

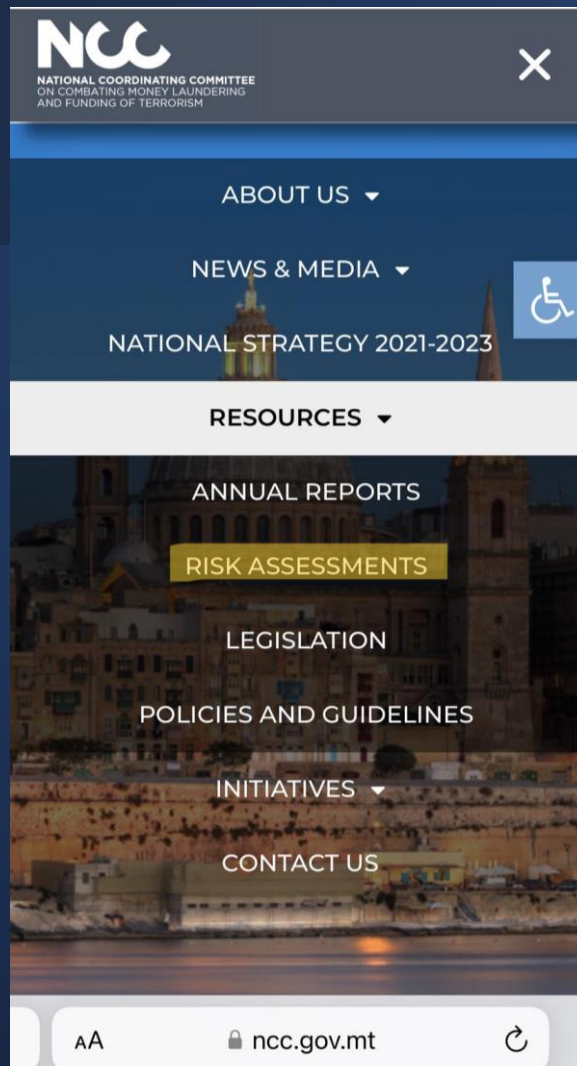
*Malta's 2023
National Risk
Assessment –
Financial
Services
Sector*

2023 NRA – process, main findings, main outcomes

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How to download the 2023 NRA:



Layout of the presentation

- 2023 NRA Methodology, Stakeholders, and Process
- Key findings of the 2023 NRA
 - ML threats and vulnerabilities
 - Sectoral residual risk
 - TF and PF/TFS
 - Focus on the financial services sector
- Way forward

2023 NRA Methodology, Stakeholders, and Process

Methodology

Methodology

- Took into consideration the:
 - EU Supranational Risk Assessment
 - 2019 Mutual Evaluation Report for Malta by MONEYVAL
 - 2021 Post-Observation Period Report for Malta
 - Reports by the European Banking Authority
 - FIAU strategic analysis (REQ data, STRs/SARs, CBAR)
 - Analysis conducted in several sectoral working groups, and from every working group a detailed restricted paper was produced that fed into the public version of the NRA.

Stakeholders



FIAU



MFSA

MALTA FINANCIAL SERVICES AUTHORITY

MBR

MALTA BUSINESS REGISTRY



TAX & CUSTOMS ADMINISTRATION MALTA



Transport Malta



2023 NRA



Office of the State Advocate



Malta Maritime Law Association



ASSET RECOVERY BUREAU MALTA



BORD TA' SORVELJANZA DWAR IS-SANZJONIJIET SANCTIONS MONITORING BOARD MALTA



BANK CENTRALI TA' MALTA EUROSISTEMA CENTRAL BANK OF MALTA

commerce.gov.mt



National Working Groups

National working groups	Chairperson	Participants
ML threats	NCC	FIAU, MFSA, MBR, MGA, OCVO, MTCA, SMB, CBM, AG, MPF, ARB, Malta Freeport Terminal, Court Services Agency
ML vulnerabilities	AG	State advocate, FIAU, MFSA, MBR, MGA, OCVO, MTCA, MPF, NCC
TF	MSS	AG, CBM, FIAU, MPF, MFSA, MBR, SMB, OCVO, MTCA, NCC
PF and TFS	SMB	AG, CBM, FIAU, MPF, MFSA, MBR, OCVO, MTCA, MSS, NCC

Sectoral Working Groups

	Chairperson	Participants
<i>Designated Non-Financial Business Professions (DNFBPs) working groups</i>		
Gaming	MGA	FIAU, NCC, private sector representatives.
TCSPs, Accountants, Auditors, Lawyers, and Tax Advisors	NCC	FIAU, MFSA, MBR, MTCA, Malta Institute of Accountancy, Chamber of Advocates, Accountancy Board, Malta Institute of Taxation, Institute of Financial Service Practitioners, private sector representatives
High Value Goods	NCC	FIAU, MBR, Commerce Department, Transport Malta, MTCA, Malta Ship Registry, Customs Department, private sector representatives.
Immovables, notaries and real estate agents	NCC	Real Estate Licencing Board, FIAU, MTCA, Notarial Council, private sector representatives (including Malta Developers Association).
<i>Virtual Financial Asset Service Providers (VFASPs), Virtual Financial Assets and new emerging technologies</i>	MFSA	FIAU, ARB, OAG, MPF, NCC, private sector representative bodies

Sectoral Working Groups

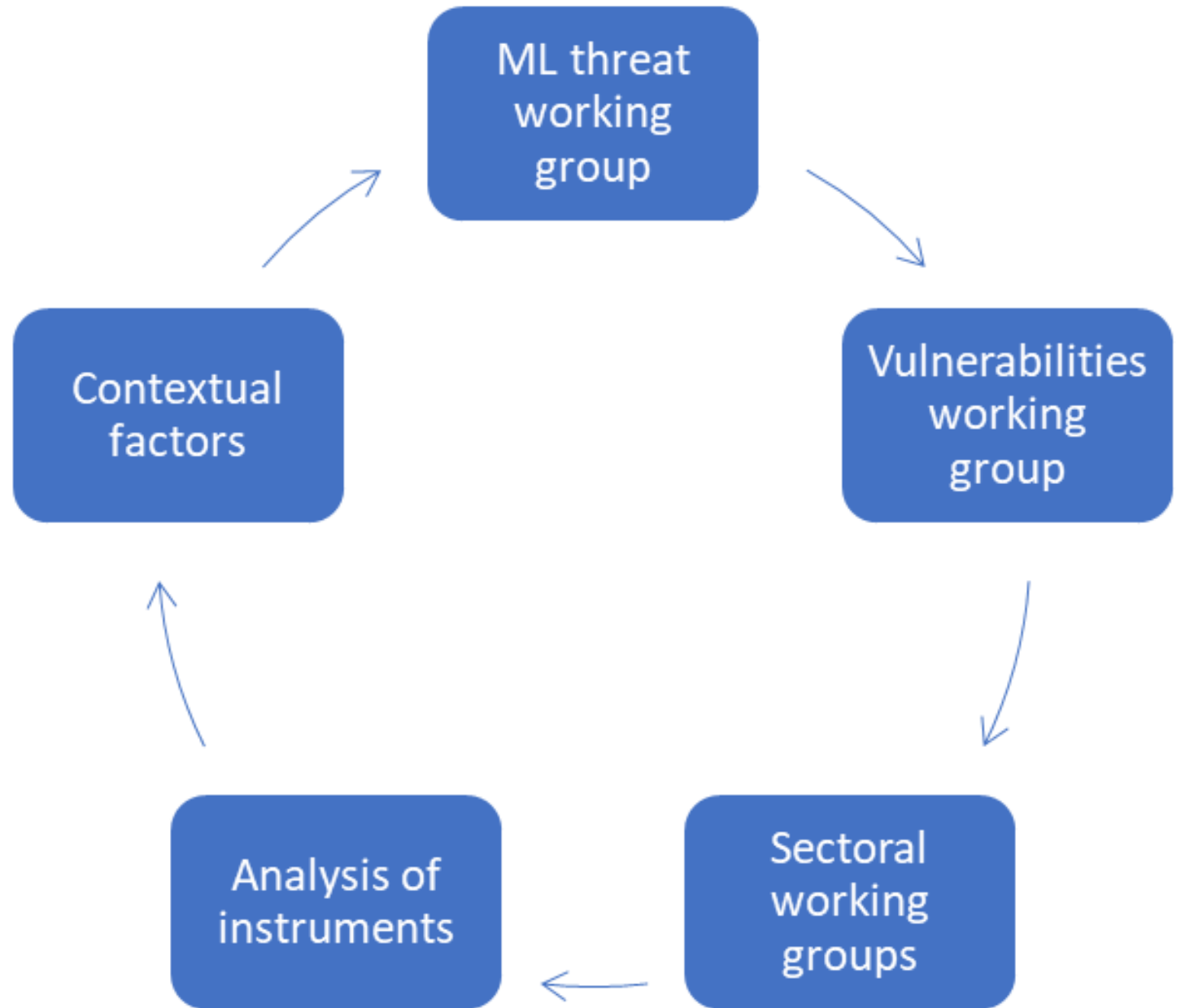
Financial Group	Sector	Working	Chairperson	Participants
Banks			FIAU	MFSA, CBM, NCC, Malta Bankers Association, core banks
Financial Institutions (money remitters, payment service providers, e-money institutions)			MFSA	FIAU, NCC, CBM, College of Stockbroking firms, Financial Institutions Malta Association, representative bodies
Investments			MFSA	FIAU, NCC, Malta Asset Service Association, representative bodies
Insurance			MFSA	FIAU, NCC, Malta Insurance Association, Malta Association of Insurance Brokers, and representative bodies
Pension schemes			MFSA	FIAU, NCC, College of Stockbroking firms, representative bodies

'Other instruments' Working Groups

Other instruments	Chairperson	Participants
Legal persons	MBR	FIAU, MFSA, MPF, Office of the AG, MTCA, NCC, private sector representatives.
Legal arrangements	MFSA	FIAU, MBR, MTCA, NCC, private sector representatives
Voluntary Organisations	OCVO	FIAU, MBR, MFSA, MPF
Citizenship / Residency by investment schemes	NCC	FIAU, MTCA, Agenzija Komunita Malta, Residency Malta Agency

2023 NRA process

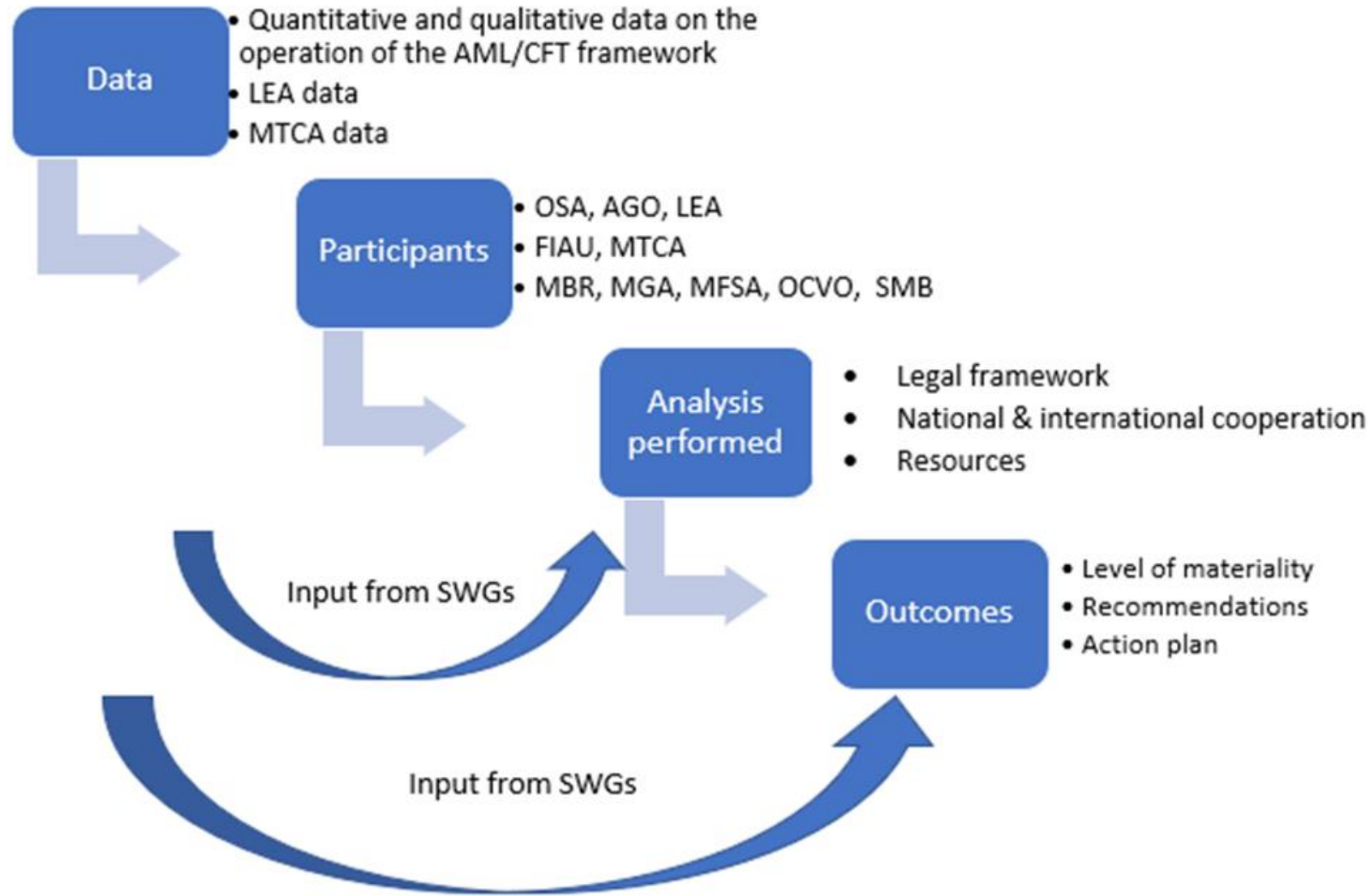
2023 NRA process



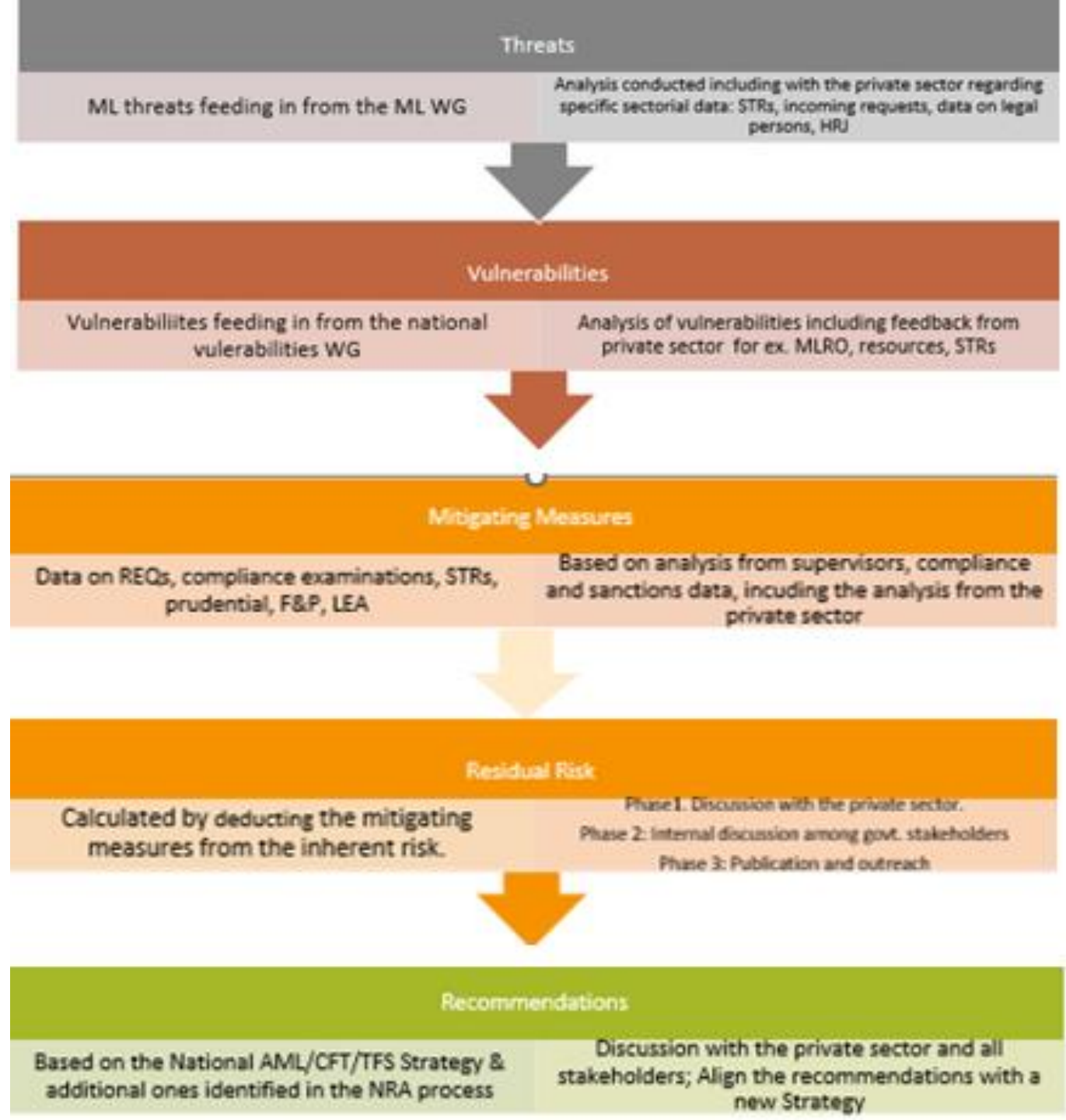
Data used in the ML threat working group



Vulnerability working group process



Outline of all the Sectoral Working Group analysis



Analysis of the other instruments



Analysis of the contextual factors

Legislative & institutional

- 2019 MER
- 2021 Enhanced FUR
- 2021/2022 ICRG process
- Capacity building
- Strengthening good governance

Size and materiality of the economy

- GDP & other economic indicators
- Relative size of various sectors (FIs, DNFBPs, VFASPs)
- Non-financial instruments
- Financial flows

Informal economy

- Size of the informal economy
- Macroeconomic analysis
- Cross-border cash flows

Key findings: Residual risk

Rating categories

Rating level of threat	Rating level of vulnerability	Rating level of effectiveness of mitigating measures	Rating level of the residual risk
Low	Low	Low level	Low
Medium-low	Medium-low	Moderate	Medium-low
Medium	Medium	Substantial	Medium
Medium-high	Medium-high	High	Medium-high
High	High	Very high	High

Residual risk 2023 NRA vs 2018 NRA

Risk assessment	2018 NRA residual risk	2023 NRA residual risk
Money Laundering – residual risk		
Financial sector		
Banking	Medium-high	Medium
Financial Institution	Medium-high	Medium-high
Investment services	Medium-high	Medium
Pensions	Medium	Medium
Insurance	Medium	Medium-low
DNFBPs		
Gaming		
Remote gaming	High	Medium
Land-based gaming	Medium-low	Medium
Recognition notice framework	N/A	Medium-high
CSPs	High	Medium-high
Accountants and auditors	Medium-high	Medium
Lawyers	High	Medium
Tax advisors	N/A	Medium-high
Dealing in immovable property	Medium-high	Medium-high
High value goods	N/A	Medium-high
VFAs and VFASPs*		Medium

Residual risk 2023 NRA vs 2018 NRA

Risk assessment	2018 NRA residual risk	2023 NRA residual risk
<i>Other instruments - ML residual risk</i>		
Legal persons	High	Medium-high
Legal arrangements	High	Medium
Citizenship & residency by investment schemes	N/A	Medium
NPOs (Voluntary Organisations)	High	Medium
<i>Other risk assessments</i>		
Terrorism Financing		Medium
Proliferation Financing and Targeted Financial Sanctions related risks	N/A	Medium

Sectors that
are 'medium-
high' residual
risk

Risk assessment	Inherent risk	Effectiveness of mitigating measure	Residual risk level
Legal persons	Medium-high	High	Medium-high
Financial Institutions	Medium-high	Substantial	Medium-high
Gaming sector: Recognition notice framework	Medium-high	Moderate	Medium-high
CSPs (including trustees and fiduciaries)	Medium-high	Substantial	Medium-high
Tax advisors	Medium-high	Moderate	Medium-high
Dealing in immovable property	Medium-high	Substantial	Medium-high
Dealing in high value goods	Medium-high	Substantial	Medium-high

‘Medium-high’ ML predicate offences

<i>Money Laundering of the proceeds of:</i>	Inherent risk	Effectiveness of mitigating measure	Residual risk level
Domestic drug trafficking	Medium-high	Substantial	Medium-high
Local organized crime	Medium-high	Substantial	Medium-high
Foreign organised crime	Medium-high	Substantial	Medium-high
Foreign crime: fraud (including cybercrime)	Medium-high	Substantial	Medium-high

'Medium-high' ML typologies

	Inherent risk	Effectiveness of mitigating measure	Residual risk level
Abuse of Maltese registered companies with no sufficient links to Malta, for ML or concealment of BO	High	Substantial	Medium-high
The use of cash and cash-based businesses	High	Substantial	Medium-high
Trade based ML abusing geographical location and transshipment activity	Medium-high	Substantial	Medium-high
Abuse of complex corporate structures for ML or concealment of BO	Medium high	Substantial	Medium-high
Laundering through high-value movables	Medium-high	Substantial	Medium-high
Laundering through immovable property transactions	Medium-high	Substantial	Medium-high

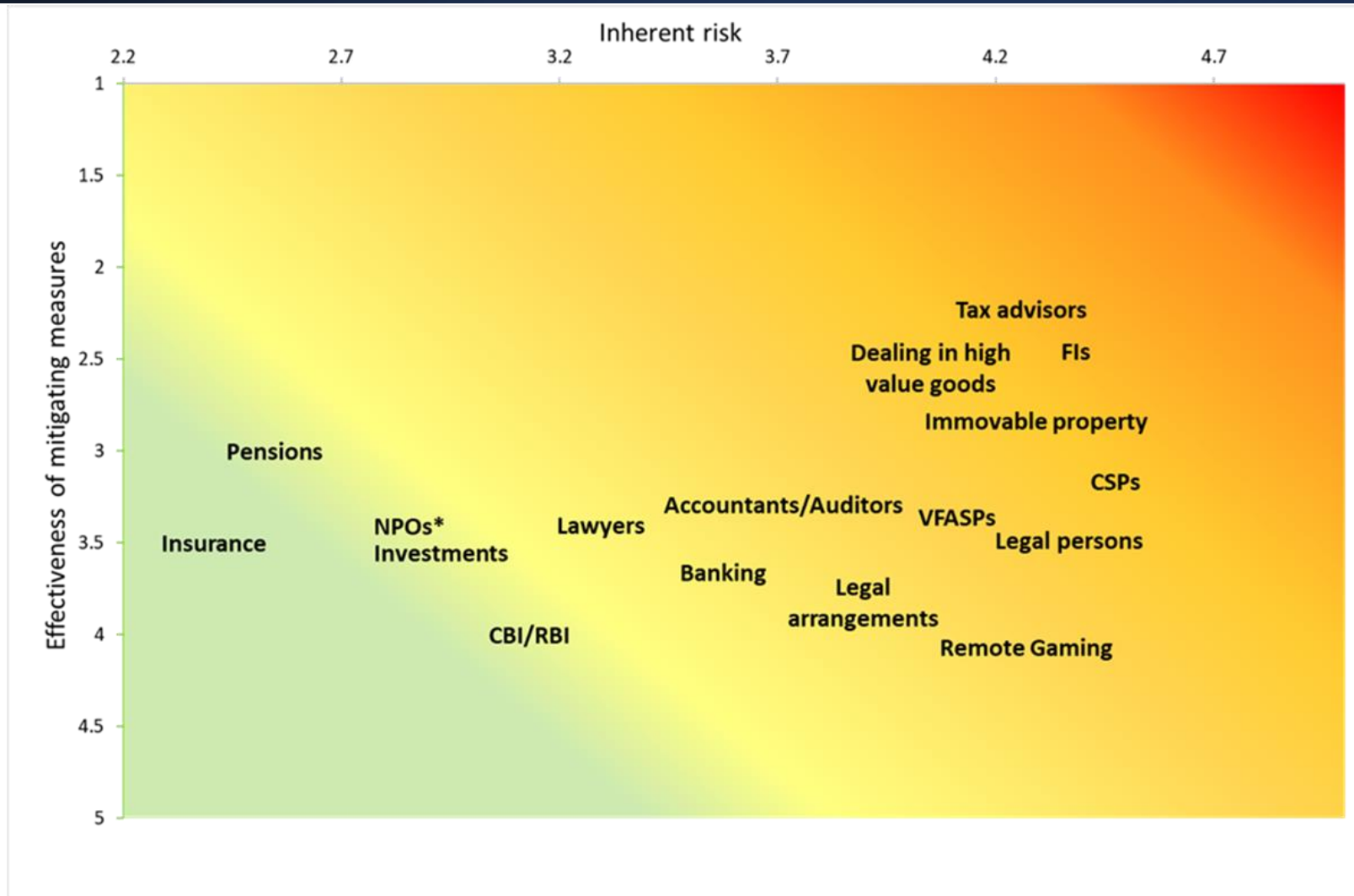
Also, to note:

	Inherent risk	Effectiveness of mitigating measure	Residual risk level
Abuse of Maltese companies as conduits in VAT fraud	Medium-high	High	Medium
Cross border cash activity	Medium	Substantial	Medium
Laundering of foreign proceeds of fraud through remote gaming operations	Medium	Substantial	Medium

Rating of vulnerabilities

	Overall rating
Vulnerability in the constitutional framework in the judicial review of sanctions that may impede supervisors from imposing proportionate, effective, and dissuasive administrative sanctions, including pecuniary penalties.	High
Challenges in monitoring activities of legal persons with no sufficient links to Malta	High
De-risking	High
Limited pool of professional human resources	High
Vulnerabilities in the judicial system including the committal proceedings, the ML trial without jury, and the virtual evidence and vulnerabilities in relation to selling of assets by the ARB during criminal proceedings	High
Lack of criminal defence regime protecting subject persons when submitting suspicious reports and there is the appropriate consent from the FIAU	Medium-high
Possible differences between sectoral MLRO approval procedures	Medium-high
Recognition framework for foreign gaming license holders	Medium-high
Obstacles to authorities' cooperating and coordination in enforcement matters	Medium-high

ML residual risk heat map



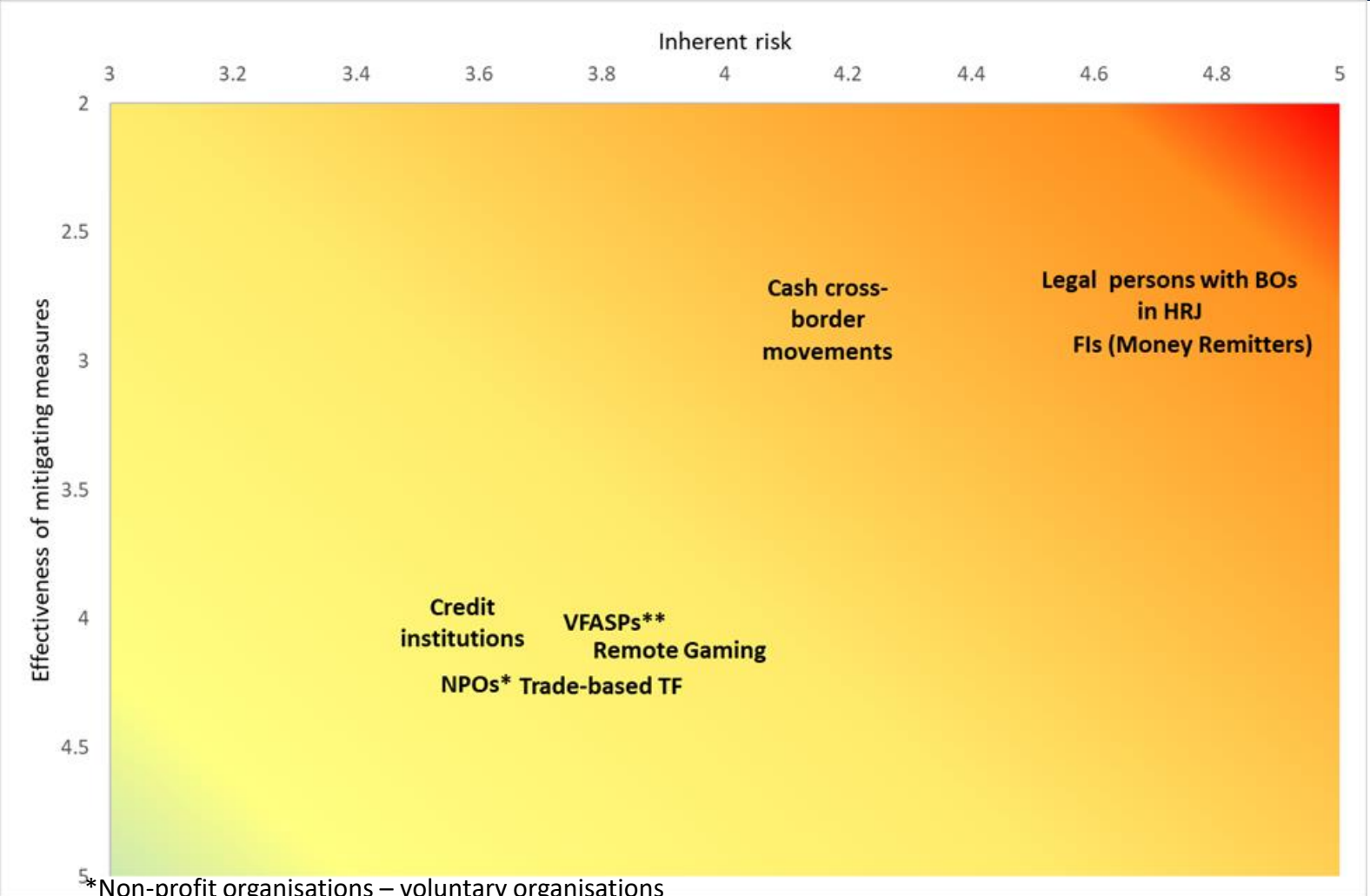
*Non-profit organisations – voluntary organisations

Key findings:
TF and PF/TFS

TF

- The overall terrorism financing risk is *'medium'*.
- The competent authorities have taken several actions in order to make sure that there is nothing left unaddressed and to ensure that Malta is assessing the risks from every possible angle.

TF residual risk heat map



*Non-profit organisations – voluntary organisations

**This refers to the licensed VFASPs.

TF residual risk

Topic	Inherent risk	Effectiveness of mitigating measure	Residual risk
Movement of funds for TF via financial institutions (remitters)	High	Substantial	Medium-high
Involvement of Maltese companies with BOs in HRJ possibly linked to TF (with no business relationship with the financial sector in Malta)	High	Substantial	Medium-high
Movement of funds for TF via cash cross-border movements	Medium-high	Substantial	Medium-high
Raising/Movement of funds for TF via disbursements of VOs (NPOs) that fall under the FATF scope	Medium-high	Substantial	Medium-high
Movement of funds for TF via credit institutions	Medium-high	High	Medium

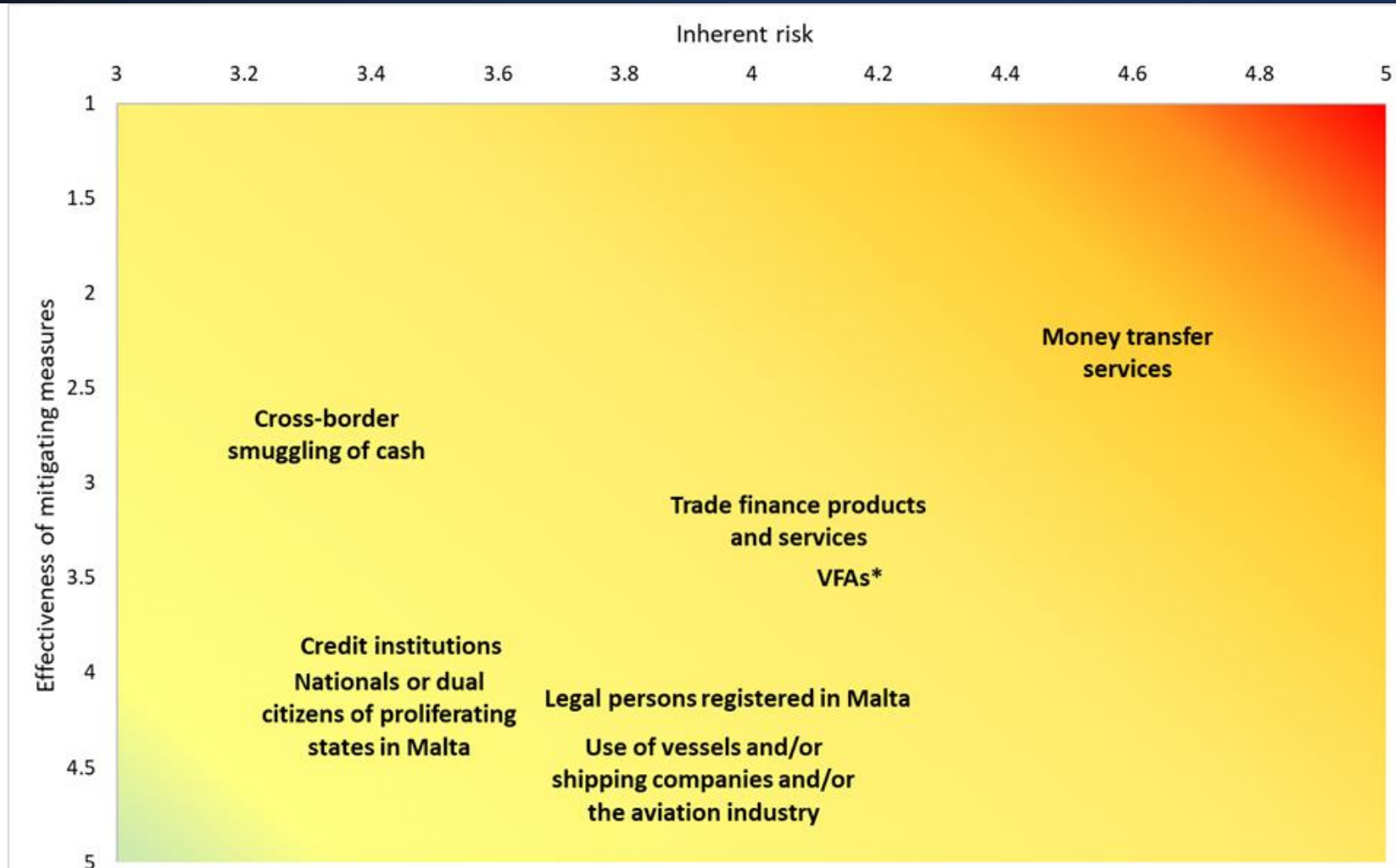
TF residual risk

Topic	Inherent risk	Effectiveness of mitigating measure	Residual risk
Movement of funds for TF via cryptocurrencies	Medium-high	High	Medium
Movement of funds for TF via remote gaming	Medium-high	High	Medium
Trade-based TF	Medium-high	High	Medium
Movement of funds through beneficiaries of Trusts	Medium	High	Medium-low
Domestic raising of funds for TF	Medium	High	Medium-low
Threat of abuse for TF by VOs (NPOs) that do not fall under the FATF scope	Medium-low	High	Medium-low
Using TF funds domestically	Medium	Very high	Medium-low

PF TFS

- The overall residual risk of PF and TFS evading is that of 'medium',
- The residual risk is driven by the risk of money transfer services used to conduct cash transfers related to procurement of goods.

PF-TFS residual risk heat map



*This refers to the licensed VFASPs.

Main PF-TFS residual risk

Risk assessment	Inherent risk	Effectiveness of mitigating measure	Residual risk level
<i>PF and TFS risks</i>	Medium-high	High	Medium
Money transfer services used to conduct transfers related to procurement of goods	Medium-high	Moderate	Medium-high
Cross-border smuggling of cash to support proliferation activities	Medium-high	Substantial	Medium-high
Use of trade finance products and services in procurement of proliferation-sensitive goods	Medium-high	Substantial	Medium

Financial sector

What sectors are included?

- Banking
- Financial Institutions
- Investment services
- Pensions
- Insurance

Banking

ML residual risk – banking sector

Topic	Inherent risk	Effectiveness of mitigating measures	Residual risk
Trade-based ML <i>(This rating is based significantly on inherent threat of this international phenomena, rather than on specific TBML indicators found in Malta)</i>	Medium-high	Moderate	Medium-high
Use of bank accounts to launder proceeds of domestic tax crime	Medium-high	Substantial	Medium-high
Exposure to high-risk jurisdictions due to the processing of international payments	Medium-high	Substantial	Medium-high
Use of bank accounts to place cash derived from proceeds of crime in the financial system	Medium-high	Substantial	Medium-high
Use of bank accounts to launder proceeds of foreign tax crime	Medium	Substantial	Medium
Use of bank account by OCGs	Medium	Substantial	Medium

ML residual risk – banking sector

Topic	Inherent risk	Effectiveness of mitigating measures	Residual risk
Use of bank accounts to launder proceeds of bribery and corruption	Medium	Substantial	Medium
Abuse of system via customers transacting with VFASPs	Medium-high	High	Medium
Exposure to jurisdictions as a result of servicing non-resident customers and/or BOs	Medium-high	High	Medium
Criminals and their associates being the beneficial owner of, holding a significant or controlling interest or holding a management function in a credit institution	Medium	High	Medium-low
Abuse of bank accounts by PEPs	Medium	High	Medium-low
Abuse of system via customers benefitting from CBI/RBI schemes	Medium	High	Medium-low

Banking sector

- Overall ML residual risk: *medium*
- What are the typologies of ML applicable here for example:
 - Use of cash and cash-based businesses
 - The use of cash in order to launder through immovable property transactions.

Banking sector

- Cross reference has to be made to the legal persons' chapter as well as the VO's chapter:
 - Only 42% of the legal persons registered in Malta have an IBAN in Malta
 - From the 55 VOs that fall under the FATF scope, 41 out of 55 VOs have a bank account. From all the enrolled VOs including those that do not fall under the FATF scope, data from CBAR shows that as at December 2021, 67% of all the VOs hold accounts with Maltese licensed credit/financial institutions.

Banking sector

- A key vulnerability in this sector was in relation to pooled accounts.
 - 2021 REQ data indicates that there are 4,190 pooled accounts with a total value of transactions flowing amounting to circa Eur20 billion.
- To continue monitoring the risk in relation to the abuse of the system via customers transacting with VFASPs.
 - This refers also to the importance of accepting transfers from crypto to FIAT only from licensed VFASPs.

Financial institutions

ML residual risk – financial institutions

Topic	Inherent Risk	Effectiveness of mitigating measures	Residual risk
Jurisdictional risk exposure due to international payments	High	Moderate	High
Misuse of FIs services from higher-risk customers (including underbanked customers)	High	Substantial	Medium-high
Exposure to high-risk jurisdictions due to non-resident customers and/or BOs	Medium-high	Moderate	Medium-high
Use of FIs to launder proceeds of foreign tax crime	Medium-high	Moderate	Medium-high
Misuse of FI services by customers who are part of complex corporate structures	Medium-high	Moderate	Medium-high
Misuse of FI sector for fraudulent activities	Medium-high	Moderate	Medium-high
Abuse of the sector by customer transacting with crypto exchanges	Medium-high	Moderate	Medium-high
Use of FIs to launder proceeds of domestic tax crime	Medium	Moderate	Medium
Criminals and their associates holding or being the beneficial owner of a significant or controlling interest or holding a management function	Medium	High	Medium-low

Financial institutions

- Overall ML residual risk: ***medium-high***
- What are the typologies of ML applicable here:
 - Use of cash and cash-based businesses
 - Misuse of FI services by customers who are part of complex corporate structures

Financial institutions

- Note also the residual risk in TF in relation to FIs ('medium-high' rating for the movement of funds for TF via FIs).
- Better mitigating measures are needed especially when taking into consideration the fact that:
 - data from the FIAU REQs indicates that, as at end of 2022, the FI sector serviced approximately 3.7 million customers in comparison to 1.4 million customers by the Maltese banks.
 - around 60% of money remittance payments were sent to third countries, mainly as a result of the third country nationals working in Malta and remitting their funds to their countries.

Investment services

ML residual risk – investment services

Topic	Inherent risk	Effectiveness of mitigating measure	Residual risk level
Misappropriation of funds	Medium-high	Substantial	Medium-high
Organised Crime	Medium-high	Substantial	Medium-high
Foreign bribery and corruption	Medium-high	Substantial	Medium-high
Foreign tax crime	Medium-high	Substantial	Medium-high
Domestic tax crime	Medium	Substantial	Medium
Unlicensed fund structures	Medium	Substantial	Medium
Criminals and their associates holding or being the beneficial owner of a significant or controlling interest or holding a management function.	Medium	High	Medium-low
Illicit use of investment securities by companies with foreign links	Medium	High	Medium-low
ML schemes linked to customers from residence and citizenship schemes	Medium	High	Medium-low
Use of investment securities to place cash derived from proceeds of crime	Medium-low	High	Medium-low

Investment services

- Overall ML residual risk: *medium*
- Residual risk is driven by ML through:
 - Misappropriation of funds,
 - Organised crime
 - Foreign bribery and corruption
 - Foreign tax crime

Investment services

- As a way forward:
 - Continue monitoring the use of cash
 - Continue assessing ways of addressing the widespread use of nominees and similar arrangements to hold investments.
 - Continue monitoring the issue of crowdfunding as to date these are not subject persons.
 - Majority of license holders did not submit an STR. At least 90% of Fund Managers, Depositaries, Collective Investment Schemes and Recognized Fund Administrators did not raise an STR.

Pensions services sector

ML residual risk – pensions services sector

Topic	Inherent risk	Mitigating measure	Residual risk level
High-net-worth individuals	Medium	Substantial	Medium
Abuse through the reliance of intermediaries and their AML/CFT structure	Medium	Substantial	Medium
Exposure to jurisdictions: non-residents	Medium-low	Substantial	Medium-low
Complex structures	Medium-low	Substantial	Medium-low
Tax crime and related ML	Medium-low	Substantial	Medium-low

Pensions services sector

- Overall ML residual risk: ***medium-low***
- Residual risk is driven by ML through:
 - High-net worth individuals
 - Abuse of the intermediaries and their AML/CFT structure
- Key ML vulnerability:
 - Understanding how money is flowing as a lack of understanding increases the possibility that this may lead to tax crime.

Insurance services sector

ML residual risk – insurance services sector

Threat	Inherent risk	Effectiveness of mitigating measure	Residual risk level
Abuse of the system via the exposure to non-residency	Medium	Substantial	Medium
Abuse of the insurance services for fraudulent activity	Medium-low	Substantial	Medium-low
Use of illicit proceeds to purchase life insurance	Medium-low	High	Medium-low
Transactions being carried out via cash or through other unregulated activity	Medium-low	High	Medium-low

Insurance services sector

- Overall ML residual risk: ***medium-low***
- There is a lower inherent risk in this sector.
- Enhancement in the mitigating measures to maintain this lower residual risk to mitigate against:
 - Abuse of the system via the exposure to non-residency
 - Abuse of the insurance services for fraudulent activity.

Way forward

Way forward

- Outreach on the 2023 NRA.
- NRA will be updated every three years in line with the National AML/CFT/TFS Strategy that addresses the findings of the NRA.

Thank you for your kind attention

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