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**NEW APPROACHES TO FINANCIAL SAFETY OF BANKS:**  
**COUNTERING THE TERRORISM FINANCING**

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***Abstract***

The threats of terrorism financing are not sufficiently taken into account in ensuring the financial security of Russian banks; therefore, we proposed to use the ranking of countries by the level of assessment of the threat of terrorism financing in the analysis of country banking risks. To this end, a study was conducted of the threats and risks of terrorism financing in 39 countries of the world, summarizing the data of national reports on assessing the risk of money laundering and terrorism financing. The result of the study included the ranking of 39 countries on the level of the threat of terrorism financing on a scale of 1 (the country recognizes the threat of terrorism financing, but its level is not assessed) to 4 (the country recognizes the threat of terrorism financing, its level is assessed as significant). Refining the methodology for assessing country banking risks taking into account the ranking of countries, as well as an indicator of the average weighted assessment of the level of threat of terrorism financing, which can be used as an additional tool for cross-country analysis, is of practical value.

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**Keywords:** Banks, FATF, national risk assessments, country risks, financial security.



## 1. Introduction

Despite the existence of a common instrument for combating the financing of terrorism for all countries (including the prevention of dubious transactions, their identification, the use of targeted financial sanctions), the threats and risks of terrorism financing have their own national characteristics, depending on the model of the financial sector, the particular economic structure, and geographical location country and historical data. National characteristics of the risks and threats of terrorism financing play an important role in the selection of countermeasures.

Monitoring of bank risks involved in the processes of the financing of terrorism involves the analysis of country risk. The relationship between country risk and the risk of terrorism financing through correspondent relations with foreign banks and operations on foreign trade contracts was studied in the works of Russian scientists (Evlakhova, 2016; Rudko-Silivanov et al., 2015). These studies indicated that the country assessment of the credit risk of the OECD used by Russian banks may be inconsistent with the country's position in the international AML/CFT system, which highlights the need to improve the assessment of country risk. In addition, in Russian practice, the relationship between country risk and terrorism financing risk is taken into account in monitoring operations subject to forced control. So, operations with persons from the list of countries that do not comply with the FATF requirements (the so-called FATF blacklist) are subject to mandatory control. In addition, operations with monetary funds or other property are subject to mandatory control if at least one of the parties is an organization or individual, or a legal entity directly or indirectly owned or controlled by such organization or person, or an individual or legal entity a person acting on behalf of or at the direction of such organizations or persons in relation to whom there is information about their involvement in extremist activities or terrorism. These individuals are included in the List of organizations and individuals for which there is information about their involvement in extremist activities and terrorism, which is maintained by the Federal Service for Financial Monitoring of Russia.

It should be noted that the countries of the FAFT black list, as well as the countries referred to as the place of residence/registration of persons of the international part of the List clearly do not cover the entire geography of the countries with which the Russian banks conduct cross-border operations. This creates a need for alternative/additional ways of taking into account the threats and terrorism financing risks in the assessment of country risk of the Russian banks.

## 2. Problem Statement

The existence of national characteristics of the risks of involving banks in the financing of terrorism, and in a broader sense, the diversity of national assessments of the risk of terrorism financing, has led us to the idea of the possibility of taking into account different levels of the threat of terrorism financing in countries while ensuring the financial security of Russian banks. To this end, we propose to use the threat assessment of terrorism financing provided by countries as part of national reports on the assessment of the risks of money laundering and financing of terrorism (ML/FT), which will allow more accurate assessment of country risk of the Russian banks.

### **3. Research Questions**

The subject of the study includes the threats and risks of terrorism financing for national economies, their financial systems, individual banks, as well as the possibility of monitoring banking risks to prevent the involvement of credit organizations in the financing of terrorism.

Problems of counteraction to financing of terrorism stems from the more general problem of combating terrorism. Strategies and practices for countering terrorism in the countries of the world are discussed in a number of scientific publications, in particular: anti-terrorism policies of the EU countries in articles (Bartenev, 2017; Popova, 2018; Potemkina, 2017), struggle with terrorism in the USA in the article (Manoilo, 2018). Possible sources of terrorism financing are analyzed in (Karlsen & Putniņš, 2019; Levashenko et al., 2019). Different aspects of managing and monitoring banking risks were analyzed in articles by foreign scientists (Begley et al., 2017; Rippel & Teplý, 2011; Witowski & Luca, 2016) and Russian authors (Altukhova et al., 2016; Rozanova, 2017). Separately, we note studies of methods for assessing country banking risks (Chu et al., 2019; Oetzela et al., 2001).

### **4. Purpose of the Study**

The purpose of the study is to rank countries based on the algorithm for researching them by the level of threat of terrorism financing, analyze the distribution of countries by the level of this threat; determine the average level of this threat for all analyzed countries.

### **5. Research Methods**

We have developed an algorithm for studying the levels of threat of terrorism financing in the countries of the world, which includes the following steps:

1) Development of a database for the study, namely the study of the national reports assessing the ML/FT risks, posted on the official website of the FATF; selection of national reports according to the criteria for the availability and accessibility of a terrorism financing risk assessment report, or a section on the assessment of this risk in the general report;

2) Analysis of the content selected by the risk assessment reports of terrorism financing; generalization and systematization of national terrorism financing risk assessments (types/scale of assessments, depth of research: the economy as a whole; by sectors of the economy; by types of financial organizations, financial products and services, etc.);

3) Development of a quantitative estimation of the scale of threat to involve the country in the financing of terrorism, taking into account the results of generalization and systematization of national risk assessments of the financing of terrorism, with a qualitative character;

4) The assignment of the relevant points, reflecting the threat of involvement in the financing of terrorism, the countries whose reports were selected for analysis;

5) Ranking countries according to the level of threat of involvement in the financing of terrorism; analysis of the distribution of countries by the level of this threat; calculation of the average level of this threat for all analyzed countries.

In total, on the FATF website in the section Money laundering and terrorist financing risks as of 01.04.2020, 50 national reports on the assessment of ML/FT risks for 2013-2019 are presented. Actually, 39 reports are available for analysis.

Reasons why national ML/TF risk assessment reports were not used in the study:

1) The report was not found, because the site has a broken link (7 cases - Austria, Latvia, Panama, Portugal, Singapore, Sweden, Ukraine);

2) There is no report on assessing the risk of financing terrorism, but only a report on assessing the risk of money laundering (3 cases - Denmark, Greece, Jersey);

3) The report is presented in a national language that is not a common language (1 case - Tajikistan).

Based on the results of the generalization and systematization of national assessments of the risk of terrorism financing, we proposed the following scale for assessing a country's threat of involvement in terrorism financing:

1 point - the country recognizes the threat of terrorism financing, but its level is not evaluated;

2 points - the country recognizes the threat of terrorism financing, its level is assessed as low (characteristics very low, lower, low);

3 points - the country recognizes the threat of terrorism financing, its level is assessed as moderate (characteristics medium, moderate, not significant);

4 points - the country recognizes the threat of terrorism financing, its level is assessed as significant (significant, substantial, high, severe characteristics), an in-depth analysis of threats and risks by sectors of the economy, types of financial organizations, types of financial products and services is also carried out.

It should be noted that in all 39 analyzed countries, the threat of terrorism financing was recognized, which allowed not to include points reflecting the non-recognition of this threat in the scale.

## 6. Findings

Based on the content of each of the 39 selected national reports, we assigned a specific score to each country, reflecting the level of threat of terrorism financing.

After that, countries were ranked according to descending financing terrorism threat level, the results are given in Table 1.

**Table 01.** The level of terrorism financing threat ranking of countries (on the basis of national reports on the 2013-2019 risk assessment years)

№ p / n	Country	Points
1	Canada	4
2	France	4
3	Germany	4
4	Ghana	4
5	Israel	4
6	Netherlands	4
7	Philippines	4
8	Russia	4
9	Switzerland	4
10	Tunisia	4

11	United Kingdom	4
12	USA	4
13	Hong Kong	3
14	Ireland	3
15	Italy	3
16	Luxembourg	3
17	Nigeria	3
18	Sri Lanka	3
19	Tanzania	3
20	Australia	2
21	Butane	2
22	Cambodia	2
23	Lithuania	2
24	Mexico	2
25	New Zealand	2
26	Slovakia	2
27	Zimbabwe	2
28	Armenia	1
29	Bahamas	1
30	Cayman islands	1
31	Cook Islands	1
32	Czech Republic	1
33	Dominican Republic	1
34	Fiji	1
35	Finland	1
36	Isle of Man	1
37	Serbia	1
38	Timor	1
39	Vanuatu	1

The distribution of countries by the level of the threat of terrorism financing shows that a significant part of the threat of terrorism financing is recognized by 12 countries, or 31% of the total number of countries analyzed (including Russia). The same number of countries (12 countries or 31% of the total) recognizes the threat of terrorism financing, but they do not assess its level. In most cases, this is due to the lack of facts of terrorism on the territory of the country for a certain period, as well as the lack of relevant reports on the facts of terrorism financing from participants in national AML/CFT systems.

A low level of the threat of terrorism financing was recorded in 7 countries (18% of the total), mild/medium level - in 8 countries (20% of the total).

Calculations of the average level of the threat of terrorism financing for the analyzed 39 countries were carried out on the basis of determining the weighted average value (by the share of countries with a certain score, in the total number of countries analyzed). Thus, the average level of terrorism financing threat for the analyzed countries is 2.51 points, which is between low and mild levels.

Of course, measuring the average level of the threat of terrorism financing for 39 countries in statics does not make it possible to obtain new conclusions. However, we consider it important to monitor the

dynamics of this indicator, since on this basis it is possible to compare the levels of threat of terrorism financing in different time periods, as well as determine the trends (increase / decrease) in their changes.

In addition, the average level of terrorism financing threat can be calculated for a group of 39 countries represented in the study (for example, for G-7 members, other international associations, or grouped by other criteria), which creates additional opportunities for a cross-country comparative analysis.

## 7. Conclusion

The study of terrorism financing threat levels in the countries of the world provides the basis for a more accurate assessment of the country risks of Russian banks. This is an important, practically significant moment. At present, Russian banks either use OECD country estimates, which do not always accurately reflect the country ML / FT risks, as they do not take into account the country's position in the international AML / CFT system; or assess country risks, taking into account the affiliation of operations / counterparties with mandatory control. From the point of view of financing terrorism, these are operations with persons from Iran and the DPRK (FATF blacklist), as well as operations with persons from the international part of the List of Terrorists and Extremists. Obviously, these are extreme cases, the geography of which does not cover the scope of cross-border operations of Russian banks. Therefore, we proposed to take into account in the country risk assessment the ranking of countries according to the level of threat of terrorism financing, which (level of threat) countries determine independently.

Algorithm study of the level of threat of terrorism financing in the countries of the world, we have developed, includes the steps of: a) forming a database; b) generalization and systematization of national assessments of the risk of terrorism financing; c) development of a quantitative scale for assessing the threat of involvement in the financing of terrorism; d) assignment to countries of points reflecting the threat of involvement in the financing of terrorism; e) ranking of countries according to the level of threat of involvement in the financing of terrorism; analysis of the distribution of countries by the level of this threat; calculation of the average level of this threat for all analyzed countries. The research algorithm is designed in such a way that it can be used repeatedly, including when new national reports on ML/FT risk assessment appear on the FATF official website, which is its strength.

We ranked countries according to the level of threat of involvement in terrorism financing for 39 countries on a scale of 1 (the country recognizes the threat of terrorism financing, but its level is not assessed) to 4 (the country recognizes the threat of terrorism financing, its level is assessed as significant). The distribution of countries by the level of the threat of terrorism financing shows that a significant level of this threat is recognized by 12 countries, or 31% of the total number of countries analyzed (including Russia). The same number of countries (12 countries or 31% of the total) recognizes the threat of terrorism financing, but they do not assess its level. A low level of the threat of terrorism financing was recorded in 7 countries (18% of the total), mild/medium level - in 8 countries (20% of the total).

The weighted average level of the threat of terrorism financing for all analyzed countries is 2.51 points, which is between a low and a moderate level. Such an indicator can be included in the composition of financial security indicators and used: to monitor the levels of threat of terrorism financing in different time periods, as well as to determine trends in their changes; to determine the level of FT threat for a group of 39 countries represented in the study (for example, for members of the G-7, other international

associations, or grouped by other criteria). In general, the advantage of this indicator is the creation of additional opportunities for cross-country analysis.

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