

# LESSONS LEARNED

## LATVIA'S COMMITMENTS TO FIGHT FINANCIAL CRIME

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**TRANSPARENCY**

**PARTNERSHIP**

**ACCOUNTABILITY**

# Finance Latvia Association

- Finance Latvia Association is an organization for broad and joined-up representation of finance, technology and related industries in national and international level.
- Our vision - Latvian financial industry pursues broad partnerships and leads in innovation in Europe.
- The Association represents the interests of the financial sector in institutions of different levels in Latvia and internationally, coordinates the addressing of topical issues on the agenda of the entire sector as well.
- Current strategic priorities of the Association are as follows: financial service development; technologies; strengthening of the compliance function.
- Currently, the Finance Latvia Association brings together 33 firms - banks and other financial services providers.

## KEY FOR REPUTATION AND CREDIBILITY

~~Non-  
Resident  
Transaction  
Business  
Model~~

~~Regional  
Financial  
Centre~~

Shadow  
Economy  
**24%**

# EMERGING LANDSCAPE – FINANCE & CORPORATES

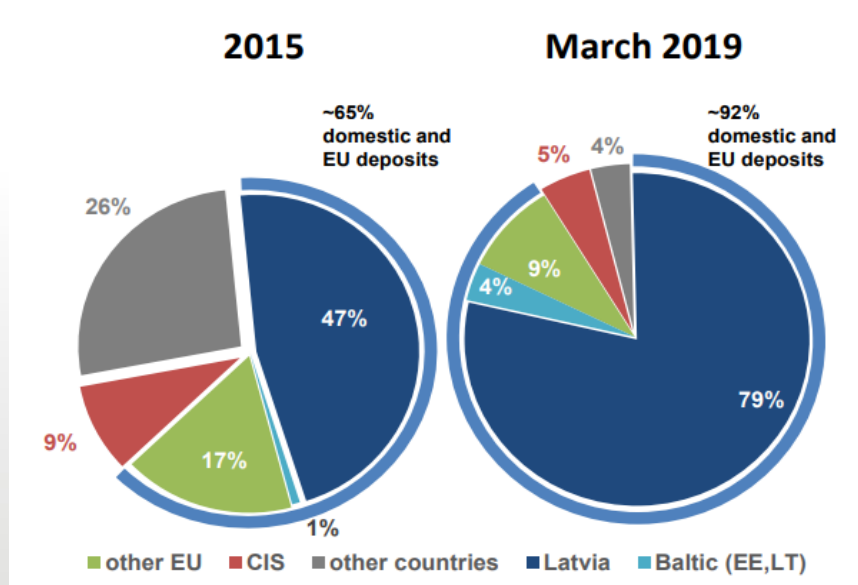


# Banks' capital as of 31.03.2019, MEUR

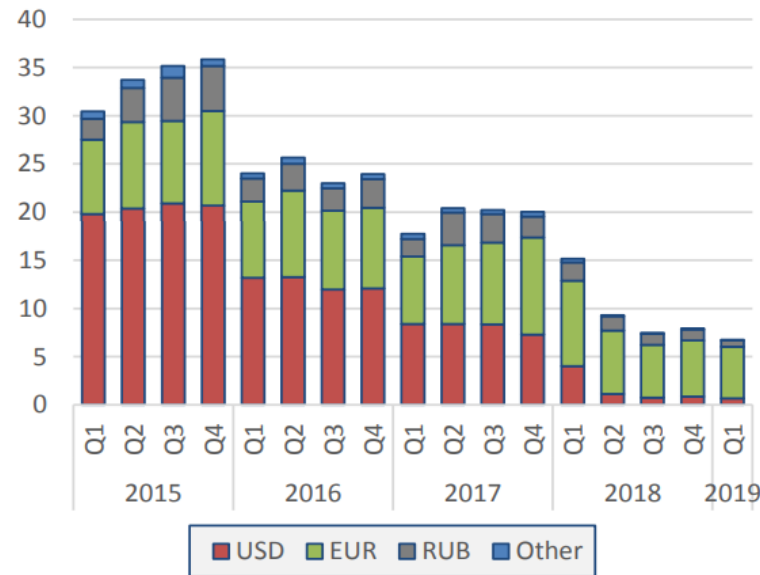
Name	Value	Change in 2019	
Swedbank	780.5	-24.6	-3.1%
Luminor Bank Latvia branch	551.5	4.1	0.7%
SEB banka	337.7	-33.3	-9.0%
Citadele banka	286.0	18.6	6.9%
Rigensis Bank	70.1	4.2	6.4%
BlueOrange Bank	66.9	1.0	1.5%
PNB Banka	52.0	2.8	5.8%
PrivatBank	39.3	-0.6	-1.6%
Expobank	36.8	-0.1	-0.3%
Regionāla investīciju banka	33.7	0.9	2.7%
LPB Bank	30.6	0.1	0.4%
Baltic International Bank	24.5	-0.3	-1.3%
Signet Bank	15.8	-0.3	-2.1%
Meridian Trade Bank	9.6	-0.7	-6.8%
Danske Bank Latvia branch	n/a		
OP Corporate Bank branch Latvia	n/a		
<b>Total banking industry</b>	<b>2,803.1</b>	<b>-49.1</b>	<b>-1.7%</b>

# Exit from transactional business model in figures

Geographical breakdown of deposits



Foreign clients' outgoing payments\* (EUR billions)



Source: FCMC

# Share of non-EU resident deposits

2015

35 %

2019

8%

Source: FCMC

# Shell Companies

- Latvia has greatly increased the declaration of UBOs in Latvian Company Register
- Latvia has eliminated over 17,000 shell companies since November 2017, in line with the Moneyval recommendations



# Outgoing USD payments

**DECREASED [2015 v. 2019]**

**26**

**TIMES**

Source: FCMC

# New Business Models of the Banks



## Assessment areas

### Change management

- Role of shareholders
- Management model
- Risk appetite
- Financial forecast reviews
- Income-expenditure structure

### Services

- Interest and tariff policies
- Attracting customers
- Business partners
- Distribution channels
- Alternative/innovative solutions



## Essential criteria for future bank activities

- ▶ **Viability** – ability to generate sufficient income over the next 12 months
- ▶ **Sustainability** – ability to generate sufficient income over the next 3 years
- ▶ **Compliance with regulatory requirements**
- ▶ **Change of target market and target customers**
- ▶ **Revised financing structure**
- ▶ **Alternative business lines and services**

Source: FCMC

# ABLV Bank in Liquidation

- ABLV Bank's smooth and scrupulous liquidation is compulsory
- Methodology of liquidation is coordinated. Under control of FCMC and Latvian FIU
- The process has not begun smoothly enough, amendments to legislation adopted to prevent repetition of unintended side effects in liquidation processes that might be initiated in future
- Banks are advised by regulatory authorities to apply necessary due diligence regarding the clients, funds and assets of ABLV Bank in liquidation
- The liquidation of ABLV Bank triggered the faster and more overwhelming de-risking of the customers with heightened risk and reviewing (i.e. significant reduction) of risk appetite of the banks

# Guidelines – Tone from the Top

- Binding to all members of Association
- If member not compliant the Council shall take actions
- Tone from the top to ensure the compliance with the highest AML/CFT compliance standards
- Adopted October 2017, updated in October 2018
- Regular training, workshops on implementation of the guidelines is provided by Association



# Access to State Registries

- Account register (AMLD 5) implemented as of 2017
- National PEP and PEP family member register (list of persons, not only functions) will be introduced as of August 2019
- UBO register available to general public as of November 2017, UBO verification procedures will be introduced as of January 2020. All companies who fail to identify UBO, will be liquidated. 96% of companies has disclosed UBOs
- Access for banks to Population register, Invalid documents register, Land Book, Vehicle Register free of charge

# Information Sharing

- Financial institutions are legally allowed to share data on individuals to prevent movement of non-compliant customers from one FI to another
- The Government expressed commitment and Association submitted a detailed policy discussion paper on possible establishment of national KYC utility – an entity allowing obliged entities to share KYC data
- Latvian public-private information sharing platform (JMLIT (UK) model) is operational since July 2018. 14 cases processed during the last year. FIU is responsible to coordinate. Safe Harbour provisions introduced for voluntary information sharing between the banks and State Revenue Service as well.

# CIS Countries

- AML/CFT risk assessment for financial sector is finalized and are undergoing integration into National Risk Assessment. Banks are fully aware of the inherent risks they face and should properly mitigate
- AML/CFT/CPF strategy is being developed. Approval is foreseen in July 2019
- The strategy, amongst others, is expected to cover management of the risks raising from servicing clients trading with businesses from CIS countries (e.g. firms operating in real economy, brick and mortar businesses)

# Financial Targeted Sanctions

- UN sanctions – implemented as they takes place
- OFAC sanctions – directly binding in Latvia; fines on national level can be imposed for non-compliance
- Legal framework is much improved in order to coordinate efforts at all levels



# Latvian FIU

- Reform of FIU in 2018. Placement changed from Prosecutor's office to Cabinet of Ministers (Ministry of Interior)
- Proactive, committed, better staffed, prioritizing. The leading role in AML/CFT field is enshrined in law
- FIU froze €101.5 million in assets in 2018, more than double the amount than in 2017, and have already frozen €83.2 million in 2019, five times the same period in 2018
- New approach to reporting (more evidence asked, eliminating defensive reporting), wide range of options to share information with law enforcement
- Coordinating Latvian public – private information sharing platform

# Criminal Matters

- Latvia has introduced non-conviction based confiscation
- No predicate offence is needed to deliver conviction in ML case (stand alone ML)
- Training of judges, prosecutors and law enforcement in order to deliver tangible results
- On-going discussions to introduce civil forfeiture (as UWO present in the UK)

# Moneyval Process – Evaluation Summary

IO.1 AML/CFT risk assessment, policy and coordination	moderate
IO.2 International cooperation	substantial
IO.3 Supervision	moderate
IO.4 Preventive measures	moderate
IO.5 Legal persons and arrangements	low
IO.6 Financial intelligence	moderate
IO.7 Investigation and prosecution	moderate
IO.8 Confiscation	moderate
IO.9 Investigation and prosecution of financing of terrorism	moderate
IO.10 Preventive measures and financial sanctions of financing of terrorism	moderate
IO.11 Targeted financial sanctions for combating proliferation financing	low

Source: Latvian FIU

## Financial sector development plan for 2017 - 2019

(approved on 31 March, 2017)



Purpose - to develop a stable, safe and internationally competitive financial sector with the availability of innovative financial services that ensures a sustainable Latvian national economy growth.

## The second national ML/FT risk assessment report (NRA)

(approved on 27 April, 2017)



NRA provides information on the situation in the fields of countering ML/FT, by means of statistical data for the time period from 2013 till 2016, as well as information on the identified risks and the necessary action for restricting the identified risks.

*Cross-cutting issue - Increasing the conformity of AML/CFT and raising the reputation of the country*



## Plan of AML/CFT measures for the period of time till 31 December 2019

(approved on 25 September, 2018)

### Priorities

Strengthening risk-based supervision and introduction of preventive measures, including controlled, transparent and professional management of ABLV bank liquidation

Effective information exchange for facilitation of investigation, harmonizing approaches and guidelines

Ensuring adequate human resources for supervisory, controlling and law enforcement authorities

Introduction of information technologies solutions for timely and effective data management

Enhancement of the targeted financial sanctions system, shaping uniform understanding of the cooperation partners regarding this system and the need for its functioning hereof

Source: Latvian FIU

# Key Accomplishments

- 2017: Finance Latvia Guidelines on AML/CFT/TFS in order to curb an historically high risk appetite of FI and achieve the compliance with the highest international AML/CFT/TFS standards
- 2018: prohibition of high risk shell companies, introducing set of additional criteria in order to identify acceptable shell companies; de-risking, evaluation of clients (whether they fit in the new risk landscape)
- 2019: FCMC (Latvian FSA) reform to get regulator more proactive and responsive
- 2019: more clear obligations of FCMC in terms of AML in bank liquidation process

# Recent Amendments to the Legislation

- AMLD 5 is implemented six months ahead of the deadline for Member States
- FCMC (Latvian FSA) reform is approved, implementation is underway, will strengthen the independence, governance and democratic accountability of the governance structure of the Latvian financial and capital watchdog
- ECB, the Egmont Group and the OECD have provided consultative support to Latvia's approach for reforming regulatory system of AML/CFT enforcement

# Challenges

- Non-financial sector lacks resources and knowledge, nevertheless, is aware of the risks and obligations
- Move from de-risking to proper risks management
- Improve the culture of compliance in corporates
- ABC policies and their consistent implementation
- Less rule-based approach, more pure risks based approach

# Key Accomplishments in Short

- The risks landscape has significantly changed
- The risks, especially from CIS countries, remain but of lesser extent
- Level of awareness has significantly improved
- Better regulations, institutions and information sharing arrangements in place



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**Thank you!**

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