

MODULE 6

Other financial service providers

Members of the working group:

- (Ministry of Finance, head of the working group)
- (Financial Intelligence Unit)
- (Financial Intelligence Unit)
- (Estonian Bar Association)
- (Chamber of Notaries)
- (Tax and Customs Board)
- (Tax and Customs Board)
- (Estonian Chamber of Commerce and Industry, Advisory Committee of Market Participants for Money Laundering and Terrorist Financing Prevention).

The aim of the module and brief description of its structure

This module aims to analyze the vulnerabilities of different financial service providers resulting from their products and offered services and their customer base. The module is designed to cover that part of the financial sector that is not the banking, securities or insurance sector assessed by other modules. The control measures will be assessed separately in order to identify sector-specific vulnerabilities.

The structure of the module allows for a broader assessment of two aspects: the structural risk inherent in the sector (or activity) and the effectiveness of the control measures applied to that sector. Insofar as in case of Estonia the financial service providers are already obliged to prevent money laundering and terrorist financing, the final assessment of vulnerability by sectors is based on both the service providers' operating environment (size of the sector, customers, products and services) and the control measures applied to them. The combination of assessments for both aspects forms the degree of vulnerability and its numerical indicator.

The summary was prepared by the Ministry of Finance and agreed by the Financial Intelligence Unit.

Explanations for the module of other financial service providers

The module is divided into two parts. The upper part of the table reflects the subjects of the currently valid Money Laundering and Terrorist Financing Prevention Act (hereinafter *RahaPTS*). The lower part of the table was not used in this case, as the working group considers that such financial services that would not be regulated at all are marginal or non-existent and the more significant part (in terms of money laundering and terrorist financing prevention) of the unregulated market is provided for in Module 7.

The obliged subjects are:

1. foreign exchange service: § 6 (2) 1) of RahaPTS
2. payment service: § 6 (2) 2) of RahaPTS
3. e-money institution: § 6 (2) 3) of RahaPTS
4. service of alternative means of payment: § 6 (2) 4) of RahaPTS
5. savings and loan associations: § 6 (2) 9) of RahaPTS
6. other financial services - leasing: § 6 (2) 10) of RahaPTS and § 6 (1) 2) of Credit Institutions Act (*KrAS*).
7. other financial services - loans: § 6 (2) 10) of RahaPTS and § 6 (1) 3) of *KrAS*
8. collateral and guarantee transactions: § 6 (2) 10) of RahaPTS and § 6 (1) 6) of *KrAS*.

The table is further divided into (left-right) structural vulnerability indicators and control measures. The assessments are influenced by both structural indicators (vulnerabilities) and the control measures applied in the sector. It should be noted, however, that the rating scale H-M-L¹ has a different meaning: while for structural indicators it is H-high, i.e. the higher rating increases the final vulnerability indicator, then for control measures the effect of H-high is exactly the opposite (the higher the level of control measures, the lower the final indicator of the level of vulnerability).

The assessments of structural vulnerability indicators are based on the information available in the submitted annual reports of the sector. As in some cases the annual report has not been submitted by the companies authorized (licensed or registered) to provide services in this field, the number of licensed or registered companies has been indicated separately - in brackets - but the assessment is based also in this case only on the data of these companies that have submitted the reports. It should be noted that for certain sectors the sample of the companies considered is not sufficiently representative to allow adequate summaries to be made in this module.

Column 1: Mutual evaluation report (reference to vulnerability and risk of ML)

This column includes the recommendations made in the course of international evaluations related to the shortcomings in the given sector. In general, no significant recommendations have

¹ High-Medium-Low.

been made for other financial service providers in the last MONEYVAL evaluation round (III). Mention has been made of the need to clarify the sanctions applicable to currency exchangers and to raise the awareness of payment service providers; it has also been noted that the reporting activity of savings and loan associations remains low, which also indicates low awareness. At the time of the risk assessment all legislative changes recommended by MONEYVAL had been made and continuous efforts had been made to improve the awareness of market participants through monitoring and training.

No risk assessments have been provided in this column.

Column 2: Structural vulnerability indicators: *size of the businesses and professions*

Each sector is given a vulnerability rating for this specific indicator - sector size - on a scale of H (high) - high level of vulnerability, M (medium) - medium level of vulnerability and L (low) - low level of vulnerability. The ratings in this column affect the calculated amount of vulnerabilities in the module. The number of companies operating in the sector has been indicated here based on the number of companies having submitted the annual report and the average number of persons employed in the sector by year.

Column 3: Structural vulnerability indicators: *volume turnover*

The higher the turnover of the sector, the more difficult it is to monitor each individual transaction. In addition to turnover, the vulnerability of the sector can also be affected by the volume of its assets. For example, high turnover (which refers to a large number of transactions) does not automatically mean the large volume of assets and vice versa - even large assets² can give a better picture of the sector's volumes than turnover.

Each sector is given a vulnerability rating for this specific indicator - turnover - on a scale of H (high) - high level of vulnerability, M (medium) - medium level of vulnerability and L (low) - low level of vulnerability. The ratings in this column affect the calculated total vulnerability indicator of the module.

Column 4: Structural vulnerability indicators: *cash intensive products and services*

The use of cash increases the potential vulnerability of the sector by money laundering. The sectors that use and accept a lot of cash are particularly vulnerable to increased interest in the black money deployment phase. Therefore, the spread of cash use needs to be assessed for each

² For example, in case of leasing.

sector. In case of certain financial services, the use of cash is essential to the service³. In other cases, however, the payments are rather made by bank transfer.

Each sector is given a vulnerability rating for this specific indicator - the extent of cash use - on a scale of H (high) - high level of vulnerability, M (medium) - medium level of vulnerability and L (low) - low level of vulnerability. The ratings in this column affect the calculated total vulnerability indicator of the module.

Column 5: Structural vulnerability indicators: *frequency or % of international transactions*

One method used to hide and conceal transactions and cash flows is to move money between and through different countries. In order to differentiate between higher risk transactions, it is reasonable to compare the number of transactions made domestically with those made cross-border.

Each sector is given a vulnerability rating for this specific indicator -% of international transactions - on a scale of H (high) - high level of vulnerability, M (medium) - medium level of vulnerability and L (low) - low level of vulnerability. The ratings in this column affect the calculated total vulnerability indicator of the module.

In case of this module, obtaining the data necessary for assessing the share of international transactions was problematic, which is why in most cases either the ratings of the companies themselves or the ratings of the Financial Intelligence Unit have been used in this column.

Column 6: Structural vulnerability indicators: *percentage (%) of customers who pose higher risk*

The following situations are qualified as higher risk customers for this module:

- PEPs i.e. politically exposed persons (see § 20 of RahaPTS)
- Non-resident customers
- Private banking customers
- Legal “entities” such as partnerships and trusts
- Holders of bearer shares.

The assessment is based on the companies' own assessments and the share of international transactions in the sector.

Each sector is given a vulnerability rating for this specific indicator -% of higher risk customers - on a scale of H (high) - high level of vulnerability, M (medium) - medium level of vulnerability and

³ For example, currency exchange.

L (low) - low level of vulnerability. The ratings in this column affect the calculated total vulnerability indicator of the module.

Column 7: Structural vulnerability indicators: *indicators of potential ML activities/conduct*

The purpose of this column is to provide a reflection, through specific indicators, of the impact of money laundering activities on each sector. The vulnerability of the sector is reflected in the money laundering crimes committed in the sector and, to some extent, in the number of reports made in the given sector. Here, it is important to distinguish between suspicious transaction reports sent from the sector (sent by the sector), the higher number of which, on the contrary, indicates the higher awareness of the sector and thus the lower risk.

Each sector is given a vulnerability rating for this specific indicator – potential ML activities/conduct - on a scale of H (high) - high level of vulnerability, M (medium) - medium level of vulnerability and L (low) - low level of vulnerability. The ratings in this column affect the calculated total vulnerability indicator of the module.

Column 8: Structural vulnerability indicators: *other Information*

The column should include other information that affects the risks of a specific sector.

Each sector is given a vulnerability rating for this specific indicator - other related information - on a scale of H (high) - high level of vulnerability, M (medium) - medium level of vulnerability and L (low) - low level of vulnerability. The ratings in this column affect the calculated total vulnerability indicator of the module.

Control measures

Column 1: Control measures: money laundering and terrorist financing prevention regulations, guidelines, enforcement mechanism

Here it is set out which regulations, guidelines and their enforcement mechanisms apply to a particular sector.

Each sector is given an assessment of the effectiveness of this specific indicator - regulations - on a scale of H (high) - high efficiency, M (medium) - medium efficiency and L (low) - low efficiency regulations. The ratings in this column affect the calculated total vulnerability indicator of the module.

Column 2: Control measures: the existence of a regulatory body and the possibility of on-site supervision

It had to be clarified here whether the sector had a specialized supervisory body with the capacity and competence to carry out supervision also in the locations of specific companies.

In general, it can be said that the Financial Intelligence Unit (hereinafter RAB) has been granted extensive supervisory rights by RahaPTS and all the sectors mentioned here are, in principle, subject to their supervision. However, in case of financial services, cooperation with FI is particularly important. At the same time the market of financial service providers is significant and the adequate and high-level monitoring of the latter requires the availability of adequate resources. In 2014, RAB has already planned to focus its resources on supervision in certain sectors, and the recommendations of this module regarding the strengthening of supervision should be considered valid from 2015 onwards.

Each sector is given an assessment of the effectiveness of this specific indicator - supervision - on a scale of H (high) - high efficiency, M (medium) - medium efficiency and L (low) - low efficiency regulations.

The ratings in this column affect the calculated total vulnerability indicator of the module.

Column 3: Control measures: supervision resources of money laundering/terrorist financing prevention (budget and number of employees).

The boxes specify the resources of supervisory authorities that supervise the sector.

RAB – the supervision division has 4 employees (1 manager and 3 supervisory officials). The overall annual budget of RAB is EUR 428,235, which also covers all costs related to supervision. It should be taken into account that the amendments to the law will enter into force in 2014, by which RAB will start issuing activity licenses for certain activities that were previously subject to registration in the register of economic activities. The authorization procedure entails an increase in the level of control measures related to market entry, although the subject matter of the authorization procedure is limited by law. On the other hand, the additional task for RAB also requires additional resources.

FI - 3-4 people are engaged in supervision, in addition to the so-called “decentralized structure” which means that FI has separate support departments in terms of both legal and technical aspects.

Column 4: Control measures: market entry/control (including fit and proper)

In addition, for each sector, it should be assessed whether the applicable regulations ensure that honesty, integrity and reputation are checked against those who intend to provide financial services, and whether these aspects are checked before the right to operate at the market is granted. If market access controls do not exist or are not implemented, the sector will be more vulnerable and could be exploited by money launderers.

Column 5: Control measures: transaction monitoring and relevance of suspicious transaction reports

In this column, the evaluator has been the RAB, which has the competence to assess the adequacy of the report of a specific sector.

Assessment of money laundering vulnerability

All previous assessments form a part of the final assessment of the vulnerability of money laundering in a particular sector. The final risk level is calculated according to the table below.

<u>Vulnerability of the sector</u>	<u>Control</u>	<u>Final assessment on the vulnerability</u>
L	H	L
L	M	ML
L	L	M
M	H	ML
M	M	M
M	L	H
H	H	M
H	M	H
H	L	VH

Level of vulnerability

For the risk level, the lowest value is 0 and the highest is 1.0. The indicators calculated in this module are an input for Module 2⁴.

Importance

Line 4 of the worksheet, which reflects the weight of each indicator, also plays a role in the development of assessments and final figures. The higher importance indicators are marked with level 1 and the lower ones are marked with level 2. Thus, the difference between the impact of the higher and lower importance indicators is twofold.

Recommendations by FATF

⁴ Entry: Module 2/Entry Page/Row 6.

The module also refers to specific FATF recommendations that apply to this sector. It has been referred to FATF recommendations 11, 13, SRIV, 17, 23, 29.

Summary

In order to ensure the comparability of the data, an attempt has been made to use the data of the annual reports submitted by the companies of the respective sector as source data. In order to simplify the comparison base, only the data for 2012 have been taken into account - both in case of annual reports and other data.

The extracts of sales reports, assets and +number of employees have been made from the annual reports. The data on the share of foreign transactions/customers have also been requested from the companies representing the sector⁵, but the response rate remained low as expected, which is why this indicator has had to be limited to the assessments and opinions of the working group⁶.

Where possible, reference is also made to the sector's average transaction amounts and suspicious transaction reports of the sector (not by the sector!) as background data.

Vulnerability of other financial service providers by industry

Currency exchange service

Structural indicators

According to the latest development report of the third evaluation round, MONEYVAL proposed to specify the possibilities of punishing market participants in law. In particular, it was necessary to ensure that the penalties apply to all payment intermediation service providers in case of a breach of the payment service provider's obligations regarding the information related to the payer to be submitted when transferring funds. Corresponding amendments were made to the law and the sanction has been established in the new wording in the Payment Institutions and E-Money Institutions Act today.

⁵ The survey organized by the Estonian Chamber of Commerce and Industry was a great help here.

⁶ The recommendations for completing the module refer to the possibility of entering the best estimates ("guestimate") in the table, if necessary, as full and evidence-based reporting of the data requested for all sectors may not be possible or necessary given the purpose of the task.

There are 53 companies operating in the sector and in 2012 the average number of employees was 991. It is therefore a medium-sized sector. These companies had assets worth more than 223 million euros. Thus, it is a medium-sized - M - *medium* sector.

This is a significant sector in terms of turnover. In 2012 the sales revenue was 205,597,797 euros, which is why the highest rating of this module - H - *high* grade – should be given.

Insofar as currency exchange means the exchange of one valid currency by the company for another valid currency in the course of its economic or professional activities⁷, the service is also characterized by the use of cash. The spread of cash in this sector is high - H - *high*.

Although there are many companies operating in the sector, in case of several of them currency exchange is probably also a side activity and the customer base is also limited to Estonia, the most important players at the market are also offering services internationally and/or to the people from other countries. It is also a characteristic feature of the service, the rating is high - H - *high*.

Similarly, some of the higher-risk customers of the foreign exchange service are foreigners, but in this sector the use of the service is not only suspicious by the non-resident, but rather normal. Therefore, the rating is medium - M - *medium*.

Suspicious transaction reports from the sector form a significant part of the information sent to RAB.

Reports sent in 2012:

Content of suspicion:	Amount-based	Suspicion not defined	Suspicion of money laundering	Suspicion of terrorist financing
number of reports	3916	2	553	409

At the same time, it has been clarified as important background information that there are so-called smuggling risks in this sector, where the currency exchange service is known to be used for cross-border transportation of money to Russia, while the origin and economic purpose of such transactions may remain secret. The messages received from the currency exchange companies

⁷ The definition derives from § 6 (3) of RahaPTS.

are largely related to payment intermediation or similar services that exchange transfer money for cash. In view of the above, the risk assessment for the number of reports is low - L - *low*, but the high risk - H - *high* should be considered as an additional information.

The vulnerability indicators of the sector are assessed by the module as medium - M - *medium*.

Control measures

The currency exchange service providers belong to the group of obliged entities based on RahaPTS and to the group of persons with special obligations under the International Sanctions Act⁸, as well as the relevant instructions of RAB apply. Thus, the rating of the respective indicator is high - H - *high*.

Supervision is performed by RAB which in principle has the rights to perform both on-site and off-site inspections, but at the moment supervision has been performed on a risk-based basis and in 2012 inspections were not performed. Therefore, the rating is also medium - M - *medium*.

The resources of RAB for supervising the sector are medium - M - *medium*.

Before commencing the provision of the service, currency exchangers should register themselves in the register of economic activities pursuant to § 52 (1) 3) of RahaPTS. The registration shall not be made if, upon verification of the information in the criminal record, it becomes apparent that the currency exchange operator itself or its manager, owner or beneficial owner has been punished for a financial crime. Thus, a minimum degree of fit-and-proper control is ensured and the risk index is medium - M - *medium*.

Given the multiplicity and relevance of reports, RAB's assessment of the adequacy of reports is high - H - *high*.

Summary

The sector's vulnerability rating, including the control measures, is M - *medium*. On a scale of 0-1, the rating was 0.48.

For the above reasons, both training and supervision should be continued. It should be kept in mind that the relatively higher vulnerability of currency exchange operators stems from both higher structural (sector-specific) and control risks. It is easier to influence the risk indicators related to the effectiveness of control measures, in particular by increasing the resources of RAB to enable the sector to be supervised to an extent commensurate with trends and risks.

⁸ RvSS § 6 (2).

As the legislation is already of a high standard and the sector has obligations to prevent money laundering, it cannot be considered necessary to amend the legislation at this time.

Training	Supervision	Changes in legislation
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Payment service providers

Structural indicators

In the third evaluation round of Moneyval, a recommendation was made to RAB to raise the awareness of payment service providers and strengthen supervision. Due to the changes in the EU judicial area, the Estonian regulation of the payment services has also changed in the meantime and the Payment Institutions and E-Money Institutions Act has entered into force, so this is an area that has been harmonized at the EU level.

Among other things, the amendments to the act also meant that the registration in the register of economic activities is no longer sufficient for the provision of payment services, but an activity license should be applied for. However, EU law regulates in more detail the cross-border activities and the rights and obligations of payment service providers.

In Estonia, activity licenses have been issued to 10 companies⁹, which is why it is not a large sector in terms of the number of market participants or employees, the rating is low - L - *low*.

Based on the turnover of two companies (EUR 1.3 million), this is the sector with an average turnover - M - *medium*.

The service is also characterized by cash turnover, which is why this indicator has been assessed as high - H - *high*, the same assessment is also given to the share of international transactions, which is essential considering the nature of the service¹⁰.

The share of international transactions also leads to a greater interest of non-resident customers, however, there are no known data that would indicate the use of the services of the sector by PEPs and similar customers. Thus, the vulnerability rating is medium - M - *medium*.

⁹ As at 2012.

¹⁰ This is indicated, inter alia, by the significant number of amount-based transaction reports.

The sector actively reports about suspicious and unusual transactions; in 2012 the reports were submitted as follows:

Content of suspicion:	Amount-based	Suspicion not defined	Suspicion of money laundering	Suspicion of terrorist financing
Number of reports	575	8	1397	1313

The high number and proportion of suspected money laundering reports in this sector is worrying. In terms of indicators and conduct referring to money laundering, assessed on the basis of suspicious transaction reports submitted to RAB, the vulnerability is medium - M - *medium*.

At the same time, several additional circumstances are known about the sector that need to be recorded in the risk assessment: the activity license of one payment institution has been revoked due to money laundering violations, and in several cases RAB has found indications of money laundering/concealment of origin of money. Questions are also raised by the fact that customers are willing to pay for payment services to payment institutions a higher fee than bank fees, which makes it a very profitable business. In the light of additional information, the risk of vulnerability should be assessed as high - H - *high*.

The vulnerability indicators of the sector are assessed by the module as medium - M - *medium*.

Control measures

Control measures consist mainly of assessments of two aspects: the level of regulations and the adequacy/inadequacy of supervision.

As mentioned above, these are harmonized regulations in the EU and cover a wide range of activities. Payment services are the following services provided by a person in the course of economic or professional activity:

1. services enabling cash deposits to be made to the payment account;
2. services enabling cash withdrawals from the payment account;
3. execution of the payment transaction, including the transfer of funds to the payment account held with the payment service provider;
4. execution of a payment transaction, if the money has been granted to a customer of the payment institution as a loan;
5. issuing and acquiring means of payment, payment instruments and methods of payment;
6. money transfers;

7. execution of payment transactions where the payer's consent to the payment is given by means of a telecommunication, digital or information technological device and the payment transaction is performed through the telecommunications network, information technological system or other similar network operator acting solely as an intermediary between the payment institution's customer and the provider of goods or services.

The Payment Institutions and E-Money Institutions Act also defines the content of a payment service, which is:

- 1) execution of direct debits, including one-off direct debits, the purpose of which is to debit the payer's payment account; if the payment transaction is initiated by a payee's authorization given directly by the payer to the payee, payee's payment service provider or payer's own payment service provider;
- 2) execution of a payment transaction by means of a payment card or other similar instrument;
- 3) execution of a credit order, including execution of a standing order.

The level of regulation is also high, given the scope of anti-money laundering and anti-terrorist financing standards. Payment service providers are obliged entities in accordance with § 6 (2) 2) of RahaPTS. Thus, the assessment of the level of regulations is high - H - *high*.

Payment service providers are subject to FI supervision¹¹. FI has also supervised payment service providers: as of 2012 1 on-site inspection, 3 other procedures had been performed and 1 payment service provider's activity license was also revoked. FI's competence and statutory possibilities for supervision are sufficient and should be assessed with a higher rating - H - *high*.

FI's resources for supervision of the aspects of money laundering are 3-4 people, as well as employees of support services departments. It should be emphasized that the same people also perform supervision over the application of the money laundering aspects of the rest of the financial sector. FI considers that the supervisory resource in the field of anti-money laundering is sufficient and does not need to be increased. Thus, the rating is medium - M - *medium*.

The market entry requirements should be assessed as high - H – *high*. The regulation of the activity license stipulates the detailed requirements for the assessment and control of the background and action plans of the payment service provider entering the market.

Although the reporting activity in this sector has to be highly valued, when assessing the adequacy of the reports, it is also necessary to take into account whether the reports also

¹¹ The implementation of international sanctions (requirements of the International Sanctions Act) is supervised by RAB.

correspond to the situation in terms of content. According to RAB, this is currently the most probable channel for money laundering in Estonia. The success and profitability of the sector is also due, at least in part, to the fact that in case of the same service the application of due diligence measures by banks is more thorough and banks are more selective towards their customers. Cash transfers are known to be used to disguise the proceeds of drugs, credit card fraud, pimping and other criminal activities, and cross-border activity further increases the risk of becoming a part of some international money laundering schemes. Thus, the relevance of the reporting of suspicious transactions is rated as medium - M - *medium*.

Summary

The vulnerability rating of the sector was medium - M - *medium* for the sector of payment service providers. The rating is 0.43 on the scale of 0-1.

There is no initial need to change the regulations: among other things, decisions and initiatives taken and/or to be taken at EU level should be taken into account in this sector. Enhanced and focused supervision will mainly help to prevent the realization of the main threats to the sector. It is also worth continuing the training and RAB should analyze the relevance of additional guidance materials.

Training	Supervision	Changes in legislation
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E-money institutions

Structural indicators

Although - in accordance with EU law - this is a nationally regulated field, no activity license for an e-money institution has been issued in Estonia so far. The third evaluation round of MONEYVAL has therefore not made any recommendations for this sector. The size of the sector (no active companies) has to be assessed as low - L - *low*.

The turnover figures of the sector should not be assessed (NA, *not applicable*).

E-money is designed to replace cash. E-money is monetary value stored on an electronic medium (hereinafter *e-money device*) which expresses a monetary claim against the issuer and meets all the following conditions:

- 1) it is issued at par value of the amount of the monetary payment received;
- 2) it is used as a payment instrument to execute payment transactions within the meaning of subsection 709 (6) of the Law of Obligations Act;
- 3) it is accepted as a payment instrument by at least one person who is not the issuer of the same e-money.

Interest or other fees shall not be charged or paid, or other benefits granted for the period of holding e-money.

There are also additional restrictions on e-money, which, among other things, reduce the risks of money laundering and terrorist financing¹². Up to 1000 euros worth of e-money can be stored on one e-money device, if the e-money device does not allow repeated e-money storage. If the e-money device allows recharging, up to 2,500 euros worth of e-money may be stored or reloaded on one e-money device during the calendar year.

As there are no e-money institutions, the share of these foreign transactions and the existence of higher risk customers cannot be assessed either. There are also no suspicious transaction reports from e-money institutions.

Thus, overall, the potential risk of money laundering exploitation due to structural indicators is low - L - *low*.

Control measures

Control measures consist mainly of assessments of two aspects: the level of regulation and the adequacy/inadequacy of supervision.

This is a regulated area that has been harmonized at EU level. E-money institutions are also included in the circle of obliged entities by RahaPTS. Thus, the level of regulations should be assessed as high - H - *high*.

However, in order to assess the supervisory practices and resources, there should be some entity to be supervised in the sector. As no activity licenses have been issued, these aspects cannot be assessed in this module either.

The assessment of market entry requirements is possible insofar as it is regulated by the Payment Institutions and E-Money Institutions Act. This is an area with a high level of regulation, with a rating of - H - *high*.

RAB has found that this may be a sector that credit card fraudsters would like to take advantage of. However, it would not be appropriate to assess the adequacy of reports in this module: there are no reports and no subjects obliged to send these.

Summary

¹² Derived also from EU law.

The sector's vulnerability rating was low - L - *low*. On a scale of 0-1, the vulnerability is 0.00.

As, in essence, this area has not been assessed due to the fact that no companies actually operate in this sector in Estonia, it would not be appropriate to make recommendations for influencing or changing the situation.

Training	Supervision	Changes in legislation
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Service of alternative means of payment

Structural indicators

Pursuant to § 6 (4) of RahaPTS, the provider of service of alternative means of payment is a person who, in the course of his or her economic or professional activity, buys, sells or mediates funds of monetary value through a communication, transmission or clearing system which can be used to meet financial obligations or which can be exchanged for a valid currency, but which is not a credit institution, branch of a foreign credit institution or a financial institution within the meaning of the Credit Institutions Act.

This is a special type of service providers for which no recommendations or comments have been made to Estonia in the third evaluation round of MONEYVAL.

Pursuant to § 52 (1) 5) of RahaPTS, the persons wishing to provide such a service are subject to registration in the register of economic activities. 16 companies have made such a registration. The data have been available in this module for 7 companies with an average of 5 employees in 2012. The assets of these companies amounted to EUR 306,692. In view of all these aspects, the rating of the vulnerability related to the size of the sector is low - L - *low*.

The turnover is also calculated for 7 companies – the total of 128,147 euros, which also gives the low rating - L - *low*.

Similar to e-money, an alternative to cash has been sought in case of the service of alternative means of payment, which is why the share of the use of cash is low - L - *low*.

There was no data in the working group to assess the share of international transactions. It was also not possible to draw conclusions on the proportion of higher risk customers on the basis of the available data.

319 reports of suspected money laundering transactions were sent from this sector in 2012.

As background information, reference has been made to the fact that the largest risks in this area, which had an impact on the entire Estonian money laundering and terrorist financing

prevention environment, prevailed before the regulation of this sector. When the new redaction of RahaPTS, which entered into force in 2008, regulated these service providers and imposed obligations on them, the interest and desire of money launderers to take advantage of this type of service probably disappeared significantly.

The aggregate index of structural indicators calculated by the module is low - L - *low*.

Control measures

Control measures consist mainly of assessments of two aspects: the level of regulations and the adequacy/inadequacy of supervision.

The providers of service of alternative payment intermediaries have been regulated in Estonia and included in the list of obliged entities by RahaPTS. Thus, the level of regulations is high - H - *high*.

The sector is supervised by RAB, which did not supervise the providers of alternative means of payment in 2012. RAB also bases its assessment of the need for supervision in this sector primarily on known risks. Therefore, the rating of this indicator is medium - M - *medium*.

The resources of RAB (4 supervisory employees) for supervision are medium - M - *medium*.

In connection with the entry into force of the new wording of RahaPTS in 2008, the condition for prior authorization to enter the market also entered into force: pursuant to § 52 (1) 5), the provider of service of alternative means of payment should be registered in the register of economic activities. The registration is also preceded by the background check, including on managers, owners and beneficial owners, so the rating is medium - M - *medium*.

RAB has assessed the adequacy of reporting of the providers of service of alternative means of payment as medium - M - *medium*. The reports are sent, but these are still relatively few.

Summary

Considering both structural indicators and control measures, the vulnerability assessment of the sector was medium low - ML - *medium low*. On a scale of 0 to 1, the sum of the vulnerability indicator is 0.20.

In view of the above, the focus should be on maintaining the status quo and the awareness of the representatives of the sector could be raised through the provision of in-service training to improve reporting activity.

Training	Supervision	Changes in legislation
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Savings and loan associations

Structural indicators

The third round of evaluation of MONEYVAL has pointed out that the reporting activity of savings and loan associations has been very low, which indicates the low level of awareness.

Although this is a regulated sector (Savings and Loan Associations Act¹³ was adopted already in 1999), the scope of regulations is not similar to the rest of the financial sector regulations. There are total of 17 savings and loan associations in Estonia, based on the annual reports submitted by which only 2 subjects can be sampled. In 2012 these entities had an average of 2 employees and the volume of their assets exceeded 2 million euros. According to the size of the market, this is a low-risk area - L - *low*.

The turnover of the two savings and loan associations totalled 224,302 euros.

It is not an active cash-using sector, although the savings and loan association may also provide currency exchange services and money transfers and other payment services as provided for in the Payment Institutions and E-Money Institutions Act, which is why the rating given is low – L – *low*.

It is also not an international service sector, which is why the following two indicators have been assessed as low - L - *low*. The savings and loan associations often define their activities more narrowly focused on the local level or the circle of local entities, such as the Forest Savings and Loan Association established by Viljandimaa, Raplamaa, Tartumaa or forest owners.

In 2012 no suspicious transactions were reported to RAB in this sector, which increases the risks of money laundering in the sector - H - *high*.

As background information, RAB has stated that despite the training and supervision carried out, the sector has still not started to report. At the same time it is known that there should have been reports from the sector, as four reports have been submitted in 2012 related to the sector. The known additional circumstances therefore also increase the risks of the sector and should be rated as high – H – *high*.

¹³ Available: <https://www.riigiteataja.ee/akt/13331199>

To sum up, however, the vulnerability in the sector of savings and loan associations is still low based on the structural indicators - L - *low*.

Control measures

Control measures consist mainly of assessments of two aspects: the level of regulations and the adequacy/inadequacy of supervision.

Pursuant to § 6 (2) 9) of RahaPTS, savings and loan associations are obliged entities by law. The companies in the specified sector are also included in the International Sanctions Act as persons with special obligations (§ 6 (10)). Thus, the level of regulations is high - H - *high*.

RAB performs supervision of the prevention of money laundering and terrorist financing over the sector risk-based. In 2012 this sector was not inspected, which is why the rating is medium - M - *medium*.

RAB has 4 supervisory employees and the total budget of RAB is about 430,000 euros, the rating is medium - M - *medium*.

There are no special market entry controls for savings and loan associations. A savings and loan association is entered to the business register on the basis of an application if the share capital has been paid in and the organization of their activities is mainly regulated by the memorandum and articles of association. Therefore, this indicator should be assessed as low - L - *low*.

RAB has also noted that in the course of supervision, indications have been found that savings and loan associations cannot appeal to the complete absence of suspicious transactions in their sector and thus justify non-compliance with the reporting obligation. Therefore, the adequacy of reporting has also been rated as low - L - *low*.

Summary

Considering both structural indicators and control measures, the vulnerability assessment of the sector in this module was medium low - ML - *medium low*. On a scale of 0-1, the sum of the vulnerability indicators is 0.36. In order to reduce the risks and dangers involved, serious consideration should be given, inter alia, to clarifying the legislation and introducing *fit-and-proper* controls as a precondition for the right of action. RM should be responsible for this analysis.

As the reporting activity has continued to be a problem over the years and has been raised internationally, both supervision and training need to be actively pursued. RAB should analyze the cases where a savings and loan association has failed to submit a report, although it should have, also in terms of whether the introduction/extension of additional due diligence

requirements or other regulations to savings and loan associations could have prevented such situations.

Training	Supervision	Changes in legislation
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Other financial service providers - leasing

Structural indicators

No comments or recommendations have been made in the international evaluations in this sector so far.

45 companies have registered themselves as leasing companies, the data of 30 of which have been taken into account for this module. In 2012 an average of 391 people worked for leasing providers. The assets of the lessors amounted to EUR 2,641,644,386, which means that the size of the sector should be rated as high - H - *high*.

The last year's turnover was EUR 318 million, which is also the highest indicator in this module, – H – *high*.

In case of leasing the use of cash is very rare, less than 1% according to the market participants themselves¹⁴. Therefore, this indicator has been assessed as low - L - *low*.

According to the market participants, the share of international payments/transactions is also low, which is below the 2% limit.

Similarly, the market participants themselves have assessed the share of higher risk customers to be below 1%. In both cases the indicator rating is low - L - *low*.

3 suspicious transaction reports were submitted in 2012 (calculated together with the loan supply sector).

With regard to the structural indicators, the large number of transactions in the sector and the high value of transactions should also be taken into account as background information. The average amount of a leasing transaction in 2012 was 20,100 - 31,800 euros (cars approx. 15,000 and equipment 10,000 - several million euros). Thus, the assessment of this indicator is average - M - *medium*.

¹⁴ The survey of leasing companies was conducted by the Estonian Chamber of Commerce and Industry. 2 companies responded.

To sum up, the indicator of structural indicators in the leasing sector is medium - M - *medium*.

Control measures

Control measures consist mainly of assessments of two aspects: the level of regulations and the adequacy/inadequacy of supervision. Lessors are the obliged entities of RahaPTS as financial institutions and the persons with special obligations within the meaning of the International Sanctions Act. The general guidelines of RAB are also applicable. The level of anti - money laundering and anti - terrorist financing regulations is assessed as high - H - *high*.

Supervision is performed by RAB, on-site in total of 6 times in 2012, which can be considered as sufficiently high level of supervision - H - *high*.

RAB has 4 supervisory employees and the total budget of RAB is about 430,000 euros, the rating is medium - M - *medium*. Pursuant to § 52 of RahaPTS, financial institutions that are not supervised by the Financial Supervision Authority pursuant to § 2 of the Financial Supervision Authority Act are required to register themselves in the register of economic activities (hereinafter in this chapter the *register*) before commencing activities in the respective field of activity. Thus, lessors are covered by the registration obligation, which gives the rating medium to the level of regulation of market entry - M - *medium*.

The RAB has stated in the assessment of the adequacy of reports that there are risks in the sector, for example, if it is not known which means are used to pay the lease payments. The interest of criminals may be to launder the proceeds of crime through lease payments in order not to attract attention when buying out assets for a large amount of cash. It is possible to pay lease payments with the money obtained by criminal means. In view of this, 3 reports per year from both the leasing and loan sectors are probably not sufficiently adequate compliance with the reporting obligation, rated as low - L - *low*.

Summary

The vulnerability of the sector is assessed by the module as medium low in the above circumstances - ML - *medium low*. On a scale of 0-1, the rating is 0.38.

In view of the above, effective supervision and awareness-raising training should continue in this sector. The regulatory changes may be considered in line with the analysis of supervision results and with a view to increasing reporting activity.

Training	Supervision	Changes in legislation
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Other financial service providers - loans

Structural indicators

No recommendations have been made to lenders in the previous round of MONEYVAL evaluations.

In 2012 there were 99 companies operating in the sector, employing 196 people. The volume of the assets of the companies was 145,246,717 euros. It is therefore a medium-sized sector - M - *medium*.

The total turnover of the companies was 15,994,864 euros, which is medium-sized - M – *medium*, compared to the other sectors included in the module. According to the lenders themselves¹⁵, cash is rarely used - on average 0 - 4% of cases, loans are paid in cash and not by transfer. The rating is low - L - *low*.

The same companies did not carry out international transactions and, in their opinion, there were no higher risk persons among their customers (less than 1%). For both indicators, the rating is low - L - *low*.

The sector has started to report suspicious transactions, at the same time the reporting activity is low (only 3 reports with lessors) and the assessment of the risk of money laundering is therefore medium - M - *medium*.

Regarding other information, RAB has noted that the persons with a criminal background may be interested in the sector. The average loan amount issued by the companies is 330-800 euros, which is not very large in itself. In case of the additional indicator, the rating is therefore medium - M - *medium*.

The aggregate index of structural risk indicators of the lending sector is low - L - *low*.

Control measures

Control measures consist mainly of assessments of two aspects: the level of regulations and the adequacy/inadequacy of supervision.

Like lessors, lenders are also financial institutions - obliged entities of RahaPTS and persons with special obligations within the meaning of the International Sanctions Act. The general guidelines of RAB are also applicable. The level of anti-money laundering and anti-terrorist financing regulations is assessed as high - H - *high*.

¹⁵ A survey of lenders was conducted by the Estonian Chamber of Commerce and Industry. Two companies (with a small market share) replied.

RAB is able to implement all supervision measures and in 2012 it also inspected loan and leasing providers on site (total of 6 times). The control measure assessed is therefore rated high - H - *high*.

RAB has 4 supervisory employees and the total budget of RAB is about 430,000 euros, the rating is medium - M - *medium*. Pursuant to § 52 of RahaPTS, financial institutions that are not supervised by the Financial Supervision Authority pursuant to § 2 of the Financial Supervision Authority Act are required to register in the register of economic activities (hereinafter in this chapter the register) before commencing activities in the respective field of activity. Thus, lenders are also subject to the registration obligation, which gives the level of regulation of market entry the rating of medium - M - *medium*.

The adequacy of reporting could be better for the lending sector. The risks have also increased in terms of the background of the companies themselves: it is important to find out the initial capital used for lending. On the other hand, similarly to lease payments, it is also possible to pay loan payments with money obtained by criminal means. Thus, the compliance with the reporting obligation is rather inadequate also in the given sector and the assessment is low - L - *low*.

Summary

The vulnerability of the sector is assessed as medium low - ML - *medium low*. On a scale of 0-1, the rating is 0.33.

In view of the above, effective monitoring and awareness-raising training should continue in this sector. The regulatory changes may be considered in the light of an analysis of supervision results, and in particular the clarification of market entry requirements (e.g. origin of initial capital, etc.) may be considered.

Training	Supervision	Changes in legislation
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Collateral and guarantee transactions

Structural indicators

No recommendations have been made for collateral and guarantee service providers in the previous MONEYVAL evaluation round.

The corresponding registration exists for 19 companies, of which 6 companies had submitted an annual report enabling a reference base. In 2012 the average number of employees in these companies was only 2, but the assets of these companies amounted to 142,136,124 euros. Thus,

in terms of the volume of assets and the number of companies, it is a medium-sized sector - M - *medium*.

The turnover of 6 companies in the sample in 2012 was only 200,641 euros, which gives a low turnover rating - L - *low*.

The providers of service of collateral and guarantee transactions (this includes various transactions that give rise to future binding obligations) generally do not use cash in their operations. There are also no cross - border transactions and higher risk customers in practice, which is why all three indicators have been assessed as low - L - *low*.¹⁶

It is worrying that no suspicious transaction reports were received from the sector in 2012 either. Therefore, this is behaviour that increases the risk of money laundering and is therefore assessed as high - H - *high*.

The collateral and guarantee transaction services are, by their nature, the area of business that supports the execution of the customer's transaction (s). The precondition for gaining interest in such transactions is that the transaction itself is sufficiently important and financially significant, which is why it is worth investing additional resources in the search for additional guarantees and collaterals. The average transaction value in 2012 was significant - 7416.58 euros. Therefore, given the background information, the risks in this sector should be assessed as medium - M - *medium*.

All in all, on the basis of structural indicators, the rating of the risk of the sector of providers of service of collateral and guarantee transactions is low - L - *low*.

Control measures

Control measures consist mainly of assessments of two aspects: the level of regulations and the adequacy/inadequacy of supervision.

As other financial institutions, the providers of services of collateral and guarantee transactions belong to the group of obliged entities pursuant to RahaPTS (§ 6 (2) 10) and § 6 (1) 6) of KrAS) and similarly among the persons with special obligations within the meaning of the International Sanctions Act (§ 6 (11) and § 6 (1) 6) of KrAS). Therefore, the level of regulations should be assessed as high - H - *high*.

¹⁶ At the same time, in case of this sector, it should be taken into account that these assessments are based on the survey of the Estonian Chamber of Commerce and Industry, replied by one company with a small market share in this sector.

RAB also has supervisory competence over this sector, but as of 2012, the providers of services of collateral and guarantee transactions had not been supervised. Therefore, the rate of application of supervision is low - L - *low*. RAB has 4 supervisory employees and the total budget of RAB is about 430,000 euros, the rating is medium - M - *medium*.

Pursuant to § 52 of RahaPTS, the financial institutions over which the Financial Supervision Authority does not exercise supervision are required to register themselves in the register of economic activities before commencing activities in the respective field of activity. The providers of service of collateral and guarantee transactions are the financial institutions in accordance with § 6 (1) 6 of KrAS. Thus, the providers of service of collateral and guarantee transactions are also covered by the registration obligation, which gives a medium - M - *medium* rating for the level of regulation of market entry.

However, as this is a service sector that is not used in practice in terms of turnover indicators, the absence of reports can be explained, at least in part, by this. Thus, the assessment of the adequacy of the reports is medium - M - *medium*.

Summary

In the sum of structural indicators and control measures, the sector's vulnerability indicator will be medium low – ML – *medium low*. On a scale of 0-1, the rating is 0.31.

In view of the above, the focus in this sector could be on increasing the reporting activity through training and supervision. There is no known need to change the legislation.

Training	Supervision	Changes in legislation
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