



**HM Government
of Gibraltar**

National Coordinator for AML/CFT

EXECUTIVE SUMMARY

2020 National Risk Assessment for AML/CFT and PF

August 2020



1 Introduction

The following document provides an executive summary of the main threats and vulnerabilities of Money Laundering (ML), Terrorist Financing (TF) and Proliferation Financing (PF) that Gibraltar faces. Like any assessment of risks, these risks have not actually crystallised. Businesses and professions must make use of these assessments to support their work to ensure that their systems of controls can prevent, detect and make the necessary disclosures to law enforcement agencies whenever ML, TF or PF is known to have occurred or when there is a suspicion of the same.

Gibraltar is now in the third iteration of the National Risk Assessment (NRA) process and in the 2020 version has encapsulated PF as a separate topic and included the previously confidential assessment of TF risk for the jurisdiction and NPO sectors as an integral part of the published NRA report. The TF risk for each product or service is also fully integrated into the evaluation of the threats and vulnerabilities.

This executive summary does not replace the full NRA document which readers of this summary are strongly encouraged to read and digest. The executive summary highlights the main risks which businesses and professions need to be aware of in the context of Gibraltar.

2 Context

Gibraltar's main commercial activities are centred around the provision of services to **non-resident customers**, mainly UK nationals but also from many other countries both within and **outside of the EU**. The interfacing with new and existing customers is primarily conducted in a **non-face-to-face** manner, sometimes using **intermediaries**, therefore, all of these have higher inherent risks.

The various products which Gibraltar has on offer may prove attractive to ML, although **TF and PF risks are low risk** for the jurisdiction.

Gibraltar's proximity to Africa and frontier with Spain, make it appropriate to include reference to activities in these areas as potentially impacting in the assessment of our risk.

The **presence of Organised Crime Groups (OCGs) in the nearby Campo de Gibraltar** has had a substantial impact on the economy of the neighbouring region. Gibraltar could be considered as an attractive location from which to conduct ML operations for these groups. It should be noted that over the last few years, OCGs in Spain are reported to have moved away from tobacco smuggling to hashish distribution and now concentrate on the more profitable cocaine importation from South America to Europe via entry points which include southern Spain. Gibraltar Law Enforcement Agencies enjoy good working relationships with their Spanish counterparts, ensuring the exchange of intelligence and operational co-operation at all levels.

Morocco continues to be the largest **hashish producer** in the region with supply of the product being transported into Europe through the Strait of Gibraltar both in fast launches, which only infrequently transit through British Gibraltar Territorial Waters, and other more inventive mechanisms through port facilities in Spain. There is no substantive evidence to suggest that the OCGs in charge of the production and distribution of hashish in Morocco are seeking opportunities to launder through Gibraltar but their links with Spanish OCGs cannot be discarded completely.



3 Financial Services

Gibraltar's financial services industry caters mainly for non-resident customers mostly located in low-risk jurisdictions. **Transactions with high-risk jurisdictions are small** in number and volume but businesses must, nonetheless, be aware of the heightened need for additional controls in these circumstances. Transactions to or from **Drug Producing or Trafficking jurisdictions need to be subject to additional scrutiny for possible ML linkages** whereas those to **Conflict Zones and neighbouring regions need to be considered for TF risks**. Legitimate **Tax Planning or Tax Avoidance** measures for clients must not be used as a guise for **illicit tax evasion mechanisms**. Formal foreign requests for assistance are low, indicating that this is not an area of concern, however, complacency in this field cannot be allowed to occur. The various Tax Information Exchange Agreements entered into by Gibraltar ensures openness and transparency of customers tax affairs.

Gibraltar's recent Tax Treaties with the United Kingdom and Spain will further enhance the transparent relationships in tax with these countries.

A pivotal control mechanism that exists is the regulatory framework for all financial service providers which ensures that those who exercise control and management of these businesses are fit and proper to run these organisations and through desk-based and on-site inspections of the systems of control for AML, CFT and PF.

Gibraltar financial services offerings had traditionally centred around private banking and trust & company work. The demographics of the customer base has shifted considerably over the last couple of decades with banks in Gibraltar now mainly offering retail banking and business-related operations as private banking demand has been consolidated away to other centres. Shelf company sales have been reduced with Trust and Corporate Service Providers (TCSPs) now providing a value-added service enabling a better understanding of the customer and their needs.

The **identification of Politically Exposed Persons (PEPs)**, their family members and close associates, needs to continue, particularly in the context of bribery and corruption of PEPs in neighbouring countries.

Deposit taking, like in any jurisdiction, is the easiest and most common form through which ML can take place in the banking sector. Gibraltar is no exception. The ability once cash has been put into the system to be moved quickly to any destination, is why this is the most popular service sought by ML operations. Internationally, lending activities are seeing an increase in use where **high-value asset-backed credit/mortgage loans** to fund plot purchases are attractive for **TF** and **business loan repayments for ML** becoming more common typologies.

The establishment of front companies for ML is a traditional mechanism which continues to be popular. Fortunately, Gibraltar's regulatory framework for TCSPs and requirement to establish the **Ultimate Beneficial Owners (UBOs)** substantially mitigates the risk of Gibraltar companies being used for this. Significantly Gibraltar has also recently established a public register of UBOs in compliance with its International obligations.. The **private company and private trust** are the most common legal forms used in Gibraltar and 66% of private companies are used to hold assets of some kind. Controls over sources of income and wealth required by the legislation mitigates the misuse of the same.

Payment service providers and money service business may become unwitting participants in the transfer of funds to TF operations or conversion of funds for ML purposes.

Gibraltar's securities industry is unsophisticated and lacking many of the products that could be attractive to large scale ML operations. The funds sector is also underdeveloped with **Private Funds being the most attractive ML** mechanism in this sector due to their largely unregulated status.



E-money has been one of Gibraltar's most successful new financial services products in recent years, enabling pre-paid cards to be accessible to an otherwise financially excluded sector. These cards are distributed worldwide and would appear, at first glance, to be attractive for ML and TF. However, three out of the four e-money issuers in Gibraltar only permit purchases and top-ups to be made via existing bank account/debit card relationships ensuring Customer Due Diligence (CDD) is maintained on the underlying customer. The remaining issuer has its own CDD processes for identifying the customer. No e-money issuer permits anonymous cards to be issued, thereby mitigating the use of these cards for large scale ML. Average values for cards are also fairly small but the **risk of cash purchased e-money cards is higher** than those purchased via existing relationships with other financial institutions who will have higher CDD processes in place.

A more recent addition to the financial services offerings of Gibraltar is the Distributed Ledger Technologies Providers or Virtual Asset Service Providers. Whereas initial bad publicity surrounding cryptocurrencies and their use in ML schemes has not subsided, by being the first jurisdiction to introduce a full regulatory framework, Gibraltar has managed to mitigate the risks substantially. The regulatory framework not only ensures that fit and proper persons run and control these businesses and that they are viable businesses to start with but also applies CDD and systems of control to these operators to the same extent as any financial institution. The provision of **custodial wallets and crypto exchanges** being the two highest risk categories for ML.

4 Gambling Operations

Gibraltar has a buoyant and successful gambling sector which is mainly comprised of remote gambling operations. Some of these deal in the provision of services to other operations (B2B) whereas the provision of **remote gambling to customers** (B2C) is the area of most concern for ML purposes.

Being able to manage and control a gambling operation is highly attractive to any ML operations as a means to insert cash into the financial system through a legitimate business front. The controls exercised by the Gambling Commissioner through the licensing process eliminates this risk.

There is little evidence to substantiate that remote gambling by customers is being used to launder proceeds of crime to any large extent as a means to an end in itself and what is being observed is that some 'lifestyle' **criminals are using ill-gotten gains to gamble** these monies and, in other cases, persons who are problematic gamblers engage in criminal activity in order to fund their gambling.

Chip dumping in Poker games has been observed in small numbers.

5 Other Activities and Professions

Real estate purchasing offers an opportunity to purchase a high value asset which could be used for ML opportunities. This is especially attractive when **developers and construction companies** offer properties for sale and **accept cash payments** for deposits, instalments or outright purchase off-plan or upon completion.

Car purchasing would also provide an opportunity for purchasing an asset for cash but this has largely been mitigated through the OFT's requirement for car dealers to register as High Value Dealers which has **discouraged most local car dealers from accepting cash payments**.

A frequent international target for money launderers is to approach legal professionals to assist in setting up legitimate bona fides for their laundering operations. The **Gibraltar legal profession should not consider itself immune to such approaches** and must remain vigilant in this respect.



6 Summary of risks, threat and vulnerability scores

By way of summary the following tables summarises the threat, vulnerability and combined scores for ML and TF of each of the risks identified in this NRA. The table by itself is not a substitute to a full understanding of the risks and their mitigation as described in full detail in the 2020 National Risk Assessment.

Ref	Risk Description	Money Laundering Risks			Terrorist Financing Risks			Total
		Threat	Vuln	Score	Threat	Vuln	Score	
4 Geographic Risk								
4.1	Spain	3	2	5	4	3	7	12
4.2	Morocco	2	2	4	4	3	7	11
4.3.1	FATF High Risk Jurisdictions	3	1	4	3	1	4	8
4.3.2	Conflict Zones	2	1	3	2	3	5	8
4.3.3	Drug Trafficking/Producing Countries	3	2	5	2	2	4	9
4.4	EU and EEA Jurisdictions	2	1	3	1	1	2	5
5 Transnational Crimes								
5.1	Organised Crime Groups	4	4	8	1	2	3	11
5.1.1	Tobacco	3	3	6	1	2	3	9
5.1.2	Drug Trafficking	4	3	7	1	2	3	10
5.2	Fraud	2	2	4	1	1	2	6
5.3	Money Laundering	2	1	3	0	0	0	3
5.4	Tax Crimes	3	2	5	1	1	2	7
5.5	Bribery and Corruption	3	2	5	1	1	2	7
5.6	Cash	2	4	6	1	2	3	9
6.1 Banking								
6.1.1	Deposit Taking	4	3	7	3	3	6	13
6.1.2	Corporate Banking	3	2	5	1	1	2	7
6.1.3	Broker Deposits	3	1	4	1	1	2	6
6.1.4	Lending Activities	4	2	6	1	1	2	8
6.1.5	Private Banking\Wealth management	2	2	4	1	1	2	6
6.1.6	Safe Custody	1	1	2	1	1	2	4
6.2 Trust and Company Service Provision								
6.2.1	Creation of Legal Entities and Legal Arrangements	4	2	6	2	2	4	10
6.2.2	Business Activities of Legal Entities and Legal Arrangements	3	2	5	3	1	4	9
6.2.3	Termination of Legal Entities and Legal Arrangements	1	1	2	1	1	2	4
6.2.5.1	Private Companies	2	4	6	2	1	3	9
6.2.5.2	Private Company limited by guarantee with or without share capital	2	4	6	2	1	3	9
6.2.5.3	Foreign Company carrying on business in Gibraltar	1	2	3	1	1	2	5



Ref	Risk Description	Money Laundering Risks			Terrorist Financing Risks			Total
		Threat	Vuln	Score	Threat	Vuln	Score	
6.2.5.4	Public Company	1	1	2	1	1	2	4
6.2.5.5	Public Company limited by Guarantee with or without share capital	1	1	2	1	1	2	4
6.2.5.6	Limited Liability Partnership	1	1	2	1	1	2	4
6.2.5.7	European Economic Interest Grouping	1	1	2	1	1	2	4
6.2.5.8	European Company (Societas Europea)	1	1	2	1	1	2	4
6.2.6	Trusts	2	1	3	1	1	2	5
6.2.6.6	Foundations	2	1	3	1	1	2	5
6.2.7	Asset Holding & Asset Protection Vehicles				0			0
6.3	Money Service Business and Money Value Transfer Services							
6.3.1	Currency Exchange	3	2	5	2	1	3	8
6.3.2	Transfer of Funds	3	2	5	3	1	4	9
6.3.3	Payment Services	3	1	4	3	1	4	8
6.3.4	Informal transfer of funds through Hawala	1	1	2	1	1	2	4
6.4	Securities and Funds Sector							
6.4.1	Securities	4	3	7	1	1	2	9
6.4.2.1	Experienced Investor Funds	2	2	4	2	2	4	8
6.4.2.2	Private Funds	3	3	6	3	3	6	12
6.5	E-Money Sector							
6.5.1.1	Open Loop e-money (Cash Purchasing)	4	3	7	4	3	7	14
6.5.1.2	Open Loop e-money (Linked to a back account)	3	2	5	2	2	4	9
6.5.2	Closed Loop e-money	1	1	2	1	1	2	4
6.6	Distributed Ledger Technologies (DLT) or Virtual Asset Service Providers (VASPs)							
6.6.1.1	Wallet Providers	2	4	6	2	2	4	10
6.6.1.2	Exchanges	2	3	5	2	1	3	8
6.6.1.4	Initial Coin Offerings	2	3	5	1	1	2	7
6.6.1.5	Over the counter services (OTC)	3	1	4	1	1	2	6
6.6.1.6	Peer-to-peer lending	1	1	2	1	1	2	4
6.7	Gambling Services							
6.7.1	Remote Gambling (Betting, Casino, Bingo, Poker)	3	3	6	2	1	3	9
6.7.2	Land-based Casinos	3	3	6	1	1	2	8
6.7.3	Betting (land-based)	2	2	4	1	1	2	6
6.7.4	Bingo (land based)	1	1	2	1	1	2	4
6.7.5	Lotteries (Gibraltar Government Lottery)	1	1	2	1	1	2	4
6.7.6	Poker (Offline)	1	1	2	1	1	2	4
6.7.7	Gaming Machines (non-casino)	1	1	2	1	1	2	4



Ref	Risk Description	Money Laundering Risks			Terrorist Financing Risks			Total
		Threat	Vuln	Score	Threat	Vuln	Score	
6.8	Insurance							
6.8.1	General Insurance	1	1	2	1	1	2	4
6.8.2	Long term business	1	1	2	1	1	2	4
6.9	Real Estate							
6.9.1	Real Estate Agents	2	2	4	2	1	3	7
6.9.2	Developers	2	4	6	2	1	3	9
6.9.3	Construction Industry	2	4	6	1	1	2	8
6.10	Other Designated Non-Financial Businesses and Professions (DNFPBs)							
6.10.1	Artefacts, Art and Antiquities	1	1	2	1	1	2	4
6.10.2	Precious Metals and Stones	3	2	5	2	1	3	8
6.10.3	Car Dealers	2	2	4	1	1	2	6
6.10.4	Other High Value Goods	2	1	3	1	1	2	5
6.11	Other professions							
6.11	Legal Profession & Notaries	3	2	5	3	2	5	10
6.12	Auditors and Insolvency Practitioners	2	1	3	2	1	3	6
6.13	Accountants and Tax Advisors	2	1	3	2	1	3	6
6.14	Football League							
6.14	Domestic Football League	2	2	4	1	1	2	6
7	Jurisdictional Terrorist Financing Risk							
7.6	Jurisdictional TF Risk			0	1	1	2	2
7.7	NPO TF Risk			0	1	2	3	3

Scoring for threat and vulnerability is on the following basis individually for ML and TF risks;

Score	Description
0	Not Applicable
1	Lowly Significant
2	Moderately Significant
3	Significant
4	Very Significant



The combined threat and vulnerability score for each ML and TF provide the overall **ML or TF risk score** on a scale of;

Score	Description
0	Not Applicable
2 to 3	Low Risk
4 to 6	Medium Risk
7 to 8	High Risk

The ML and TF risk scores are then added together to provide a **Total Risk Score** with results being;

Score	Description
< 5	Low Risk
5 to 9	Medium Low Risk
10 to 13	Medium High Risk
> 13	High Risk