NEWS

All hands must be on deck to repair Malta's reputation, say financial services stakeholders

Rebecca Anastasi

Representatives of the financial services sector, including the Institute of Financial Service Practitioners (IFSP) and the Malta Banking Association (MBA), have urged all stakeholders, regulatory bodies and practitioners to acknowledge the urgency of repairing Malta's negative reputation, stating that everyone must play their part.

Failure to do so could result in serious, and far-reaching, consequences, Marcel Cassar, the MBA Chairman said, in comments decrying the difficulties facing the industry in Malta. He further asserted that the problem has become worse as a result of the events of the past few months, and went so far as to say that the negative sentiment clouding Malta's reputation has outshone the economic progress the country has made in the past few years.

Wayne Pisani, the President of the Institute of Financial Services Practitioners, also stressed the need to work "collectively as a country and an industry", with all hands on deck to remedy the situation, using "correct demonstrable actions". He went on to say that "the status quo is not acceptable" but stressed that "it is not right to judge a country by the misdemeanour of the few."

These comments come in the wake of a rocky 2019, in which Malta's financial services sector has faced substantial pressure, with the country increasingly being seen as a high-risk jurisdiction, as also recently stated by Bank of Valletta's new CEO, Rick Hunkin. To add insult to injury, international news last week pointed to ten Maltese companies Angolan authorities believe to have been used by the country's dictator's billionaire daughter, Isabel dos Santos, to siphon money out of state enterprises, leading local firm Ganado Advocates – the companies' corporate providers – to sever links.

In response to questions sent by The Malta Business Observer, Mr Cassar said all "players, not just the banks" have their part to play in protecting the integrity of Malta's financial services industry and the island's reputation, and they must do all that was necessary to mitigate any further damage, underlining that the necessary structures are in place. CSPs, lawyers, accountants, estate agents, and all who promote company registration in Malta, need to carry out proper due diligence – particularly in the case of PEPs – if necessary declining clients, with Malta's regulatory authorities affecting their duties of oversight, investigation and enforcement, he said. "It ultimately boils down to that, it's not rocket science!"

Failure to do so could result in further difficulties, he explained. "Obviously the effects, whether directly or indirectly, can be severe. Reputational damage to the financial services industry is likely to be mirrored by foreign investment 'staying away' from Malta. Even local investment may get postponed if not abandoned outright," he noted.

Such a marked slow-down in economic activity "impacts on business and jobs, increasing the risk of firms and families postponing, or even defaulting, on their financial commitments," and this would have a knock-on effect on the health of local banks, he continued. "Banks are also exposed to sectors, like hospitality, rental accommodation, hotels and real estate, that are very dependent on the financial services industry."

Indeed, Malta's "relatively small economy and high dependence on services" make the island more vulnerable to "externalities", he underlined, saying that "reputational damage is an added worry we can do without". He pointed to "economic projects" such as the IIP scheme, and crypto-space together with "well-publicised incidents involving banks and the delay of Malta's National Risk Assessment, coupled by a deterioration in AML/CFT enforcement" as having exacerbated the situation.

"The tone must start from the top and it has to be strong, urgent and consistent. We must all walk the talk and the need for impeccable professional conduct and highest standards of governance must become part of our DNA." – Marcel Cassar, MBA Chairman

In addition, the 2019 publication of "the IMF's Financial System Stability Assessment followed by the Moneyval report only served to reinforce the 'high-risk' stamp on Malta," he asserted, saying that, for years, the MBA has been flagging the vital need to protect Malta's reputation "since it is the bedrock of our financial services industry – it has always been and always will be." He noted that, even in 2016, the MBA had warned about the risk of correspondent banks exiting Malta for a variety of reasons, which included "cross-border de-risking, regulation, international sanctions and risk of fines and penalties, to name a few."

Mr Cassar noted that the "tone must start from the top and it has to be strong, urgent and consistent. We must all walk the talk and the need for impeccable professional conduct and highest standards of governance must become part of our DNA." In this regard, he sees a resolve on behalf of the new administration, to address the current situation.

"It is satisfying to note the overarching resolve of Government to raise governance standards in general, which should further support the efforts of the MFSA at strengthening supervision and enforcement over players within the sector," the Chairman said, underlining that there is "considerable private investment in the Maltese economy at stake and history shows that our entrepreneurial spirit will do everything possible to safeguard our hard-earned well-being."

On behalf of the IFSP, Mr Pisani underlined that the Institute is "in constant debate with stakeholders", both with practitioners in the field and with the authorities and the regulators, such as the MFSA, the MBR and the FIAU, to identify "effective measures to safeguard Malta's reputation" and "to raise the bar in the effective application of good governance and ethical principles", with the latter being a key topic in the entity's forthcoming conference, on 21st February. Furthermore, to this end, it "has made proposals and representations to address identified weaknesses which we expect to be rolled out in the coming quarter."

He noted that the Malta Business Registry, together with the sector's corporate services practitioners, are "working closely to continue raising the bar on the type of businesses and legal entities setting up in Malta," even refusing work and "shedding clients and relationship", in accordance with the evolving nature of AML legislation and in response to the increasing awareness of "brand damage". Indeed, "certain client acceptance or transactional fact patterns, particularly those relative to source of wealth enquiries, that might have been considered regulatorily acceptable in the past are less likely to be acceptable today," he explained, saying that "this demonstrates the ongoing need for healthy professional scepticism at all times."

Crucially, as a financial services practitioner himself, Mr Pisani noted the "association risk" potential clients are flagging, describing recent political events in the "post-Moneyval 'cure' period" as having been the "perfect storm", and stressing that "how we deal with these matters over the next six to nine months will be of crucial importance."

He also acknowledged that it has become more difficult recently to work in the sector, though he couldn't pinpoint the reason why to a single event, but, rather, pointed to a series. "Aside from the global developments in fiscal and transparency policies, it is also a reality that it has now become easier for competing jurisdictions to dismiss Malta. Coupled with this, there is the difficulty to bank in Malta,

continued on page 6

MFSA focused on building necessary regulatory capacity, improving effectiveness

continued from page 5

when the jurisdiction is, ironically, simultaneously seen as heavy going in its AML compliance and documentation requests. And, in post-Brexit work flows, we are losing out on what could be a positive cycle (given our language asset and so on)," he explained.

Echoing many of these sentiments, John Cassar White, a financial consultant, with extensive experience in banking and a former Chairman of BOV, stressed the need for stakeholders to "apply the anti-financial crime regulations scrupulously" and show that "we do not tolerate those who abuse our investment incentives".

Strict enforcement was not optional and there should be no "cut corners when applying international anti financial crime regulations", he asserted. "Only when we show commitment to respecting international AML regulations will we win bank the full respect of international institutions." To this end, all investors – whether local or foreign – must be subjected to tough scrutiny.

Mr Cassar White pointed positively to the strategies banks have recently employed to de-risk, though he noted – with reference to clients' complaints of too much red tape – that investment in automated systems will be needed to make the due diligence process more reliable and faster. "I believe that all banks in Malta are now fully committed to observing their anti-money laundering obligations meticulously. This should help to restore the image of the financial sector in the eyes of international regulators," he said.

Locally, increasing supervisory and enforcement effectiveness, and the building of the necessary regulatory capacity, in order to restore Malta's image is a priority for the MFSA, the CEO, Joseph Cuschieri, said. To this end, the Authority is investing in more technology, information systems and process enhancements – as well as human resources, with more focused skillsets, he said, going on to explain that it is making "good progress in changing the compliance culture" within the financial services sector.

He emphasised that, as a jurisdiction, Malta's reputational challenges can be remedied with the necessary reforms in law enforcement, strengthening of institutions and overall improvement in the compliance culture. "In simple terms, we need to strengthen the effectiveness of our institutions, law enforcement and the overall quality of our regulatory system," he said.

And, the MFSA plays a role in this. "The MFSA is also placing risk management and AML/CFT oversight at the centre of its strategy, having recently published its Risk Culture and Risk Appetite Statements for the better identification, evaluation and communication of its approach to risk. We need to become more effective in our oversight and the only way we can do that is by inspecting more often licensed entities which are deemed to be medium or high risk and take remedial action quickly."

"It is not right to judge a country by the misdemeanour of the few." – Wayne Pisani, IFSP President

Yet, Mr Cuschieri – echoing what other stakeholders have said – stressed that "everyone needs to carry the weight" of the task ahead. "CSPs, practitioners, licensed entities and the rest of the institutions who are directly or indirectly involved in the financial services sector. If we work together, we will address all the challenges ahead of us."

This must be a collaborative effort, he said. Indeed, the Authority is working with other stakeholders in the sector, improving outreach. "As from last year, we started publishing our supervisory expectations and programme, through which we outlined a number of best practices which licensed entities are expected to adhere to, and providing increased training and support to the industry. The MFSA is also working closely with international bodies, such as the ECB, CoE Moneyval, IMF, EBA and so on, explaining to them the work we are doing to achieve a more robust regulatory system," he continued.

Effectiveness is key, he reiterated, positively noting that Malta still "continues to attract a steady flow of foreign direct investment" and that this has continued to grow even recently. "This shows that at an international level there remains an appreciation of our legislative and regulatory framework. We simply need to improve effectiveness!" he concluded.