

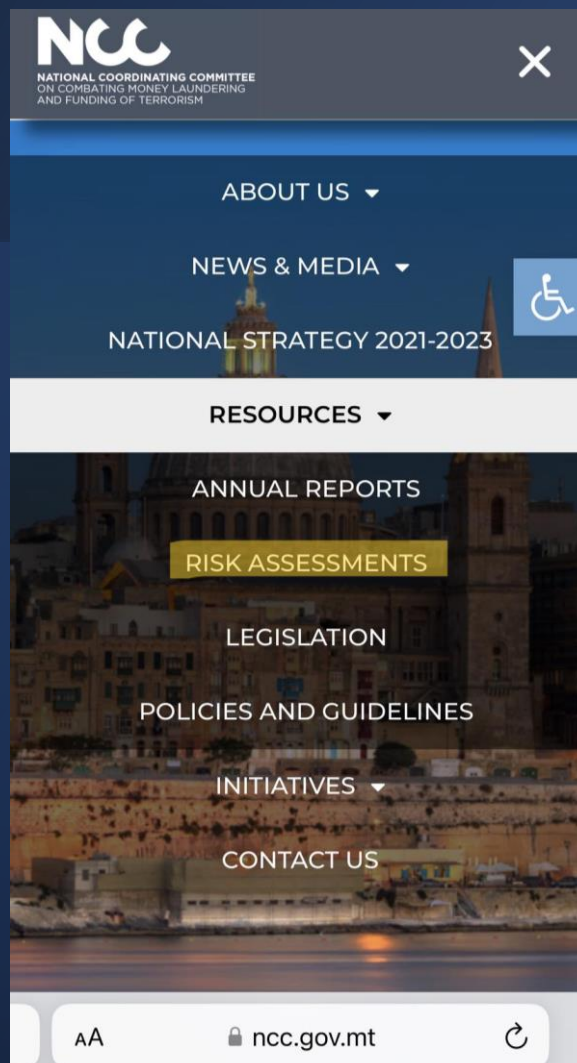
Malta's 2023
National Risk
Assessment –
*Gaming sector
and Virtual
Financial Asset
Service Providers*

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 Gaming sector and the Virtual Financial Asset Services and the Virtual Financial Asset Service Providers
- Way forward

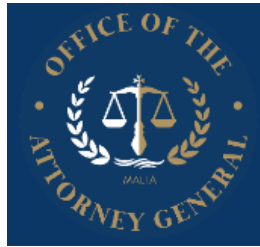
2023 NRA Methodology, Stakeholders, and Process

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



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 ĊENTRALI TA' MALTA EUROSISTEMA CENTRAL BANK OF MALTA

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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

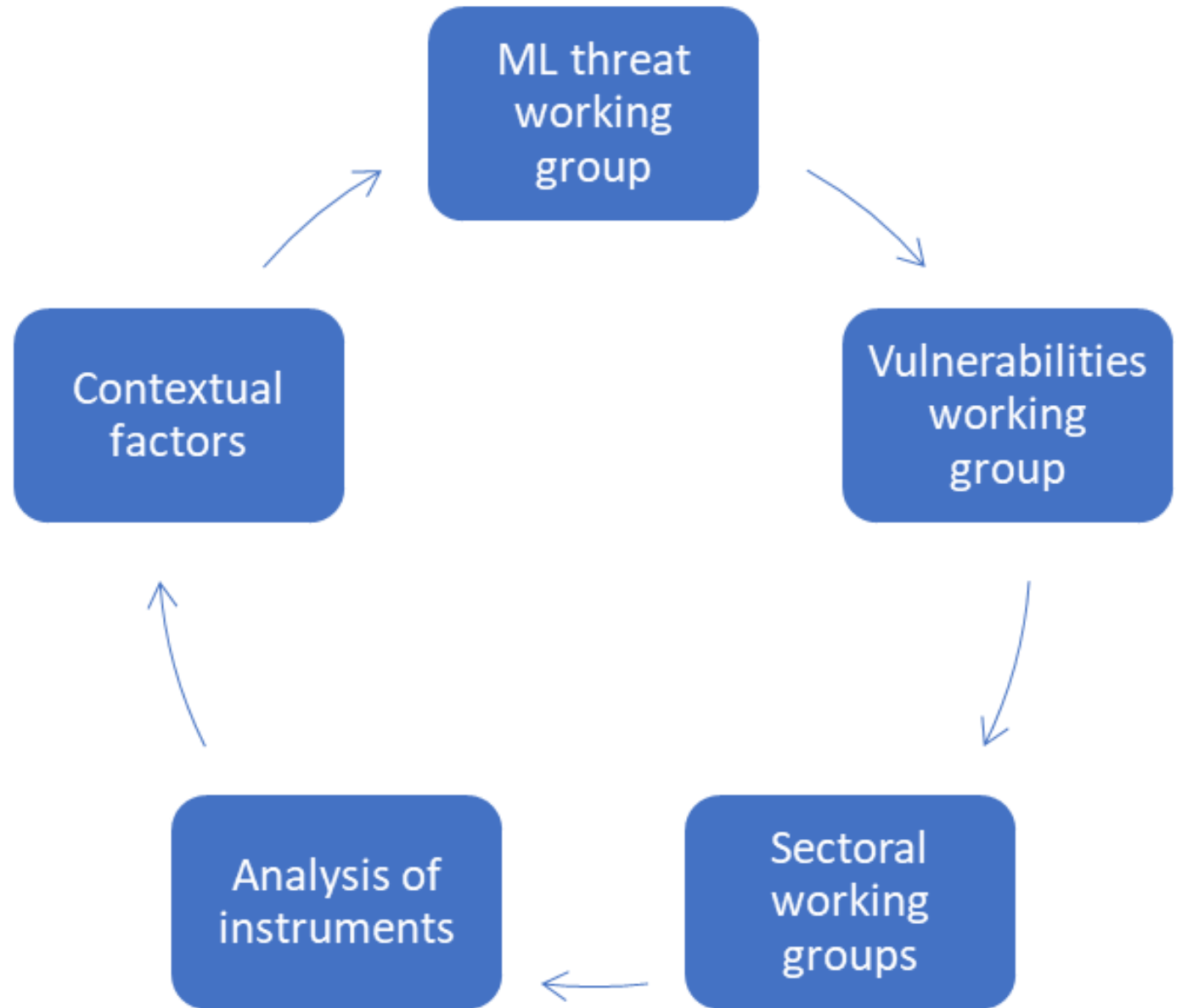
Financial Group	Sector	Working	Chairperson	Participants
Banks			FIAU	MFSA, CBM, NCC, Malta Bankers Association, core banks
Financial Institutions (money remitters, payment service providers, e-money institutions)			MFSA	FIAU, NCC, CBM, College of Stockbroking firms, Financial Institutions Malta Association, 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

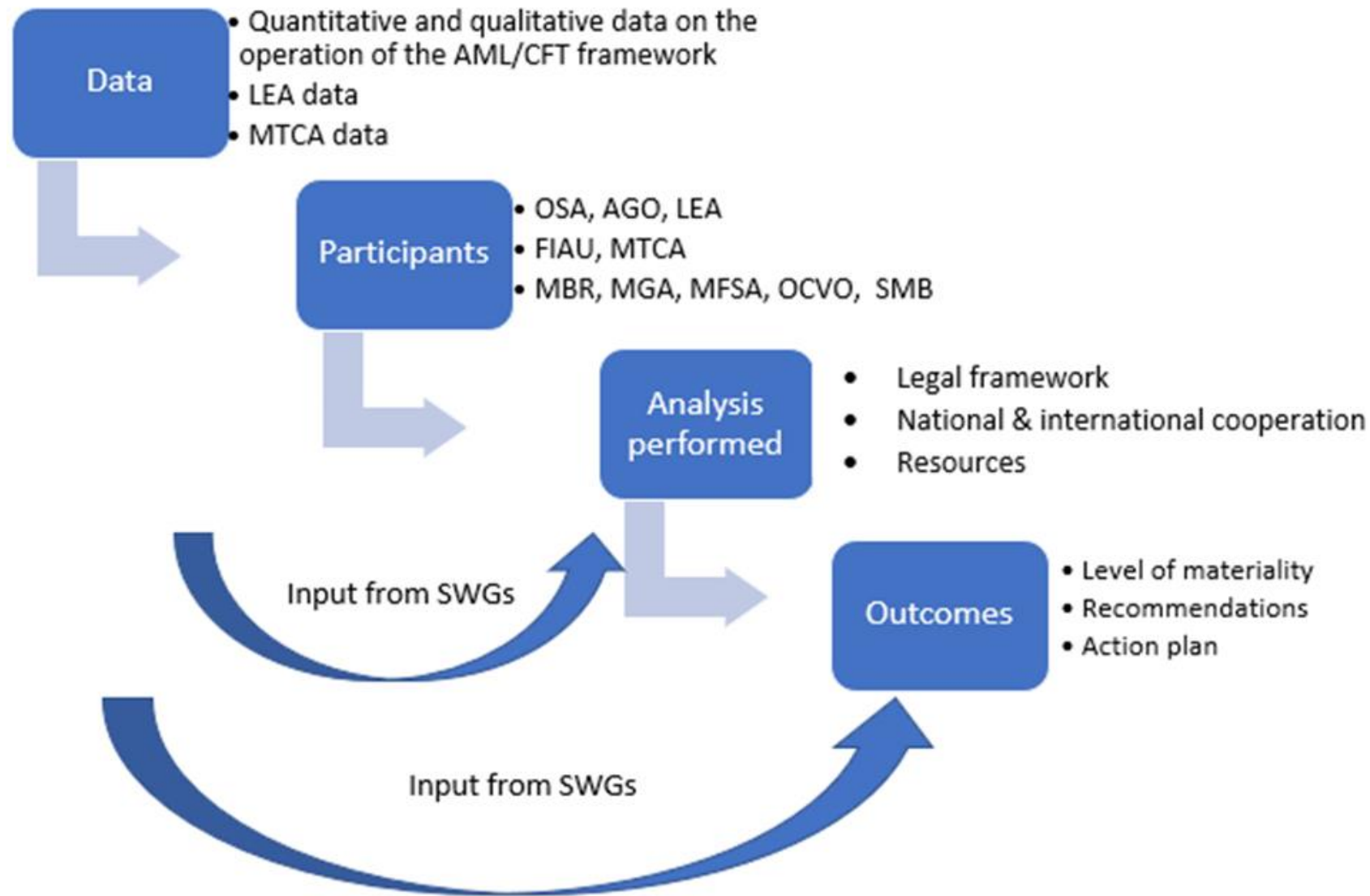
2023 NRA process



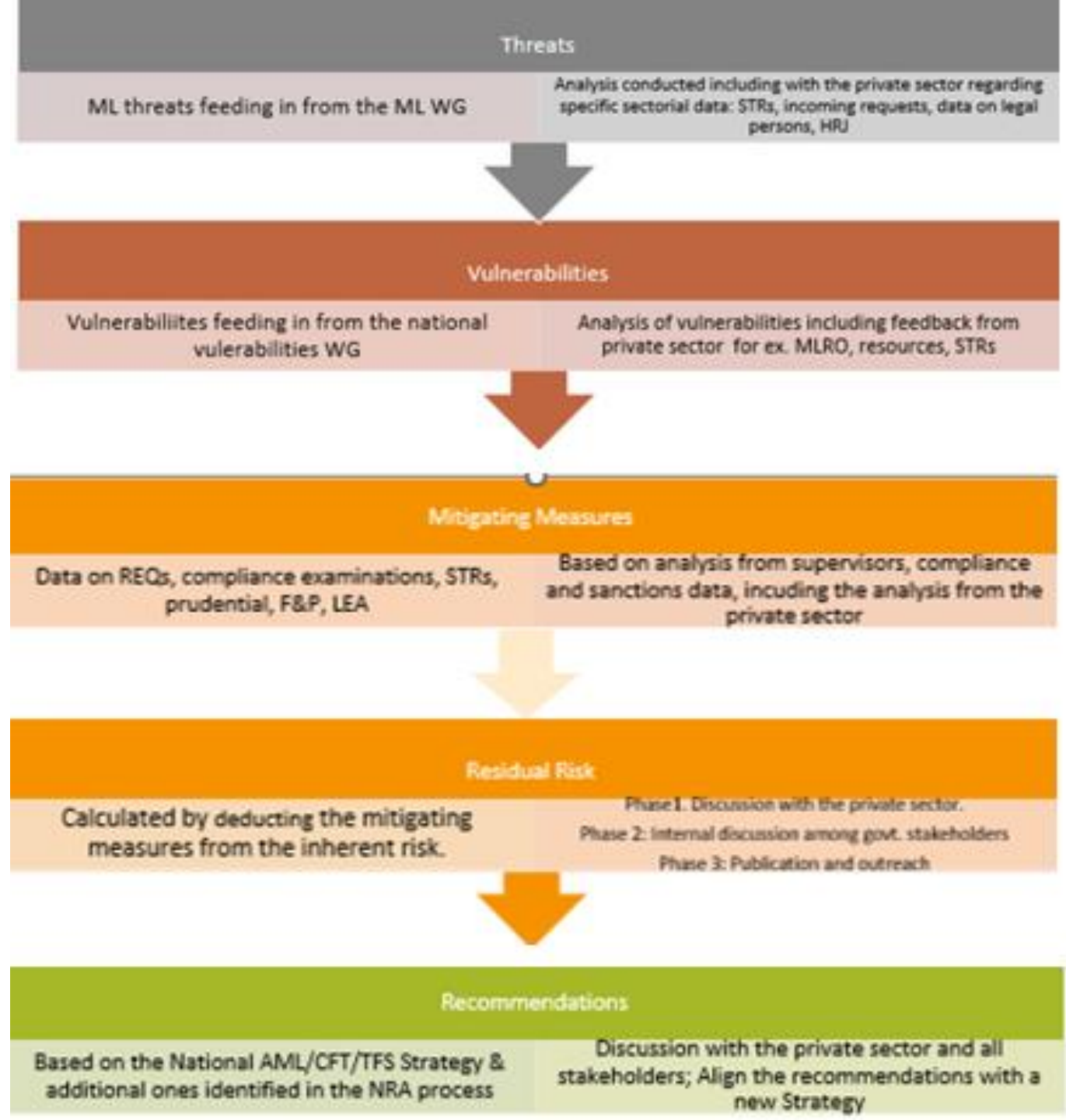
Data used in the ML threat working group



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

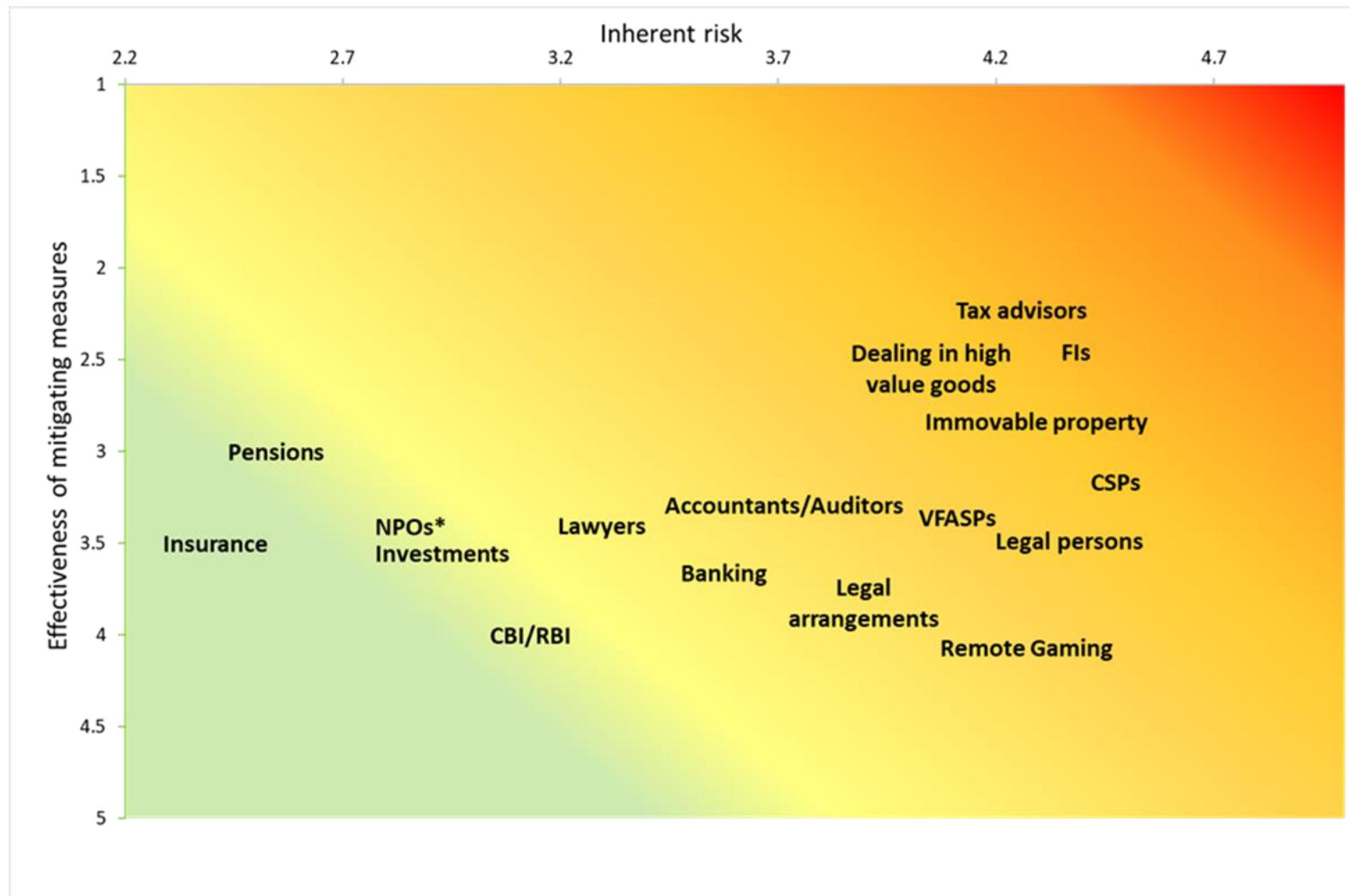
Also, to note:

	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



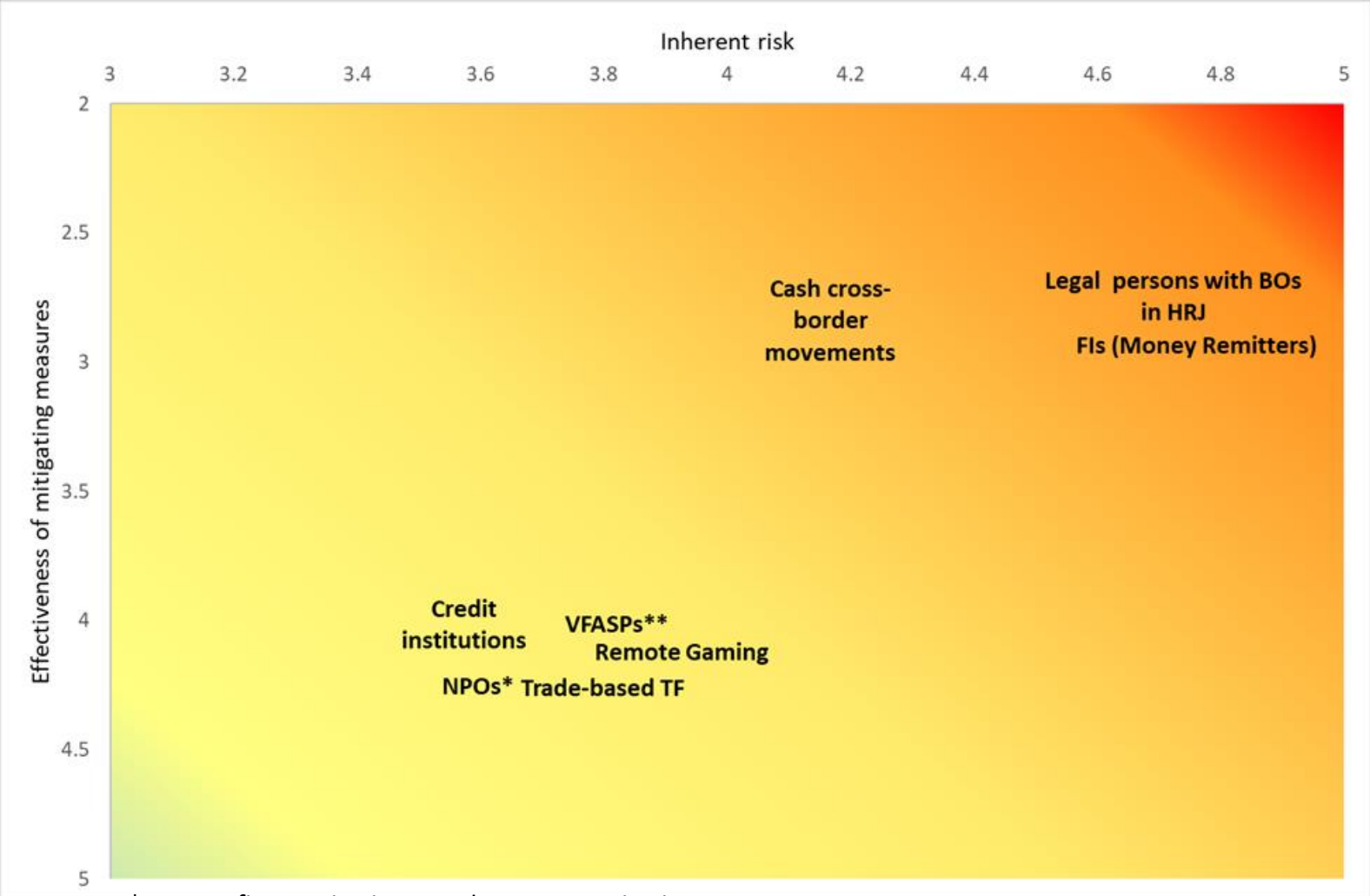
*Non-profit organisations – voluntary organisations

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

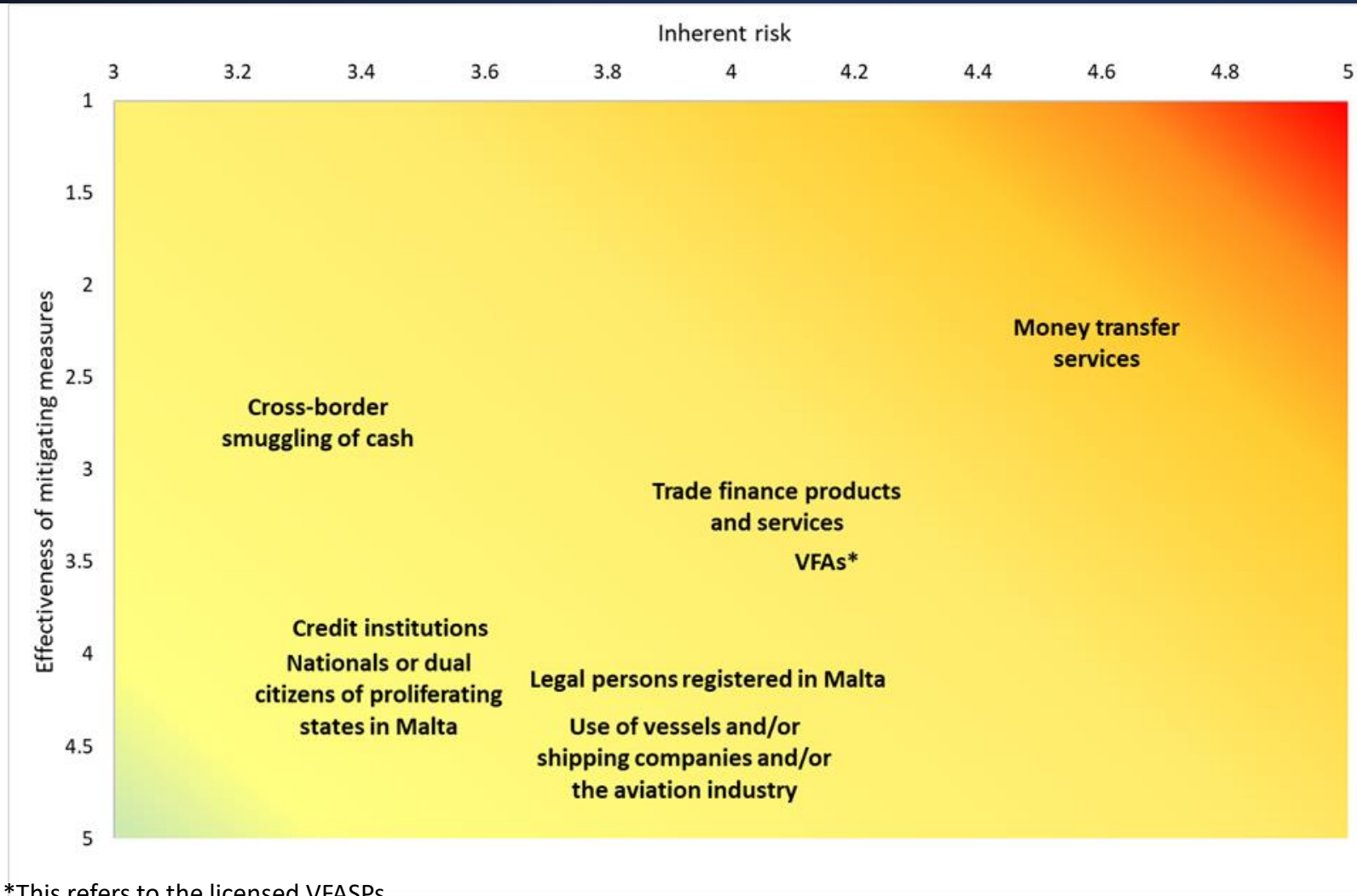
TF residual risk

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 proliferation financing and targeted financial sanction 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

Gaming sector

ML residual risk – remote gaming

Topic	Inherent risk	Effectiveness of mitigating measures	Residual risk level
Placement of criminal proceeds through use of VFAs as a payment method	Medium-high	Substantial	Medium-high
Placement of criminal proceeds through means of payment specifically use of cash or cash facilitated payment methods	Medium-high	High	Medium
Licensed institutions controlled by criminals and their associates including through complex structures	Medium-high	High	Medium
Activity by un-licensed entities	Medium-high	High	Medium

Remote gaming

- Overall residual risk: *medium*
- What are the typologies of ML applicable here for example:
 - Laundering of foreign proceeds of fraud through remote gaming operations.
 - Key driver of the ML residual risk in this sector is the placement of criminal proceeds through use of VFAs as a payment method.

Residual risk – land-based gaming

Topic	Inherent risk	Effectiveness of mitigating measures	Residual risk level
Placement of criminal proceeds including through use of cash or cash facilitated payment methods	Medium-high	High	Medium
Licensed institutions controlled by criminals and their associates including through complex structures	Medium-high	High	Medium
Activity by un-licensed entities	Medium-high	High	Medium

Land-based gaming

- Overall residual risk: *medium*
- What are the typologies of ML applicable here for example:
 - Use of cash

Residual risk – remote and land-based gaming by product

	Inherent Risk	Effectiveness of mitigating measure	Residual risk level
Remote Gaming Sector	Medium-high	High	Medium
Land based casinos	Medium-high	High	Medium
Linked Offerings (Electronic Gaming Machines and Sports Betting)	Medium-high	High	Medium
Gaming parlours	Medium	High	Medium-Low
Low risk games – land based	Medium-Low	High	Medium-Low
Bingo halls – land based	Low	Very high	Low
National lotteries	Low	Very high	Low

Residual risk – recognition notice framework

Topic	Inherent risk	Effectiveness of mitigating measures	Overall residual risk level
Abuse of the system through recognition notice framework	Medium-high	Moderate	Medium-high

Recognition notice framework

- Overall residual risk: ***medium-high***
- What is the key vulnerability here?
 - There is a heavy reliance on the compliance of operators to notify the MGA.
 - Reliance on foreign regulators where their AML/CFT regulatory and supervisory framework of foreign regulators might not be equivalently robust as that adopted by Malta.

VFAs and VFASPs

Residual risk – VFAs and VFASPs

Topic	Inherent risk	Effectiveness of mitigating measures	Residual Risk
Abuse of VFAs through the licensed VFASPs			
Domestic resident victims of crime involving crypto unrelated to domestic VFASPs (cybercrime, fraud)	High	Substantial	Medium-high
Tax crime proceeds laundered through the use of crypto currencies	Medium	Low	Medium-high
Circumvention of sanctions through cryptocurrencies	Medium-high	High	Medium
Use of cryptocurrencies for TF purposes	Medium-high	High	Medium
Abuse of cryptocurrencies for ML purposes through licensed domestic VFASPs by foreign residents	Medium-high	High	Medium
VFASPs being controlled by the criminal and their associates	Medium	Very high	Medium-low

Residual risk – VFAs and VFASPs

Topic	Inherent risk	Effectiveness of mitigating measures	Residual Risk
Abuse of VFAs through the unlicensed VFASPs			
Abuse of cryptocurrencies for ML purposes in Malta through foreign unlicensed VFASPs	High	Substantial	Medium-high
Abuse of cryptocurrencies for ML purposes through unlicensed domestic VFASPs by local residents	Medium	High	Medium-low

VFAs and VFASPs

- Very important that we need to distinguish between:
- Licensed VFASPs in Malta
- Unlicensed VFASPs in Malta
- Laundering through crypto currencies (regardless of where there is a VFASP involved or its location) in Malta or by Maltese.

VFAs and VFASPs

- When assessing TF:
 - The risk of movement of funds for TF via licensed VFASPs is 'medium' because here there are the mitigating measures are more effective.
- When assessing PF-TFS
 - The risk of circumvention of sanctions through licensed VFASPs is 'medium' because again here the mitigating measures are more effective.

VFAs and VFASPs

- Overall residual risk: *medium*
- Some salient vulnerabilities:
 - Lack of education for the general public especially when dealing with unlicensed VFASPs. This has to be seen in the context where in 2021, around 25% of the financial crime investigations were in relation to crypto-related asset cases.
 - Unregulated counterparts
 - Limited talent pool – leading to same officials occupying multiple involvements.

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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