

Date: 23<sup>rd</sup> September 2019

## Financial Integrity Forum – Opening Speech by MFSA official

Mr Schapiro, Distinguished guests, Ladies and Gentlemen,

It is my pleasure to be amongst you today on another important occasion where we discuss and share ideas to support Malta's commitment to prevent, detect and prosecute financial crime activities, such as money laundering and terrorist financing.

### **The challenge of financial crime**

According to the United Nations Office of Drugs and Crime, the amount of money laundered each year may be as much as 5% of global GDP which is equivalent to up to 2 trillion US dollars.

A significant proportion of these funds end up being funnelled to terrorist organisations. The US Treasury estimates that one terrorist organisation, Hezbollah, receives over 700 million US dollars from Iran alone each year.

These estimates underline the seriousness of the problem that we, as an international community, are facing.

Besides posing a critical challenge to the integrity of our financial system and denting public confidence, financial crime has ramifications which go beyond financial services: it threatens a nation's reputation, its economy, and national security.

Regulated entities are ultimately responsible for ensuring that their activities respect the law; on our part, as regulatory agencies, we have the important role of ensuring compliance. With the rapid pace of development in the sphere of technology, the industry we regulate has changed dramatically in the last ten years. The adoption of new systems based on cloud services, advances in artificial intelligence and the rapid rise in the popularity of virtual currencies have all revolutionised the way our economies operate. The financial sector has been at the forefront in responding to these changes and stands to benefit enormously from these innovations. This is true both for consumers and providers.

But while the investment in new technologies, products, and services has long been a vital part of maintaining the competitiveness of financial institutions in a rapidly changing marketplace, at the same time, it also brings with it a fair share of risks.

In the same way that a global financial system facilitates life for the public and businesses when it comes to cross-border transactions and international trade, the infrastructure it provides can further the reach of financial crime and effectively eliminate borders for those with bad intentions. New payment technologies, like prepaid cards, mobile banking and digital currencies connect populations without access to traditional banking services, serving as effective tools for social and financial

inclusion. Yet, they can also be used by the underworld to quickly move funds around in an anonymous manner.

This is the nature of the challenges we face. As a regulator, we are committed to raising the bar in AML/CFT supervisory standards. This is why – following an extensive consultation with industry as well as with international organisations - we have undertaken a complete revolution in the way we supervise our entities, putting AML at the centre of our activities.

Our recently-launched three-year Strategic Plan highlights our priorities and key changes, some of which I would like to share with you today.

### **MFSA action**

As I already mentioned, AML has been placed firmly at the centre of our supervisory process. We've introduced more in-depth and extensive AML/CFT checks throughout the supervisory lifecycle process. The authorisation process has been made more stringent, with a focus on the shareholding structure, governance framework internal controls and business models presented. This included a complete overhaul of our due diligence process and a rethinking of what is constituted to be "fit and proper", resulting in 25% of applications being refused in 2019, up from 10% in 2017.

We have set up a dedicated Financial Crime Compliance function to better reflect the strategic importance of AML/CFT supervision as an intrinsic part of the MFSA's prudential and conduct oversight. To strengthen the function further, we have engaged a team of international experts, who has been integrated within our structures and act as a temporary, but critical transition device providing on-the-job coaching and hiring support. This will help create a stronger permanent Financial Crime setup at the MFSA, whilst also enabling us to achieve an unprecedented level of depth and quality in our joint inspections of licence holders with the FIAU.

We have also addressed the recommendation in the Moneyval report, relating to the Register of Trust Ultimate Beneficiary Owners by fully implementing the National Strategic Action Plan requirements. This included the establishment of a register of beneficial owners of trusts which will be extended to all trusts by 1 January 2020.

When it comes to virtual assets, we have added additional layers of checks thanks to our collaboration with CipherTrace. This new Supervisory Technology tool will facilitate MFSA's management of money laundering and financing of terrorism risks associated with businesses operating in the sphere of crypto assets.

We have also published Guidance on Politically Exposed Persons last October. The MFSA expects all licensed entities to comply with their anti-financial crime obligations, including the requirement to apply a risk-based approach to identifying such persons and to applying appropriate Enhanced Due Diligence measures when dealing with them.

## Going forward

There is no question that efforts to combat financial crime are costly to undertake and require significant investment. But the cost of inaction would be equally significant, if not worse.

Resources dedicated to financial integrity have grown over time as the scale and nature of the threat has increased, becoming more sophisticated. The MFSA is investing heavily in technology, with an expected outlay of around 12 million Euros over the next three years to be able to secure the latest regulatory and supervisory technologies. Moreover, we are investing in training our staff to ensure we keep pace with the advances in the methods these criminals use to carry out financial crime.

These investments are not discretionary – they are basic requirements if we are to fight financial crime on an equal or better footing than criminals themselves.

At the same time, given the widespread implications, we strongly believe in the significance of international cooperation on the matter. Only a couple of weeks back we had the pleasure of hosting, in this same hall, an intensive workshop on virtual assets, AML and cybersecurity, organised in conjunction with US regulator CFTC. It is our intention to build further on such collaborations in the coming months.

I thank you for your attention and wish you a fruitful morning of discussion.