

NEWS

June 4, 2020

Brexit Pushed High-risk Payment Services Providers to Belgium

**By Gabriel
Vedrenne**

The number of suspicious transaction reports filed by payment services providers and electronic money institutions jumped in Belgium as a result of Britain's exit from the EU and prompted Belgian authorities to increase their vigilance over the sector.

In an 84-page annual report released Monday, Belgium's financial intelligence unit, CTIF, claimed to have received 25,991 STRs in 2019 after handling 33,445 in 2018, a 22 percent drop that authorities mostly attributed to a change in reporting methodology applied by a single financial institution to increase compliance with domestic anti-money laundering rules.

Conversely, the number of STRs filed by payment services providers and electronic money institutions, or PSPs and EMEs, many of whom relocated to Belgium because of Brexit, jumped by more than 65 percent in 2019, CTIF said, but gave no exact figures for the number of reports filed by these sectors.

Yet despite the surge in filings from such financial technology firms, or fintechs, the agency warned that the sector still has work to do to bring its level of reporting in line with the financial-crime risks it is exposed to.

“The analysis of suspicious transaction reports also showed that criminal and terrorist groups tend to increasingly use these SPP/EMEs to move their capital,” CTIF claimed.

According to CTIF, criminals can more easily cloak their financial operations in this sector by layering transactions using several PSPs or EMEs simultaneously.

The report refers, in particular, to a trade-based scheme as part of which crime groups operating in Belgium’s construction and industrial cleaning sectors use PSPs to pay for deliveries of cash from Chinese syndicates selling counterfeit goods in the country.

According to CTIF, the Belgium-based crime syndicates are in need of hard currency to pay their undeclared workers, and compensate the Chinese groups for the cash by sending funds through PSPs to a broker based in Dubai, the United Arab Emirates, who then sends the funds to China.

Michael Fernandez-Bertier, a lawyer with Hirsch & Vanhaelst in Brussels, told *ACAMS moneylaundering.com* that criminals are exploiting the fact that PSPs and EMEs have historically been more lightly regulated than banks and are seen to have a greater risk appetite.

Until last month, for example, these firms were not required to enter the details of their clients to Belgium’s central register of bank accounts, which allows authorities to quickly identify the persons or entities behind financial accounts.

“Since the fintech market is quite competitive, these

institutions...might be inclined to onboard clients that would be considered too risky for banks,” he said.

The sector’s characteristics, particularly in terms of firms’ interactions with customers, may also explain why it appeals to money launderers.

“While a banker knows his customers, sometimes even personally, PSPs and EMEs have often no face-to-face contact, so KYC [know-your-customer] is much more difficult to carry out,” said Dirk Libotte, a partner with Arcas Law in Brussels. “Without in-depth knowledge of their clients’ activities, it is much more difficult to detect suspicious activity.”

Britain’s decision to leave the European Union forced many fintechs to migrate to the continent to continue providing services throughout the bloc.

Half of the 28 PSPs operating in Belgium, including Transferwise, Isabel, Digiteal and Jubilee Services, obtained their operating license after March 2017, when the United Kingdom invoked Article 50 of the European Treaties, officially launching the Brexit procedure.

The heightened risk of financial crime is in no way confined to Belgium, however.

“The PSP and EMEs who migrated to Belgium intend to offer their services throughout the EU,” according to Fernandez-Bertier. “The number of transactions processed from Belgium will therefore increase, but the risk of money laundering concerns the whole of Europe, not just Belgium.”

CTIF chief Philippe de Koster told *ACAMS moneylaundering.com* in January (<https://www.moneylaundering.com/news/belgian-terrorist-financiers-avoiding-local-charities-routing-funds-across->

borders/) that most of the additional STRs filed to the financial intelligence unit by PSP and EMEs involved transactions that occurred elsewhere in Europe and would be shared with other European FIUs.

He said that CTIF has trained its analysts of the risks posed by fintechs and educated newly arrived firms on the differences between reporting obligations in Belgium and the United Kingdom, where a lower threshold of suspicion for reporting transactions applies, resulting in a much larger volume of reports.

Contact Gabriel Vedrenne at gvedrenne@acams.org

Topics :	Anti-money laundering , Counterterrorist Financing , Cryptocurrencies , Info. Security/Cybercrime
Source:	Belgium
Document Date:	June 4, 2020