



RESULTS OF MALTA'S NATIONAL ML/TF RISK ASSESSMENT PRIVATE SECTOR SEMINAR

9TH OCTOBER 2018

Agenda

#	Topic	Speaker	Duration (mins)
1	Introduction	Chairman of NCC	15
2	Results of the National ML/TF Risk Assessment	MFSA, MGA, FIAU	40
3	National AML/CFT Strategy	Chairman of NCC	5
4	Implications for the Private Sector	FIAU	15
5	General Q&A	As relevant	10
6	Concluding Remarks	Chairman of NCC	5
	Total		90

Part 1 | Introduction

Introduction to your speakers



MR. ALFRED CAMILLERI

Chairman of the NCC
Permanent Secretary – Ministry
of Finance



MR. KENNETH FARRUGIA

Director
FIAU



DR. ANTON BARTOLO

Head of Enforcement Unit
MFSA



DR. DOMINIC MICALLEF

Chief Officer Enforcement
MGA

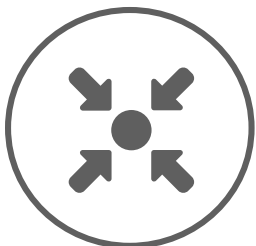
Objectives of today's session



Be aware of Malta's National AML/CFT effort and findings of the National Risk Assessment



Understand and be prepared to effectively communicate ML/TF threats and vulnerabilities in your respective sectors



Understand how the Private Sector should contribute to the AML/CFT effort

ML/TF Context

Money Laundering and Terrorism Financing are crimes that threaten the world's safety, economic stability and the integrity of the financial system



The amount of **money laundered** each year is **2 to 5%** of **global GDP**¹



Only **~2.2%** of **criminal proceeds** were seized and **~1.1%** were **confiscated** in Europe between 2010–2014²

Fighting ML/TF activities is a matter of urgency in the global effort against crime and terrorism

1. United Nations Office on Drugs and Crime (UNODC), 2011

2. Europol, 2016

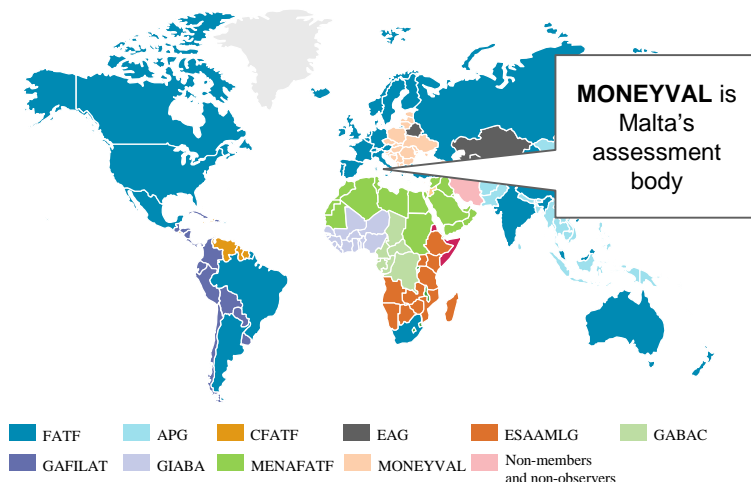
What is FATF and MONEYVAL?

FATF organises peer assessments on jurisdictions' AML/CFT framework;
MONEYVAL is the assessment body responsible for evaluating Malta

FATF is an international organisation that organises peer assessments on a jurisdiction's AML/CFT framework

- Established in 1989 by G7 to coordinate the global fight against money laundering
- FATF relies on three key tools
 - Harmonisation of AML/CFT standards globally
 - Definition of a whole-of-government approach to fight ML/TF
 - Peer assessments to evaluate compliance

Map of FATF members by assessment body

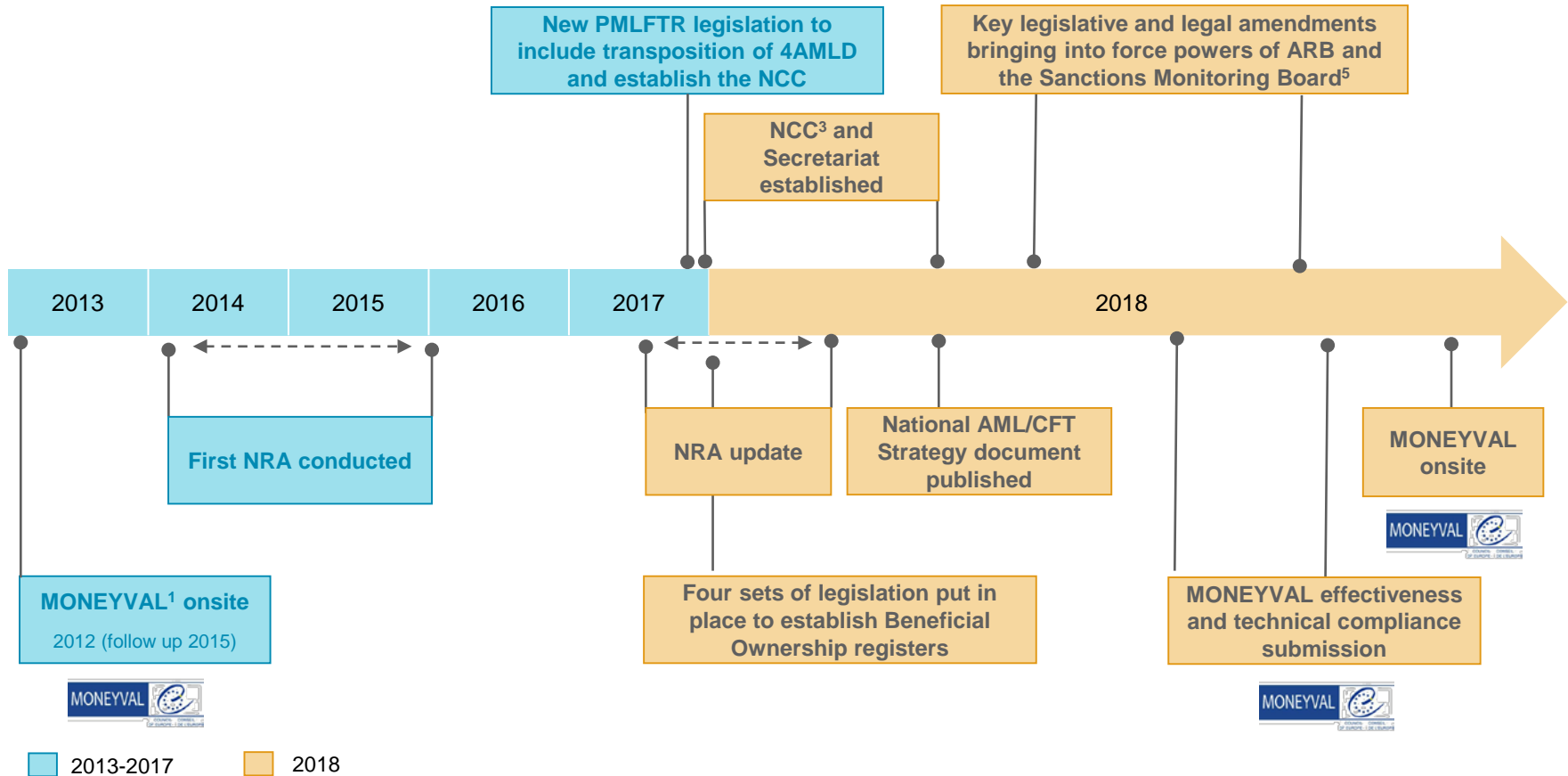


FATF mutual evaluations can have significant impact on a country's financial sector and broader economy

- Mutual evaluations focus on the quality of a country's AML/CFT framework
 - Understanding of ML/TF risk
 - Supervision
 - Prevention (within entities)
 - Effectiveness of prosecution and convictions
 - Overall AML/CFT strategy
- A negative outcome can have significant impact on a country
 - Reputational impact
 - Impact on financial sector (e.g. correspondent banking)
 - Impact on broader economy (e.g. difficulty for other sectors, reluctance to establish companies)
- FATF assessments are related to other assessments
 - EU blacklisting process
 - OECD Global Tax Forum

Malta's recent AML/CFT activity

Malta is deeply committed to preventing, detecting and prosecuting Money Laundering and Terrorism Financing activities



1. Monitoring body of the Council of Europe responsible for assessing compliance with principal international standards to counter ML/TF and the effectiveness of their implementation
2. Prevention of Money Laundering Act
3. National Co-ordinating Committee (NCC) on Combating Money Laundering and Funding of Terrorism
4. Asset Recovery Bureau
5. SMB powers amended within the National Interest Enabling Powers Act

National Risk Assessment Methodology

Malta's ML/TF risk considers threats, vulnerabilities and national combatting ability

Step 1: Assessment of inherent risk (in the absence of mitigating actions)



Step 2: Assessment of residual risk (applying national combatting ability)



Definitions

- **Inherent risk:** risk before mitigation actions or controls are taken into account
- **Threats:** A person, object or activity with the potential to cause harm to the state, society or economy
- **Sectorial vulnerabilities:** the inherent vulnerability of a sector to being (ab)used for ML/TF purposes
- **Residual risk:** the “remaining” vulnerability after taking into account the impact of mitigation controls in place
- **National Combatting ability:** all actions taken that can result in a decrease in the overall level of ML/TF risk

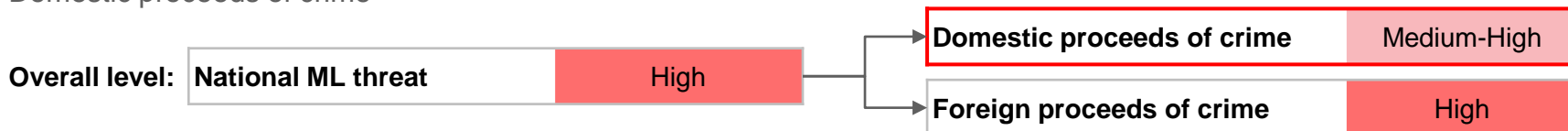
Part 2 | Results of the National ML/TF Risk Assessment

National ML threat assessment results

ML threat based on domestic proceeds of crime is Medium-High and driven primarily by tax evasion and local criminal groups

Summary of Malta's ML threat assessment

Domestic proceeds of crime



Sub-category	Threat level	Perspectives
Tax evasion	High	<ul style="list-style-type: none"> Malta's domestic ML threat is mostly driven by tax evasion, local criminal groups, drug trafficking and fraud Tax evasion: estimated to be about 5% of GDP (vs. an OECD average of approximately 3%)¹ Local criminal groups: revenues from the illicit market in Malta is estimated to be 1.4% of GDP vs. 0.9% EU average² Drug trafficking: The Police investigated drug trafficking and brought charges 254 times in 2012 – this crime is becoming a major generator of proceeds in Malta Fraud is the most prevalent suspected predicate offence
Local criminal groups	High	
Drug trafficking	Medium-High	
Fraud and misappropriation	Medium-High	
Corruption and bribery	Medium-High	
Smuggling	Medium	
Theft and receipt of stolen goods	Medium	
Armed robbery	Low	
Living of the earnings of prostitution	Low	
Usury	Low	
Illegal gambling and violations of the Gaming Act	Low	
Human trafficking	Low	
Arms trafficking	Low	
Smuggling of persons	Low	
Unlicensed financial services	Low	

1. Buehn, A. and F. Schneider, *Size and Development of Tax Evasion in 38 OECD Countries: What do we (not) know?*, 2012

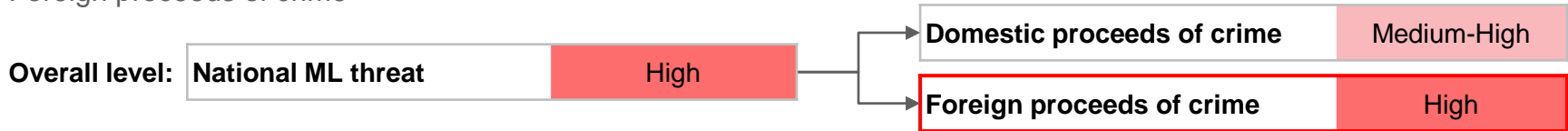
2. Transcrime, *From illegal markets to legitimate businesses: the portfolio of organised crime in Europe*. Final Report of Project OCP – Organised Crime Portfolio, 2011

National ML threat assessment results

Overall ML threat to Malta is high driven primarily by the threat of foreign proceeds of crime, mainly due to the large size of Malta's financial sector

Summary of Malta's ML threat assessment

Foreign proceeds of crime



Countries

Threat level

Perspectives

ML of foreign proceeds of crime threat level was calculated for a number of countries

High

- ML threat to Malta is **high** and driven **primarily by the threat of foreign proceeds of crime**
- Malta's **large financial sector** is one of the biggest drivers of Malta's high threat from the laundering of foreign proceeds of crime
- **Funds generated from offences committed in high-risk nearby countries** pose a high ML threat to Malta

National ML vulnerability assessment results

Sectoral vulnerabilities reside primarily with international business activities, especially the banking, gaming and DNFBP sectors

Summary of Malta's ML sectoral vulnerability assessment

Inherent vulnerability

Sector	Sector vulnerability		Sub-sector vulnerability
	Inherent	Sub-sectors	Inherent
Banking	High	Core domestic banks	High
		Non-core domestic & international banks	High
Securities	Medium-High	Collective investment schemes	Medium-High
		Custodians	Medium-High
		Foreign exchange	Medium-High
		Fund administrators	Medium-High
		Fund managers	Medium-High
		Stockbrokers	Medium
Insurance	Medium	Insurance	Medium
Other Financial Institutions	Medium-High	Payment services	High
		Lending	Medium-Low
		Other activities	Medium
DNFBP	High	Company service providers	High
		Lawyers	High
		Trustees and fiduciaries	High
		Notaries public	Medium-High
		Accountants and auditors	Medium-High
		Real estate agents	Medium-High
		Dealers in high value goods	Medium
Gaming	Medium-High	Land based gaming	Medium
		Remote gaming	High

National ML vulnerability assessment results

Once controls are taken into account, residual ML/TF risk is highest for the DNFPB sector

Summary of Malta's ML sectoral vulnerability assessment

Residual vulnerability

Sector	Residual	Sub-sectors	Sub-sector vulnerability		
			Inherent	Controls	Residual
Banking	Medium-High	Core domestic banks	High	Medium-low	Medium-High
		Non-core domestic & international banks	High	Medium-low	Medium-High
Securities	Medium-High	Collective investment schemes	Medium-High	Low	Medium-High
		Custodians	Medium-High	Low	Medium-High
		Foreign exchange	Medium-High	Low	Medium-High
		Fund administrators	Medium-High	Low	Medium-High
		Fund managers	Medium-High	Low	Medium-High
		Stockbrokers	Medium	Low	Medium
Insurance	Medium	Insurance	Medium	Medium-low	Medium
Other Financial Institutions	Medium-High	Payment services	High	Medium-low	Medium-High
		Lending	Medium-Low	Medium-low	Medium-Low
		Other activities	Medium	Low	Medium
DNFPB	High	Company service providers	High	Low	High
		Lawyers	High	Low	High
		Trustees and fiduciaries	High	Low	High
		Notaries public	Medium-High	Low	Medium-High
		Accountants and auditors	Medium-High	Low	Medium-High
		Real estate agents	Medium-High	Low	Medium-High
		Dealers in high value goods	Medium	Low	Medium
Gaming	Medium-High	Land based gaming	Medium	Medium-low	Medium-Low
		Remote gaming	High	Low	High

National TF risk assessment results

Malta's TF threat and vulnerability rating was assessed as Medium-High, based on a number of shortcomings

TF threat

Overall TF threat	Medium-High
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- 1 Malta's **geographic location** exposes the country to terrorist organisations in neighbouring countries
- 2 **Influx of refugees from neighbouring countries** could be exploited by terrorist organisations leading to the possibility of terrorist organisations to infiltrate the EU
- 3 **Cross-border cash transactions** and high levels of remittances, pose a threat due to the difficulty of monitoring money flows

TF vulnerability

Overall TF vulnerability	Medium-High
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- 1 A **lack of transparency** exists in the NPO sector with no obligations for NPOs to register or report financial information¹
- 2 There are **weaknesses in controls of cash movements** at sea terminals and airports
- 3 Persons intending to finance terrorism can take advantage of **lack of oversight** of certain complex products and transactions

1. Since conducting the NRA, a law is being discussed in parliament to amend current law to make NPO registration obligatory

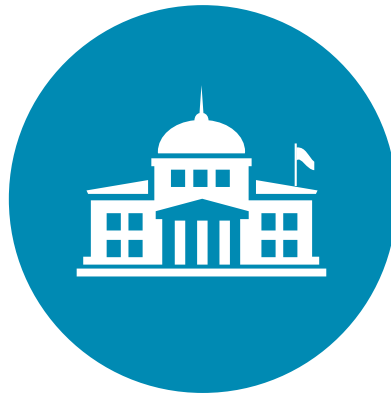
Emerging risks

Cybercrime, geopolitical risk and virtual currencies all pose potential ML/TF risks to Malta



Cybercrime

Ransomware attacks have **increased by 300% since 2015** reaching over 4,000 ransomware attacks per day in the EU in 2016¹



Geopolitical instability

Increased geopolitical instability in the past years, **especially in the Middle East and North Africa**, has impacted Malta



Virtual currencies and assets

FATF highlights virtual currencies as one of the **key emerging risks** to ML, TF, tax evasion and fraud

● Emerging threat ● Emerging vulnerability

1. PWC, *Global State of Information Security Survey*, 2016

Part 3 | National AML/CFT Strategy

National AML/CFT Strategy

In response to the National Risk Assessment, Malta has developed an AML/CFT National Strategy and supporting Action Plan

Assessment of current situation

Strategy and action plan to strengthen National Combatting Ability

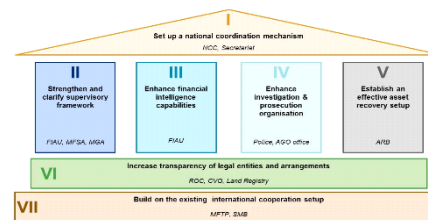
National Risk Assessment



Gap assessment

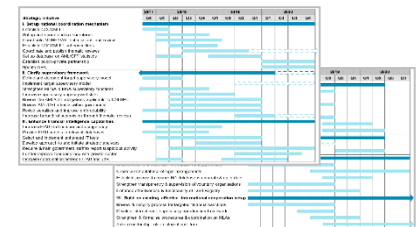


Drafted strategic initiatives



Malta's AML/CFT National Strategy was published online by the Ministry of Finance in April 2018

Defined action plan



Part 4 | Implications for the Private Sector

Importance of Private Sector engagement

Private Sector knowledge and engagement is a critical success factor for mutual evaluations

MONEYVAL assesses the knowledge and engagement of the Private Sector...

“ Financial institutions and DNFBPs understand the nature and level of their money laundering and terrorist financing risks ”
– FATF immediate outcome 4

“ It is possible that types of documents or measures which are not considered to be enforceable means may nevertheless help contribute to effectiveness (e.g. voluntary codes of conduct issued by Private Sector bodies) ”
– FATF assessment methodology

...and has reviewed negatively jurisdictions that did not have a knowledgeable and proactive Private Sector





“ While the large commercial banks have some understanding of the ML risk to which they are exposed (and to a lesser extent TF), other FIs and DNFBPs appear not to assess the ML/TF risk to which they are exposed and have not demonstrated an understanding of any such risks ”
– Iceland's MER

“ Overall, there is an inadequate understanding of risk and weak implementation of AML/CFT measures in almost all segments of the financial sector ”
– Denmark's MER

“ FIs, including the six domestic systemically important banks, have a good understanding of their risks [...] The same is not true for DNFBPs. ”
– Canada's MER

Key lessons learnt

There are four key themes evaluators often identify in peer evaluations and Malta's Private Sector should assist with evidencing strength in these

Themes	MONEYVAL requirements	Private Sector role
 Threats/ vulnerabilities evolve quickly	<ul style="list-style-type: none">• It is critical that jurisdictions spot market and legal issues	<ul style="list-style-type: none">• Feed insight and intelligence to the Public Sector
 Implementation tracking is key to demonstrating progress	<ul style="list-style-type: none">• Strategy will flag a broad range of implementation initiatives required to comply with MONEYVAL requirements	<ul style="list-style-type: none">• Facilitate and implement initiative
 Single voice-of-truth	<ul style="list-style-type: none">• The MONEYVAL process will test consistency of messages across stakeholders	<ul style="list-style-type: none">• Be efficient in feeding/challenging progress
 On-site management	<ul style="list-style-type: none">• On-site team will need a clean interface to different stakeholders to ensure seamless interface with all stakeholders and robust follow-up to questions/issues	<ul style="list-style-type: none">• Co-ordinate efficiently with Public Sector bodies

Task #1 for the Private Sector

Create ad-hoc groups to provide structured input to the Authorities

A

Expert working groups

- Industry-led groups focused on specific high-risk areas (e.g. bribery & corruption, tax evasion, real estate)
- Analyses trends and patterns and identifies typologies



Example: Australia's Fintel Alliance conducts strategic analysis and identifies typologies (e.g. money mules)

B

Operational cooperation

- Arrangement set up to support the FIAU in gathering intelligence across all banks (e.g. data on persons)
- Leverage Private Sector expertise



Example: Canada's Project Protect involves Private Sector directly in gathering intelligence on human trafficking

C

Input to policy-making

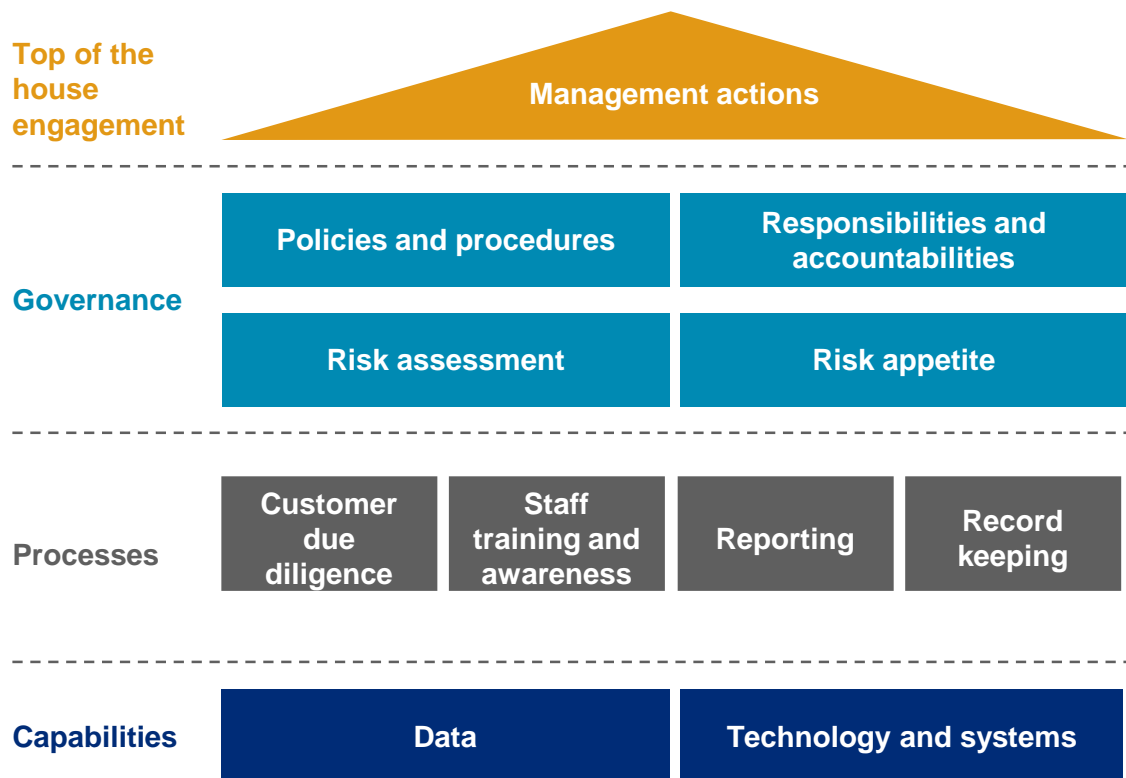
- Cooperation between Private Sector, supervisor and law enforcement to enhance national AML/CFT framework
- Focuses on areas of synergy between public and Private Sectors (e.g. KYC utility, SAR reform)



Example: The UK's JMLIT is playing a key role in shaping the SAR regime reform

Task #2 for the Private Sector

Work on improving AML/CFT governance, processes and capabilities



1. Strengthen governance mechanisms to ensure

- Comprehensive AML/CFT policies and procedures exist
- There is clarity of responsibilities internally
- Up-to-date risk assessments are maintained
- Business carried out in line with risk appetite

2. Ensure AML/CFT processes are well-defined and effective

- Invest in data, systems and technology to **enable sophisticated AML/CFT capabilities** (e.g. WorldCheck)

Part 5 | General Q&A

Q&A



Part 6 | Concluding Remarks

Tomorrow's sessions

We will build on this seminar by focusing on the specific implications of Malta's ML/TF risks for your particular sector

Today

- Provided an overview of the results of Malta's ML/TF National Risk Assessment**
- Communicated Malta's national AML/CTF efforts to enhance National Combatting Ability**
- Shared at a high-level how you as Private Sector entities can support and contribute to Malta's AML/CFT efforts**

Tomorrow

- Has a specific focus on ML/TF risks facing your sector**
 - Presents results of NRA from the perspective of different classes of your sector
 - Provides further detail on the risk drivers and control effectiveness for your specific sector
- Outlines implications of findings for Private Sector institutions**
 - Establishes role of Private Sector in mitigating ML/TF risks
 - Provides guidance on how institutions in your sector can strengthen their controls

**Thank you
for your time!**