FINDINGS OF THE NATIONAL RISK ASSESSMENT ON MONEY LAUNDERING AND TERRORIST FINANCING OF MAURITIUS

FATF RECOMMENDATION 1

Countries **should identify, assess, and understand the money laundering and terrorist financing risks for the country**, and should take action, including **designating an authority or mechanism to coordinate actions to assess risks, and apply resources**, aimed at ensuring the **risks are mitigated effectively**

KEY CONCEPTS IN THE NRA CONTEXT

Risk – risk is a function of three factors: threat, vulnerability and consequence

Threats – actions taken by criminals to abuse the financial system to facilitate money laundering or terrorist financing

Vulnerabilities – the weaknesses or gaps that can be exploited by the threat or that may support or facilitate its activities

Consequences –impact or harm that ML or TF may cause.
The assessment of consequences is included in the assessment of threats and vulnerabilities as opposed to being treated as a separate independent factor.

DATA COLLECTION PROCESS AND SOURCES OF INFORMATION

1. **Exercise started in 2017 and was completed in August 2019**
2. **Assessment Period:** 2014-2017 but updates provided where possible
3. **Sources of Information:** Primary and Secondary sources

   - Data/Statistics from the relevant authorities

   - Intelligence

   - Information gathered from surveys administered to the private sector

   - Information gathered from surveys administered to competent authorities

   - Focus group discussions with relevant competent authorities

   - Focus group discussions with the private sector

   - Local and international reports

   - Local and international press articles

   - Open source information

ASSESSING OVERALL NATIONAL ML RISK

ML Threat Assessment

- Based on the assumption that ML threat is a function of "proceeds of crimes".
- The aim is to establish:
  - *Which predicate offence is most prevalent*
  - *How the ML threat materializes within different sectors (To determine Sectorial ML risks)*
  - *Establish the ML cross-border threat = laundering of proceeds of crime committed outside Mauritius + the laundering of domestically generated proceeds of crime in other jurisdictions*

ML National Vulnerability Assessment

- Assesses the vulnerability of a country to ML offences.
- The level of National ML vulnerability = Level of overall sectorial ML vulnerability + National ability of the country to combat ML.

Overall ML Risk = ML Threat + ML National Vulnerability

ASSESSING OVERALL NATIONAL TF RISK

TF Threat Assessment

The extent of the terrorism financing threat in Mauritius was based on:

- sources of terrorist threats
- direction of terrorism financing funds
- sources and channels that are being used for terrorism financing.

TF National Vulnerability Assessment

- TF Vulnerability = The strength of the controls that are in place to detect and counter TF.

TF Risk = TF Threat + TF Vulnerability

ASSESSING SECTORIAL ML RISKS

Sectorial ML Risk = Sectorial ML Threat + Residual ML Vulnerability of the Sector

ASSESSING SECTORIAL ML RISKS

Sectorial ML Threat Assessment

- How the ML threat materializes within different sectors (Determined by the Threat Assessment Team)

Sectorial ML Vulnerability Assessment

- Inherent vulnerability variables: consider specific features and users of products/sub-sectors under assessment.
  1. Total Size/Value/Volume
  2. Client base profile
  3. Use of agents
  4. Existence of investment/deposit feature for the product
  5. Level of cash activity
  6. Frequency of international transactions
  7. Availability of cross-border use of the product
  8. Other vulnerable factors
     - *Anonymous use of product*
     - *Use of the institution type in market manipulation, insider trading, or securities fraud*
     - *Difficulty in tracing the transaction records*
     - *Existence of ML typologies on the abuse of the product/ Other FI Category/each DNFBP*
     - *Use of the product/Other FI category/each DNFBP in fraud or tax evasion schemes*
     - *Non-face-to-face use of product*
     - *Other relevant features*

Sectorial ML Vulnerability Assessment (Cont.)

- <u>General AML controls</u>: relate to the strength (in terms of quality and effectiveness) of AML controls in relation to the specific sector under assessment
  1. Comprehensiveness of AML Legal Framework
  2. Effectiveness of Supervision Procedures and Practices
  3. Availability and Enforcement of Administrative Sanctions
  4. Availability and Enforcement of Criminal Sanctions
  5. Availability and Effectiveness of Entry Controls
  6. Integrity of Staff
  7. AML Knowledge of Staff
  8. Effectiveness of Compliance Function (Organization)
  9. Effectiveness of Suspicious Activity Monitoring and Reporting
  10. Level of Market Pressure to Meet AML Standards (examined by the Banking and Insurance sector only)
  11. Availability and Access to Beneficial Ownership Information
  12. Availability of Reliable Identification Infrastructure
  13. Availability of Independent Information Sources

- The <u>residual ML vulnerability rating</u>: is the effect of controls (General AML Controls) on the inherent vulnerability associated with the sector under review.

LIMITATIONS AND CHALLENGES

General absence of AML/CFT data collection system:

- All AML/CFT agencies involved in the exercise did not keep AML/CFT statistics in a manner which allowed for the prompt conduct of the assessment
- In addition, the length of the AML/CFT operational chain made it challenging to track specific reports.
- In the absence of specific data, teams organized focus group discussions to make an informed judgment.

Information Sharing:

- Reluctance to share information because of confidentiality reasons.
- Appropriate legal amendments were made to resolve this issue.

MONEY LAUNDERING THREATS IN MAURITIUS

CRIME RATES IN MAURITIUS

1. The overall crime rate in Mauritius is **Low.**

2. Overall reported offences in 2017 were linked to:

    - **crimes** (2%);

    - **misdemeanours** (14%); and

    - Contraventions (84%), the majority of which were related to road traffic offences.

    Source: Statistics Mauritius

SUMMARY OF DOMESTIC MONEY LAUNDERING THREATS

High ML Threat

- Drug Trafficking
- Fraud
- Illegal Bookmaking

Medium-High ML Threat

- Robbery/Theft
- Tax Crimes

Medium ML Threat

- Corruption
- Trade-Based ML

Medium-Low Threat

- Illegal Fishing
- Insider Trading/ Market Manipulation
- Trafficking in human beings and migrant smuggling/Sexual Exploitation

Low Threat

- Extortion
- Illicit Arms Trafficking
- Illicit trafficking in stolen and other goods
- Counterfeiting currency
- Counterfeiting and piracy of products
- Murder, grievous bodily injury
- Kidnapping , illegal restraint and hostage-taking
- Smuggling and Piracy

SUMMARY OF EXTERNAL MONEY LAUNDERING THREATS

FRAUD - **The ML threat associated with Fraud is therefore considered HIGH.**

1. Mauritius may be subject to abuse for money laundering purposes by persons who attempt to move proceeds of frauds committed elsewhere through Mauritius.

2. There has been **a number of cases** in the past where suspected fraud proceeds were received.
    - Types of fraud include boiler room scams, pension fraud and securities fraud.

3. Given that Mauritius is an international financial centre, it is more exposed to proceeds emanating from white-collar criminal activity than other types of criminal offences.

TAX FRAUD - **The ML threat associated with Tax Fraud is therefore considered HIGH**

1. Mauritius **does not appear to be commonly involved in illegal tax evasion schemes**.

2. However, there have been **detected cases** whereby foreign nationals have been suspected of having used Mauritius in order to launder the proceeds emanating from tax fraud in the jurisdiction of their tax residency.

3. **Observed patterns**: Suspects use other financial centres in conjunction with Mauritius as part of the schemes to launder proceeds of tax fraud.

4. It should also be noted that **tax fraud is often committed alongside other white-collar predicate offences** such as embezzlement or misuse of company assets

SUMMARY OF EXTERNAL MONEY LAUNDERING THREATS

CORRUPTION

1. Mauritius has been associated with various international scandals **linked with missing public money that have transited through the Mauritian financial sector.**
   - Cases involving politically exposed persons mostly from Asian and African countries have been investigated by Mauritian authorities and information has been exchanged between Mauritius and foreign authorities in a number of such cases.

2. It has been observed that the **financial sector has been abused by international PEPs to invest in countries identified by Transparency International as highly-corrupted**.

Given the value of the suspected proceeds having transited through the financial sector, the ML threat associated with international corruption is therefore considered **HIGH**.

PROFESSIONAL MONEY LAUNDERING

1. It has been observed in <u>several cases</u> that Mauritius has been used as a <u>transit destination</u> either by the criminals themselves or through the use of professional money launderers.

2. The professional money launderers may be **foreign-based or locally-based**.

3. For the past years, there have been <u>four detected cases</u> of suspected complicit involvement of Mauritian TCSPs in PML.
    - By definition, TCSP are in the business of registering and maintaining companies; and serving as nominees for the companies.
    - The threat of PML is therefore higher in the TCSP sector, where operators may knowingly or through deliberate negligence be involved in the laundering process.

4. Mauritius is **usually only one layer in the ML process** and the predicate offence is committed in another jurisdiction.

5. In all cases where such transactions were detected, Mauritius **<u>fully</u>** collaborated with other jurisdictions and exchanged information.

DIRECTION OF ML THREAT

1. The country is bound to experience **both domestic and external ML threats** because of:
   - its unique and strategic location in the Southern Indian Ocean
   - Its international financial centre

2. <u>Countries posing a ML threat to Mauritius</u>
   - Mostly from Asian and European countries in relation to proceeds generated from tax fraud
   - Some eastern and southern African countries and some Asian countries in relation to proceeds generated from drug trafficking and fraud.

3. <u>Countries to which Mauritius presents a potential ML threat</u>
   - Mostly eastern and southern African countries due to proceeds generated from drug trafficking domestically

On the basis of the relatively significant flows of funds entering the Mauritian financial system and available data, **the level of external ML threat (HIGH) to Mauritius is assessed to be greater than the level of internal ML threat (MEDIUM).**

The Overall ML Threat to Mauritius is therefore MEDIUM-HIGH.

SUMMARY OF SECTORIAL ML THREAT ANALYSIS

High ML Threat

- Banking Sector
- TCSPs
- Money Changers/Foreign Exchange Dealers
- Money or Value Transfer Services
- Gambling Sector

Medium-High ML Threat

- Securities Sector

Medium ML Threat

- Real Estate Sector
- Accountancy Sector
- Legal Professionals
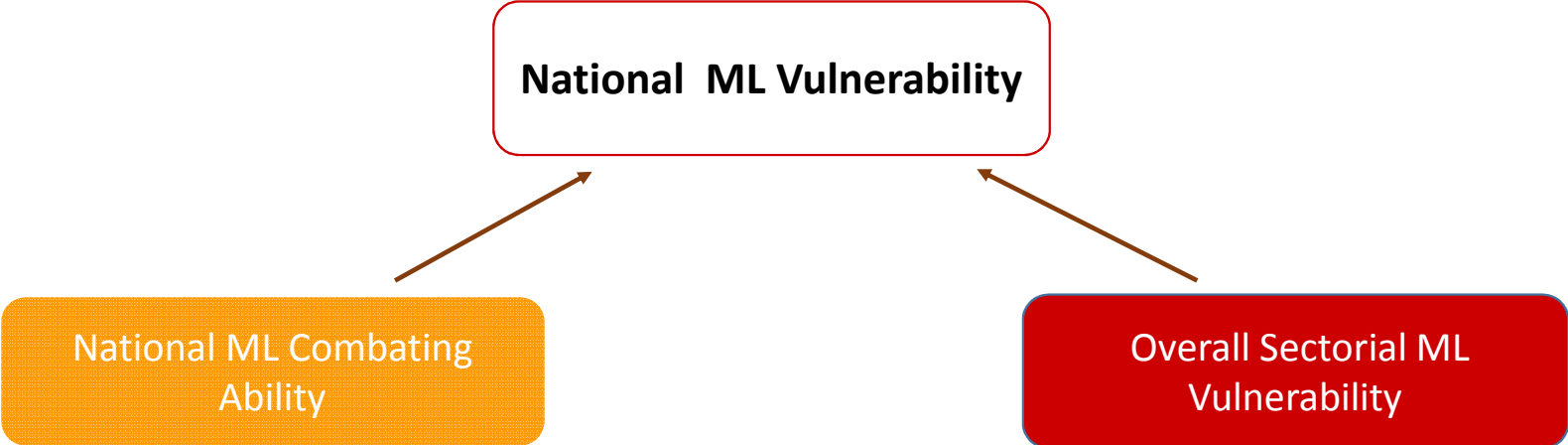- Jewellery Sector
- Motor Vehicle Dealers
- Domestic Companies

Medium-Low Threat

- Insurance Sector
- Credit Unions
- Other Financial Institutions under FSC Supervision

Sectorial
Vulnerability

Ability to
combat

ML National
Vulnerability

ML NATIONAL
VULNERABILITY

NATIONAL ML VULNERABILITY BREAKDOWN

KEY FINDINGS – NATIONAL ML COMBATTING ABILITY

The National ML Combatting Ability is rated at **MEDIUM-LOW**

1. At the time of the assessment, Mauritius did not have a risk-based Strategic Plan.

2. Need for closer and more effective interagency collaboration.

3. Provide more trainings to ML investigators and prosecutors

4. Management of seized assets - No operational framework for the preservation, protection, maintenance and realization of property seized.

5. Low reporting culture in DNFBPs. Law amended for proper regulatory framework.

KEY FINDINGS – OVERALL SECTORAL ML VULNERABILITY

Overall Sectorial ML Vulnerability was rated at **MEDIUM-HIGH** and was impacted by the ML vulnerability ratings associated with the following sectors:

Sector under Assessment	Residual ML Vulnerability Rating
1. Gambling Sector	High
2. Real estate Sector	High
3. Jewellery Sector	High
4. Trust and Company Service Providers	Medium-High
5. Securities Sector	Medium-High
6. Legal professions	Medium-High
7. Other Financial Institutions – under FSC Supervision	Medium-High
8. Banking Sector	Medium
9. Other Financial Institutions – under BoM Supervision	Medium
10. Insurance Sector	Medium
11. Accountancy Sector	Medium
12. Other Financial Institutions – Credit Unions	Medium-Low

OVERALL ML RISK = MEDIUM-HIGH
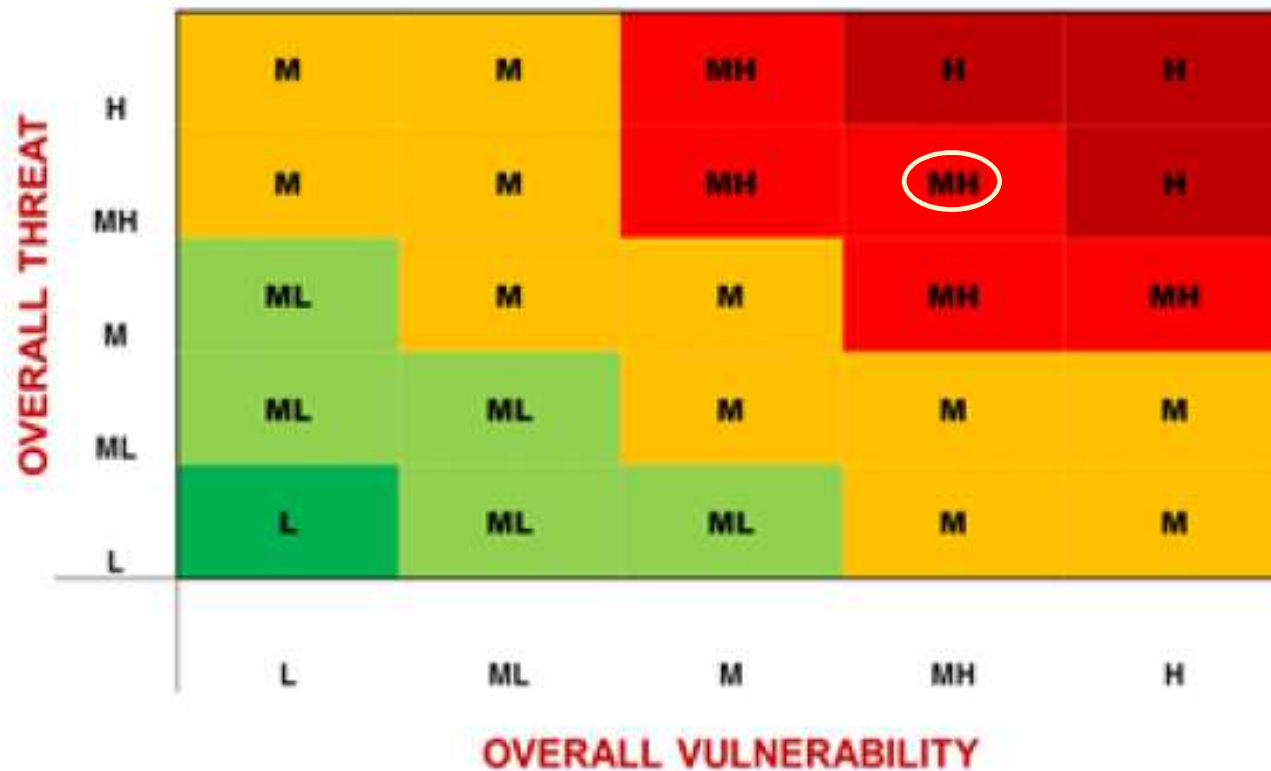
SECTORIAL ML RISK RATINGS

	Residual ML Vulnerability Rating	+ ML Threat Rating	= ML Risk Rating
Gambling Sector	High	High	High
Trust and Company Service Providers	Medium-High	High	High
Securities Sector	Medium-High	Medium-High	Medium-High
Banking Sector	Medium	High	Medium-High
Other Financial Institutions – under BoM Supervision	Medium	High	Medium-High
Legal professions	Medium-High	Medium	Medium-High
Real estate Sector	High	Medium	Medium-High
Jewellery Sector	High	Medium	Medium-High
Insurance Sector	Medium	Medium-Low	Medium
Accountancy Sector	Medium	Medium	Medium
Other Financial Institutions – under FSC Supervision	Medium-High	Medium-Low	Medium
Other Financial Institutions – Credit Unions	Medium-Low	Medium-Low	Medium-Low

TERRORIST FINANCING RISKS IN MAURITIUS

TERRORISM THREAT

There has been **no terrorist act** in Mauritius.

However, the country **is not immune** from the threat posed by terrorism and violent extremism.

Emergence and rapid spread of extremist ideologies and propaganda, especially through social media
- 2015 - an online propaganda video was released by ISIS, showing a Mauritian combatant
- 2016 - shots were fired at the French embassy in Port-Louis
- Signs of radicalisation and allegiance to terrorist groups in recent years

Based on the above, the overall level of terrorism threat in Mauritius is therefore rated MEDIUM-LOW.

TERRORIST FINANCING THREATS

Directions of Funds
- Authorities have detected several cases of money being transferred abroad where TF was suspected.
- In most suspected cases, the funds were being transferred from Mauritius to overseas jurisdictions.
- The end destination of the funds is believed to be ISIS-controlled territory in Syria.

Identified Sources
- Self-Funding from legitimate sources
- Involvement of family members and associates is also suspected

Identified Channels
- Banks
- MVTS
- Physical Transportation of cash/gold
- NPOs

**Based on the above findings, the overall TF threat for Mauritius is MEDIUM-LOW.**

TF VULNERABILITY - KEY FINDINGS

The TF vulnerability is rated at MEDIUM-HIGH

Identified Issues

1. Implement the controls mechanism with the new legislation on the NPO sector and more outreach

2. Resources issue – Lack of human resources as well as technical resources has been observed.

3. Need for the setting up of a sophisticated cell focusing on TF related matters at LEA

4. The need for more ongoing trainings to the Law enforcement investigators specially that Terrorist Funding Cycle is changing dramatically with the use of emerging technologies worldwide.

OVERALL TF RISK
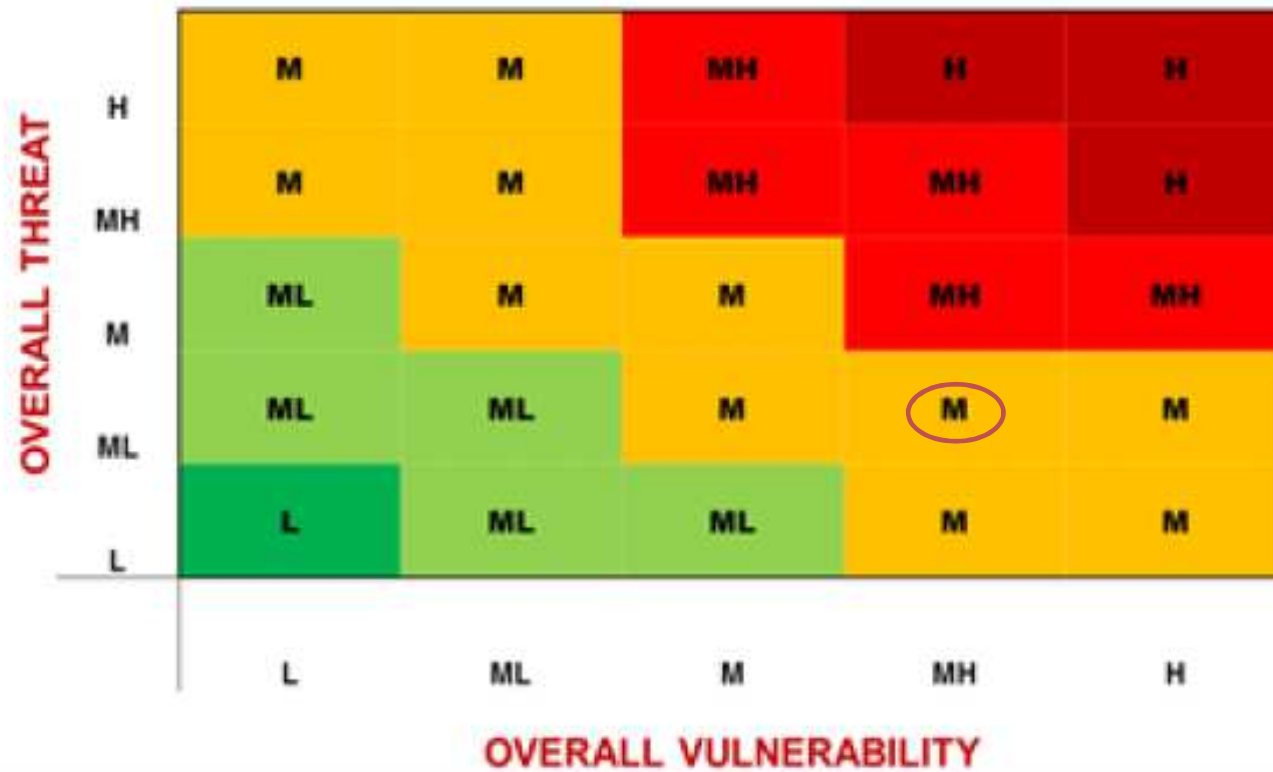
NATIONAL STRATEGY FOR COMBATTING MONEY LAUNDERING AND THE FINANCING OF TERRORISM AND PROLIFERATION (2019-2022)

The strategy is based on:

- The findings of the National Risk Assessment (NRA)

- The gaps identified in the AML/CFT Mutual Evaluation Report (2018) of Mauritius

The Strategy **describes the priorities and objectives in addressing financial crime, and assists Mauritius in meeting international obligations set by the FATF**

THEMES UNDER THE AML/CFT NATIONAL STRATEGY

	Strategic Theme	Objective
1	Strengthening the AML/CFT Legal and Regulatory Framework	To establish a comprehensive legal and regulatory framework that is consistent with international standards and which is effective in mitigating money laundering and terrorism financing risks.
2	Implementing a comprehensive risk-based supervision framework	To develop and apply an effective risk based supervisory framework for financial institutions, DNFBPs and Non-Profit Organisations. To supervise and monitor financial institutions and DNFBPs to ensure their effective assessment and management of ML/TF risk and compliance with AML/CFT preventive measures. In particular, the Gambling and TCSP sectors followed by the banking, securities, real estate and jewelry sectors.
3	Strengthening the process by which the ML/TF threats are detected and disrupted, criminals are prosecuted and illegal proceeds are confiscated	To ensure that money laundering and terrorism financing offences are investigated and offenders are sanctioned and deprived of illicit proceeds
4	Enhancing national co-ordination and cooperation	To facilitate policy formulation, exchange of information and operational coordination between national competent authorities to effectively combat money laundering and the financing of terrorism and proliferation. To maintain an ongoing dialogue with relevant private sector stakeholders to ensure effective implementation of AML/CFT requirements.
5	Consolidating capacity building, training and awareness raising programs	To ensure that all stakeholders in the public and private sectors understand and are fully capable of fulfilling their AML/CFT obligations.
6	Enhancing transparency of legal persons and arrangements	To prevent the misuse of legal persons and arrangements for money laundering or terrorist financing, and ensure that information on their beneficial ownership is available to competent authorities without impediments.
7	Implementing an effective AML/CFT data collection system in all relevant competent authorities	To assess and continuously improve the effectiveness of the AML/CFT system
8	Enhancing regional and international cooperation	To provide the widest range of international cooperation in an expeditious and efficient manner

For more information, please refer to:

- The National Risk Assessment (2019) Public Report on the following link:
  http://www.fiumauritius.org/English//DOCUMENTS/NRA%20FINAL%20REPORT.PDF

- The National AML/CFT Strategy (2019-22) on the following link:
  http://www.fiumauritius.org/English//DOCUMENTS/NATIONAL%20STRATEGY%202019-2022_REVISED.PDF

Thank You