 (best possible score). Each eventuality receives a weight computed from the evaluation of the impact and the conditional probability related to that eventuality. In some cases, when an eventuality is only used to detect an anomaly, then the eventuality only counts in the model when it is true, not when it is false (in the majority of cases).

The EFI model was designed to adapt to varying levels of data availability. After all the eventualities for which there is sufficient data are evaluated, the rest of the eventualities are subjected to Monte Carlo simulations to simulate their likelihoods of being true. For each risk theme, the aggregate score of the evaluated eventualities is added with the median result of the simulations to produce the final theme scores. The medians of the simulations for each of the 9 themes are averaged with each other (via mean)

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[7] Article 27(2) (e) of Regulation (EU) 2016/1011 and Commission Delegated Regulation (EU) 2021/1352

to produce a final EFI rating. In order to provide transparency of the model, we also report the percentage of eventualities that had the necessary amount of data for calculation.

The model includes a segmentation of eventualities between inherent risks and control effectiveness based on expert judgement. This enables the platform to identify specific failure points and direct whether improvements and/or risk acceptances are needed.

In addition, some eventualities are marked as functional irregularities. These eventualities, in case they apply, will be highlighted in the platform.

5. Data inputs[8]

The EFI model uses two data types, institution data and model data. Data is sourced both from the financial institutions using the EFI platform and from the public domain. The EFI model uses these two types of data concurrently to assess the risk profile of an institution and in order to highlight specific areas of risk. By merging these datasets, the EFI brings together the most comprehensive data set used in the market for the assessment of financial crime risk, covering key aspects of the market to measure inherent risk and the industry standard financial crime control framework to measure effectiveness.

The structure and format of data to be provided to Elucidate is specified in the Elucidate Data Protocols. These protocols have been developed in alignment with the algorithm consuming the data. A prioritisation level has been assigned to each data file to be provided.

5.1. Input errors[9]

Elucidate, in its Data Handling Procedures, has documented its process for handling input data, including how to manage erroneous data. Should data be found to be erroneous after the publication of a report, the report will be re-issued and users of the report will be informed as soon as possible after the error was found.

Elucidate reserves the right to perform reviews of user data, should there be any reason to suspect that the data has been tampered with. Should Elucidate find that a user has manipulated data so as to improve results, Elucidate will terminate the relationship, and inform the user's counterparties on the EFI platform.

5.2. Insufficient input[10]

Assessments producing an indicative EFI Rating are not intended to be a full evaluation of an institution, but instead as an initial risk identification process, predicated upon the assumption that the results will form the basis for further investigation utilising additional data. Elucidate does not recommend the use of Indicative Ratings as a final assessment.

To account for data availability and to provide context to the results, the model issues a data completeness level alongside theme-level risk scores. The data completeness level corresponds to the percentage of eventualities for which the platform had the necessary data for validation with different

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[8] Article 27(2) (c) of Regulation (EU) 2916/1011
[9] Article 27(2) (f) of Regulation (EU) 2016/1011
[10] Article 27 of the Regulation (EU) 2016/1011 and Commission Delegated Regulation (EU) 2021/1352

weightings given to eventualities from static sources and dynamic sources (higher weightings given to dynamic sources). In addition, the results of the Monte Carlo simulations are displayed on the platform to provide users with information on the scores that could be possible if 100% data completeness is achieved.

6. Use of discretion[11]

Elucidate's methodology clearly defines where and how discretion may be used in the assessment process. Discretion is used in defining design components and variables in the methodology. Elucidate does not adjust model results after they are generated. Where discretion is used, it is applied consistently across assessments as the model is a hybrid of data-driven and expert-driven modelling. Where expert discretion is used, the rationale for the decision made is documented. When possible, the rationale is backed by a credible third party source such as regulatory guidance, compelling academic or industry studies and reports, case studies, etc.

The model balances expert judgement and data both mathematically and structurally. The hybrid nature of the model is achieved by balancing the two key variables, impact and conditional probability, where impact is driven by expert judgement and conditional probability is data-driven. However, over time Elucidate is seeking to increase the data-driven component of the model. From EFI release-3 onwards, the impact scores are less expert driven and are more data driven than before. The mathematical balance of these two structural components is reflected in the model mathematical equations which are documented and available to users.

The methodology does not enable discretionary changes to be made to scores after the computation of the data by the EFI model.

7. Changes to the assessment[12]

This benchmark statement, together with other methodology documentation, will be updated whenever:

- The information contained in this statement ceases to be correct or sufficiently precise.

- There is a change in the type of the benchmark as per Regulation (EU) 2016/1011 Article 26(2).

- There is a major change in the methodology used.

If none of these circumstances occur, this statement will be reviewed at least every two years.

Changes to the assessment may be related to:

- Improvements required to enhance the quality of outputs.

- External factors, beyond the control of Elucidate, which necessitate a change to, or the cessation of, the benchmark. Such factors may include, but not be limited to, the ability to

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[11] Article 27(1) (a) and 27(2) (d) of Regulation 2016/1011
[12] Article 27 of the Regulation (EU) 2016/1011 and Commission Delegated Regulation (EU) 2021/1352
 Article 27 (1) (c) and (d) of Regulation (EU) 2016/1011

access key information used for the production of the benchmark and/or new information on market conditions which materially impact the parameters of the methodology used to produce the benchmark.

Changes to the EFI methodology are reviewed, justified, tested and documented by the Elucidate Product and Data Science teams. Material changes are then subject to approval by Elucidate's Senior Management. The Model Oversight Committee is informed of material changes and provided with an opportunity to challenge the changes and/or object to them. Material changes are communicated in advance of release to users.[13]

For more information, users should contact bmr@elucidate.co.

8. Potential benchmark limitations[14]

During periods of fragmented market activity, Elucidate continues to gather information from a broad range of credible sources. If users provide limited data for a period of time, Elucidate will issue results which include contextual information regarding the amount of data utilised to produce the results and the data completeness.

During periods of stress, Elucidate executes its Business Continuity Plan ("BCP") so as to minimise the impact on users and ensure the continuity of the delivery of the benchmark. Elucidate reviews and tests its BCP periodically.

Further methodological limitations of the EFI are described in the EFI White Paper, which is made available to users.

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[13] Article 27(2) (c) of Regulation (EU) 2016/1011
[14] Article 27(2) (g) of Regulation (EU) 2016/1011