

# Compliance Risk Index (CRI) – 2019

## Methodology

The CRI measures perceived compliance risk in more than 200 countries and territories. It provides a risk score and risk rating in five compliance domains and an overall risk score and risk rating for each country. The five domains that are covered include:

1. **Governance and Regulatory**
2. **Bribery and Corruption**
3. **Trade**
4. **Financial**

The domains are assessed using 19 publicly available data sources (“indicators”). The selected sources review relevant indicators associated with each domain. Each domain receives a risk score and a Low, Moderate, or High-risk rating for each country. In addition, each country is given an overall composite score of 1-10 (10 Highest) and then assigned an overall Lowest, Low, Moderate, High, or Highest-risk rating.

The overall country score aggregates the scores from all the domains and weights them to generate a composite score and rating for each country. The risk scoring methodology used to score each domain and the overall score includes our proprietary algorithm. The algorithm does incorporate a qualitative expert analysis component.

The CRI does not measure the actual amount of bribery and corruption, trade, or governance violations in a particular jurisdiction. Rather, it is designed to assess the potential risk of negative compliance activity in each domain as well as the composite of all domains in each country. The CRI ranks countries based on their overall composite score.

We believe by combining all the domains and providing an overall risk score and rating the CRI provides a more realistic or holistic view of the compliance risk within each country. Other indexes focus on a single risk area, such as bribery and corruption, and have value for that one area, but do not assess trade compliance risks or other risk areas.

While we rank the countries on the basis of their overall scores the purpose of the CRI is not necessarily to compare one country to another. The purpose is to provide an overall picture of each countries risk level and then with each annual update to examine progress over time.

### **Limitations**

The Compliance Risk Index is a composite index. It provides a simplified comparison of countries across each domain and as a composite score of all domains together. The actual score from each indicator that we use is fed into the algorithm without modification.

The CRI is based on many indicators that are perception based, such as the Transparency International Corruption Perceptions Index (CPI). As with any composite index, there are choices and judgments that must be made when developing the CRI. We apply a measure of subjective assessment for the Low, Moderate, High rating for each domain score and the overall composite score. In addition, we weight each domain to have more or less impact on the overall composite score.

The 2019 overall composite score for each country is based on a weighting of 25% for the Governance and Regulatory domain, 30% for the Bribery and Corruption domain, 30% for the Trade domain, and 15% for the Financial domain.

Not all indicators evaluate the same countries. In instances where a country is not ranked by an indicator, we apply a default score equivalent to a low or moderate value, based on a subjective interpretation of whether or not each country that isn't covered in that indicator should be considered low or moderate. We do not apply any high default scores.

Data collection for the 2019 CRI was finished in September 2019.

We believe the CRI is a good tool, along with other indicators, for business, risk, and compliance professionals to assess general compliance risk in the covered domains in countries in which they operate or for countries they are assessing for potential M&A activity.

## CRI Model

The CRI focuses on five domains of compliance risk.

Domain 1 (Governance and Regulatory)		Domain 2 (Bribery and Corruption)	
Description	Source(s)	Description	Source(s)
<ul style="list-style-type: none"> <li>Ease of doing business</li> <li>Government effectiveness</li> <li>Regulatory quality</li> <li>Government and Political stability</li> <li>Rule of law</li> <li>Economic freedom and competitiveness</li> </ul>	<ul style="list-style-type: none"> <li>World Bank</li> <li>Fund for Peace</li> <li>Heritage Foundation</li> <li>World Justice</li> <li>World Economic Forum</li> </ul>	<ul style="list-style-type: none"> <li>Corruption perception</li> <li>Business bribery risk and likelihood</li> </ul>	<ul style="list-style-type: none"> <li>Trace International</li> <li>Transparency International</li> <li>World Bank</li> </ul>
Domain 3 (Trade )		Domain 4 (Financial)	
Description	Source(s)	Description	Source(s)
<ul style="list-style-type: none"> <li>Transshipment risk</li> <li>Sanctions risk</li> <li>Trade environment</li> </ul>	<ul style="list-style-type: none"> <li>US GAO</li> <li>US and EU sanctions</li> <li>World Economic Forum</li> </ul>	<ul style="list-style-type: none"> <li>Financial Secrecy</li> <li>Money laundering risk</li> </ul>	<ul style="list-style-type: none"> <li>Tax Justice Network</li> <li>US State Department</li> <li>Basel AML Index</li> </ul>