

# Human Trafficking & Modern Slavery Guidance and Typology Report for Malta



# Introduction

**“There are an estimated 49.6 million people in conditions of HT/MS globally, and each year these crimes generate \$150 billion in illicit profits.”**

Human trafficking and modern slavery (HT/MS) are global phenomena. They affect virtually every economic sector and country, including Malta. The term HT/MS used in this Guidance and Typology Report (the Report) includes the trade in human beings and the victims' subsequent situation of continued exploitation, be it through forced labour, child labour and/or sexual exploitation. There are an estimated 49.6 million people in conditions of HT/MS globally,<sup>1</sup> and each year these crimes generate \$150 billion in illicit profits.<sup>2</sup> A recent study has shown that human exploitation has become the most pervasive criminal phenomenon in the world.<sup>3</sup>

HT/MS must be distinguished from the phenomenon of human smuggling which is defined as “the facilitation, for financial or other material gain, of irregular entry into a country of which the migrant is neither a national nor a resident. The criminals behind this highly profitable business seize the opportunity created by the need or desire of people to escape not just poverty and lack of employment opportunities but also natural disaster, conflict or persecution.”<sup>4</sup> Although human smuggling also regularly takes place under degrading and dangerous conditions, smuggled persons generally willingly choose to migrate illegally and to cover the transport costs. While human smuggling necessarily requires a cross-border element, human trafficking may also take place in the absence of cross-border

movement, or any movement by the victim. Finally, in human smuggling, the transport itself is the source of profit, whereas in human trafficking, profits are generated by the exploitation of individuals following their transportation, recruitment, or transfer stage. Nevertheless, despite being different concepts, human smuggling can result in HT/MS as perpetrators can take advantage of the vulnerable situation of the smuggled individuals.

This Report aims to develop an understanding of the issues surrounding HT/MS in Malta, based also on global indicators, and provide information that subject persons can use to identify instances of this phenomenon and assist authorities in countering this horrendous predicate crime.

Malta has a solid anti-HT/MS framework. Slavery has long been abolished, and this is reflected and reinforced through the Constitution of Malta which establishes from the outset in Article 35(1) that: “no person shall be required to perform forced labour”. The Constitution also establishes the fundamental rights and freedoms of the individual, the right to work, the protection of work, the hours of work, minimum age for paid work, the safeguarding of the work done by minors and the protection from inhuman treatment. In addition, Malta is a signatory to the United Nations Protocol to Prevent and Combat Trafficking in Human Beings, which it ratified on 14 September 2003.

The Criminal Code criminalises both modern slavery and human trafficking. Modern slavery is criminalised through Article 54A, Article 54C and Article 54D, which determine crimes against humanity and war crimes. Article 204, Article 204A and Article 205 stipulate the offence of inducing individuals who are underage or adults into prostitution or to participate in pornographic performance. Article 197 criminalises situations where a minor's ascendants by consanguinity or affinity induce the minor into prostitution. Article 202, Article 204, and Article 222 additionally strengthen the legal safeguards against modern slavery by increasing the punishment applicable when

<sup>1</sup> International Labour Organization (ILO), Walk Free and International Organization for Migration (IOM), Global Estimates of Modern Slavery: Forced Labour and Forced Marriage (Geneva: ILO, 2022). Accessible at: [https://www.ilo.org/wcmsp5/groups/public/---ed\\_norm/---ipec/documents/publication/wcms\\_854733.pdf](https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---ipec/documents/publication/wcms_854733.pdf)

<sup>2</sup> ILO, Profits and Poverty: The Economics of Forced Labour (Geneva: ILO, 2014). Accessible at: [https://www.ilo.org/wcmsp5/groups/public/---ed\\_norm/---declaration/documents/publication/wcms\\_243391.pdf](https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---declaration/documents/publication/wcms_243391.pdf)

<sup>3</sup> <https://globalinitiative.net/analysis/ocindex-2021/>

<sup>4</sup> Migrant Smuggling ([unodc.org](http://unodc.org))

determinate aggravating factors are present.

Article 211A, introduced in the Criminal Code through Act X of 2022, is a further provision of law that addresses HT/MS. This article criminalises femicide and states that in establishing the applicable punishment, the court is to consider whether it was committed or attempted “due to the victim being involved in prostitution or being subjected to sexual exploitation or being the victim of human trafficking for purposes of sexual exploitation, and the court shall consider the existence of any of the said circumstances as a factor militating against leniency in punishment”.

In view of Malta’s accession to the UN Protocol in 2002, the legislator added Subtitle VIII Bis, entitled ‘Of the Traffic of Persons’, to the Criminal Code. This Subtitle includes a series of important provisions, including Article 248DB which criminalises child labour.

Finally, Articles 251G and 251GA deal with the offence of forced marriage and Article 337A establishes the offence of aiding or assisting in any other manner in the trafficking of a person in or outside Malta.

Malta has engaged in significant efforts in the last years to address and mitigate the risks of HT/MS. The opening of a new safe house for HT/MS victims, the establishment of a vulnerability assessment team to help screen asylum-seekers, an increase in victim protection funding and the number of potential HT/MS victims assisted compared to the previous year<sup>5</sup> are only a few examples of the measures taken and of the efforts the country is undertaking to eradicate HT/MS. This is in line with what is set out in Target 8.7 of the UN 2030 Agenda for Sustainable Development: “Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms.”<sup>6</sup>

Malta has made substantial efforts in recent years to counter HT/MS, but there is always room for improved effectiveness, including by the private sector being more aware of the risks of HT/MS.<sup>7</sup>



<sup>5</sup> <https://www.state.gov/wp-content/uploads/2022/10/20221020-2022-TIP-Report.pdf>

<sup>6</sup> <https://sdgs.un.org/goals/goal8>

<sup>7</sup> For further details, please refer to the indicators’ section.

# The Importance of Financial Inclusion

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**Many survivors of HT/MS, unable to access formal financial services, depend on the informal economy and cash-based transactions to survive.**

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**A vulnerable population of 1.4 billion people with no access to formal banks and lenders. The individuals who experience this phenomenon very often also experience marginalisation from society due to a number of factors including poverty, their standard of education, gender, ethnicity, citizenship, and refugee status.**

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**Financial exclusion is known to increase vulnerability to HT/MS . It is also a known consequence of being trafficked or exploited.**

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Common features of survivors' stories of HT/MS include desperation in trying to gain access to finance for funeral or wedding services, or to pay recruiter fees for work overseas, or being in 'debt bondage'. Many survivors of HT/MS, unable to access formal financial services, depend on the informal economy and cash-based transactions to survive.

Being unbanked or under-banked, is referred to as being "financially excluded". A vulnerable population of 1.4 billion people with no access to formal banks and lenders. The individuals who experience this phenomenon very often also experience marginalisation from society due to a number of factors including poverty, their standard of education, gender, ethnicity, citizenship, and refugee status.<sup>8</sup>

Financial exclusion is known to increase vulnerability to HT/MS<sup>9</sup>. It is also a known consequence of being trafficked or exploited. A contributory factor to financial exclusion in these cases is the absence of any form of remedy to obtain compensation for their suffering. The seizure and confiscation of the perpetrators' ill-gotten assets could very well finance this compensation, but it is not always the case that seizure and confiscation can or does take place.

The lack of access to essential banking services and products leaves survivors struggling to recover and become financially reintegrated into society<sup>10</sup>. Barriers to access banking services include missing identity documentation or permanent address documentation or having criminal records and "bad credit" status as a result of their exploitation<sup>11</sup>.

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<sup>9</sup> <https://www.worldbank.org/en/publication/globalindex/Report>

<sup>10</sup> <https://www.fastinitiative.org/wp-content/uploads/BriefingPaper3.pdf>

FAST (2019) FAST Blueprint. Available at: <https://www.fastinitiative.org/implementation/survivor-inclusion/>

<sup>11</sup> Gauer Bermudez et al (2022) "Could financial inclusion be the key to reducing vulnerability to modern slavery?" <https://gfems.org/uncategorized/could-financial-inclusion-be-the-key-to-reducing-vulnerability-to-modern-slavery/>

In Malta, 96 per cent of the adult population has a bank account<sup>12</sup>. Although this is a high percentage, there is still the risk that financially excluded individuals will be victims of HT/MS. This vulnerability is particularly relevant with regards to low-income sectors, women and children, and people who have been forcibly displaced.

The perceived tension between implementing regulatory and policy requirements, such as AML/CFT requirements and meeting vulnerable customers' needs is an issue that has arisen in feedback from the FAST Survivor Inclusion Initiative<sup>13</sup>. It also reinforces the findings of the Financial Action Task Force (FATF) High-Level Synopsis of the Stocktake of the Unintended Consequences of the FATF Standards<sup>14</sup>, which concluded that "the misapplication of the FATF Standards, and in particular the failure to use the proportionality that is central to the risk-based approach, can lead to or compound financial exclusion."

Refugees have some level of protection from financial exclusion and, therefore, from HT/MS as their right to access basic banking services is statutorily provided for. However, if this access is lost, they risk becoming more vulnerable to exploitation.

The European Banking Authority (EBA) Guidelines on policies and controls for the effective management of ML/TF risks when providing access to financial services, published on 31 March 2023<sup>15</sup> "complement the EBA's separate Guidelines on ML/TF risk factors by specifying further the policies, procedures and controls credit and financial institutions should have in place to mitigate and effectively manage ML/TF risks [...] including in situations where the provisions in Article 16 of Directive (EU) 2014/92 apply, which introduces the right of individuals to open and maintain a payment account with basic features."

The EBA Guidelines address this dimension by recommending possible means of risk mitigation measures that can be put in place to address money laundering/funding of terrorism (ML/FT) concerns, such as "offering a more limited range of services or restricting the functionality of certain products"<sup>16</sup>. This will also safeguard the accounts of those who have been exploited escaping the conflict and whose access to banking may be abused by their traffickers.

The World Bank Group report "Impact of the FATF Recommendations and their Implementation on Financial Inclusion: Insights from Mutual Evaluations and National Risk Assessments"<sup>17</sup> identifies how financial exclusion makes populations vulnerable to involvement in ML/FT and how professionals should ensure they are not increasing financial exclusion when implementing a risk-based approach to counter ML/FT. While highlighting the FATF's increased attention to financial inclusion, the report refers to a number of recommendations to address the issue of de-risking and misapplication of the FATF Standards.

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<sup>12</sup> <https://globalfindex.worldbank.org>

<sup>13</sup> The FAST Survivor Inclusion Initiative brings together banks and survivor support organizations to implement alternative due diligence processes which facilitate the financial inclusion of survivors, who would otherwise be left vulnerable to re-victimization and re-trafficking. : <https://www.fastinitiative.org/implementation/survivor-inclusion/>

<sup>14</sup> <https://www.fatf-gafi.org/content/dam/fatf-gafi/reports/Unintended-Consequences.pdf>

<sup>15</sup> Guidelines on policies and controls for the effective management of money laundering and terrorist financing (ML/TF) risks when providing access to financial services, 31 March 2023 [https://www.eba.europa.eu/sites/default/files/document\\_library/Publications/Guidelines/2023/1054144/Guidelines%20on%20MLTF%20risk%20management%20and%20access%20to%20financial%20services.pdf](https://www.eba.europa.eu/sites/default/files/document_library/Publications/Guidelines/2023/1054144/Guidelines%20on%20MLTF%20risk%20management%20and%20access%20to%20financial%20services.pdf)

<sup>16</sup> [https://www.eba.europa.eu/sites/default/files/document\\_library/Publications/Other%20publications/2022/1031627/EBA%20statement%20on%20financial%20inclusion%20in%20relation%20to%20Ukraine.pdf](https://www.eba.europa.eu/sites/default/files/document_library/Publications/Other%20publications/2022/1031627/EBA%20statement%20on%20financial%20inclusion%20in%20relation%20to%20Ukraine.pdf)

<sup>17</sup> <https://documents1.worldbank.org/curated/en/597781637558061429/pdf/Impact-of-the-FATF-Recommendations-and-their-Implementation-on-Financial-Inclusion-Insights-from-Mutual-Evaluations-and-National-Risk-Assessments.pdf>

# The Importance of Financial Intelligence Analysis and Financial Investigations

**It is always important to bear in mind that financial gain is the primary motivating factor for criminals, including those engaging in HT/MS. At some point or another, these ill-gotten funds will have to be introduced into the financial system through the products or services provided by one or more subject persons. Thus, the financial sector has a pivotal role to play in the fight against this crime.**

The FAST Blueprint<sup>18</sup> shows that the financial services industry cannot end HT/MS alone. Nor, however, will these crimes end without the active engagement of the financial sector, namely subject persons. Regulation 15 of the Prevention of Money Laundering and Funding of Terrorism Regulations (PMLFTR)<sup>19</sup>, obliges subject persons to report to the Financial Intelligence Analysis Unit (FIAU). The FIAU collects, processes and analyses information that is received from various domestic and international sources. A fundamental source of information are the reports received from subject persons on suspicious transactions or activity. These reports are then analysed and, where the FIAU has a reasonable suspicion of ML/FT, it will disseminate the results of its analysis to the Police. Apart from the Police, the FIAU may also share intelligence with other domestic authorities and foreign counterparts. This can happen both in a spontaneous manner and upon request.

The financial intelligence communicated by the FIAU is one of the sources of intelligence that the Malta Police Force can use to launch investigations. As illustrated in the report by the Organization for Security and Co-operation in Europe (OSCE), “Following the Money – Compendium of Resources and Step-by-Step Guide to Financial Investigations Related to Trafficking

in Human Beings”<sup>20</sup>, investigations into the financial aspects of HT/MS are essential in the fight against this crime for several reasons:

1. Financial evidence helps to overcome challenges, such as a heavy reliance on the victim’s testimony or insufficient evidence to implicate the perpetrators during an investigation or prosecution regarding HT/MS. Furthermore, financial evidence can, for example, help identify victims and bring HT/MS to the attention of authorities even before a victim files a complaint. It can also confirm a victim's testimony and provide additional information about the extent of the criminal activity.
2. Financial intelligence and investigations can also assist in tracing assets that are the direct proceeds of this form of criminal activity or were acquired/generated through the investment of such proceeds. The seizure of such assets can be used for a number of purposes, including the possible redirection of these assets to the victims as a form of compensation.
3. Financial evidence can support a preventative function. Integrating financial investigations into anti-trafficking systems can combat impunity for traffickers and in this manner disincentivise criminal actors from perpetrating this form of criminal activity.
4. Addressing the financial implications of HT/MS can build partnerships between private and public sector actors through Public-Private Partnerships (PPPs).

<sup>18</sup> [www.fastinitiative.org](http://www.fastinitiative.org)

<sup>19</sup> Subsidiary Legislation 373.01 of the Laws of Malta

<sup>20</sup> Following the Money – Compendium of Resources and Step-by-Step Guide to Financial Investigations Related to Trafficking in Human Beings, p. 13. [https://www.osce.org/files/f/documents/f/5/438323\\_0.pdf](https://www.osce.org/files/f/documents/f/5/438323_0.pdf)

# Trafficking Profile & Modus Operandi of Traffickers in Malta

Statistics from the GRETA (Group of Experts on Action Against Trafficking in Human Beings) Evaluation Report on Malta show that the total number of formally identified victims of trafficking in human beings in 2017-2020 stood at 44, with labour exploitation representing 77 per cent of identified cases. All adult victims were of foreign origin, with Ukraine and the Philippines representing the primary countries of origin (19 and 16 victims respectively) with additional victims originating from China (three) and Hungary (two).

Migrant workers from Asia (and especially the Philippines) are at risk of trafficking and exploitation in the construction, cleaning, domestic work and fishing sectors, particularly when these services are outsourced. Women working in “gentlemen’s clubs” and massage parlours experience heightened risk of sexual exploitation.<sup>21</sup>

The GRETA report cites UNHCR statistics on the number of persons rescued at sea and disembarked in Malta: 1,445 in 2018, 3,406 in 2019 and 2,281 in 2020.

## 570 unaccompanied and separated minors were rescued at sea in 2020.

These numbers represent a significant rise from 2015-2017 when only 152 migrants were rescued at sea, and this increase has placed the Maltese immigration and asylum system under strain. Most of these migrants have claimed asylum and remained in Malta. There is no data on the number of these asylum seekers who may have experienced trafficking.<sup>22</sup>

In Malta, there have been reports of both domestic and foreign victims having been exploited by human traffickers. The US Department of State has noted how “Sex traffickers exploit foreign national and Maltese women and children, and labour traffickers exploit foreign men and women. [...] Fraudulent labour recruitment continues to occur; traffickers replace the originally signed contract with a less favourable one upon arrival in Malta or force victims to perform a completely different job than what was agreed upon”<sup>23</sup>. It is common for traffickers to confiscate the passports of victims upon their arrival. When exploiting these victims, it is likely that there will be coordinated actions between traffickers, co-nationals of the victims, as well as Maltese citizens.<sup>24</sup>

The following are four typologies observed in a number of countries, including Malta, that human traffickers and modern slavery facilitators have used to launder money.

<sup>21</sup> GRETA Evaluation Report on Malta – Third evaluation round, p. 9. Accessible at: 1680a47d84 (coe.int).

<sup>22</sup> GRETA Evaluation Report on Malta – Third evaluation round, p. 9. Accessible at: 1680a47d84 (coe.int).

<sup>23</sup> Trafficking in Persons Report 2022 by the Department of State of the United States of America page 377. Accessible at: <https://www.state.gov/wp-content/uploads/2022/10/20221020-2022-TIP-Report.pdf>.

<sup>24</sup> Trafficking in Persons Report 2022 by the Department of State of the United States of America, page 377. Accessible at: <https://www.state.gov/wp-content/uploads/2022/10/20221020-2022-TIP-Report.pdf>

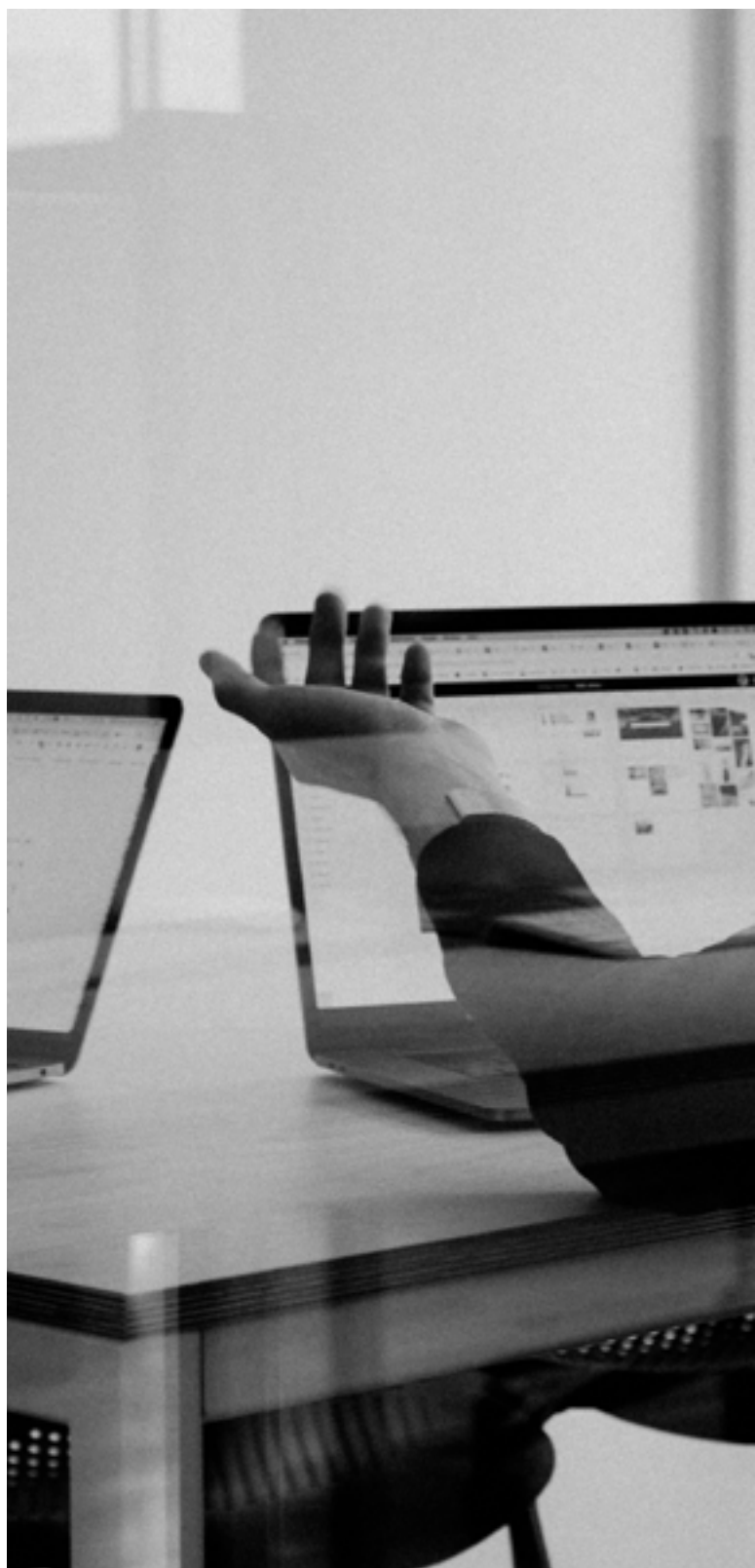
## 1. Abusive Employment Practices

Profit can be garnered from labour and sex trafficking through abusive employment schemes, such as visa fraud and wage retention by misleading or defrauding victims. Recruiters might distort the conditions and nature of employment, confiscate, or destroy the employee's identity documents and violate employment contracts. It is worth noting that even foreign nationals with legitimate temporary work or student visas can be the victims of exploitation. Debt bondage can also take place by charging the workers abusive fees, which take years to repay, and withholding their salary or paying a salary which is less than promised. The trafficker may claim that the fees cover the recruitment costs or the access to job opportunities. The transfer of the victims' salaries to the traffickers or co-conspirators happens through wire transfers, amongst other systems.

Subject Persons should pay attention to situations where there may be multiple employees receiving the allocated salary in the same single account, and to funds which are instantly withdrawn upon receipt or transferred once more to another account.

## 2. Funnel Accounts

A funnel account is a technique adopted to launder money, whereby criminals or victims deposit illicit funds into an account/s at one location, and the funds are rapidly withdrawn by colluding parties from various other locations. Thus, funds are channelled into one or more accounts and withdrawn from multiple others. This method provides criminals with instant access to money. The funds deposited are usually low value sums to avoid attracting attention. Usually, deposits and withdrawals take place quickly. Funnel accounts provide an efficient transaction process and help in maintaining a degree of obscurity for human traffickers in terms of layering the funds in a way that the criminals and their actions and transactions would not be easily picked out and identified. In the case that the bank accounts are opened by the victims, traffickers make sure that they maintain control and at times also lead victims to deposit money into accounts that the traffickers can access. There have been instances where the victims themselves were forced to transfer proceeds to facilitate the movement of funds.







### 3. Payment Methods

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Traffickers may also accept payment via prepaid cards, credit cards, mobile payment applications and convertible virtual currency. It has been noted that human traffickers also make use of third-party payment processors (TPPPs) to wire funds. This method can conceal the true origin of the payment as it is masked through the TPPPs. There's a possibility to register an account on a TPPP with a temporary email address and funding the account with a virtual credit card. To increase anonymity, the user might use a tested VPN to hide the actual IP address and carry out online transactions with unbreakable encryption.

### 4. Front Companies

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The use of front companies is a common ML/FT typology and likewise frequently adopted by human traffickers. Front companies, having apparent legitimate business activities, are used to mask the true nature of a business and criminal activities. Some examples of front companies which are known to be used by human traffickers are massage parlors, nail salons, bars, restaurants, agriculture, and construction. One front company may be part of a larger network of both legal and illicit business.

# HT/MS- related ML Indicators and Red Flags



The goal of this Report is to raise awareness of HT/MS-related ML risks in the financial sector in Malta and to provide the necessary tools to better detect HT/MS-related ML. This should consequently lead to enhanced reporting also when it comes to the submission of reports of HT/MS-related ML to the FIAU. Better quality and quantity of HT/MS reports in Malta will help the FIAU and other government authorities, namely law enforcement authorities, to better understand and combat the problem. To support the financial sector in Malta to detect HT/MS, a series of indicators have been presented in the following pages of this Report.

The financial indicators of HT/MS are typically composed of multiple elements which when seen in isolation may not be considered suspicious and do not give rise to an alert. This makes it very challenging to detect suspicious activity or behaviour. However, when assessed together, these red flags may help identify signs of ML/FT and proceeds of crime indicative of HT/MS.

The detection of human trafficking based on soft indicators (indicators recognisable through human perception) promises the most success when relating to the lowest level of the criminal organisation or the victim. However, when applying automated transaction monitoring or standardised customer due diligence processes, one may manage to detect more senior level individuals within the criminal organisation. Specifically, inconsistencies of customer behaviour with expected business behaviour appear to be a promising starting point for human exploitation-related analysis by subject persons.<sup>25</sup>

<sup>25</sup> Shared opinion of the participants of the “Roundtable Discussion on Human Trafficking and Modern Slavery Risks and the Financial Sector in Malta”, held in Attard, Malta, on 18 and 19 July 2023.

# HT/MS Indicators relative to labour exploitation

## Customer HT/MS Risk

A property that should accommodate a maximum of 2 or 3 people (according to a street view search) is indicated to have a higher number of inhabitants.

Customer shows deprived personal hygiene and standard of dress.

Customer lacks living expenses. Compared to the usual accounts, the customer does not use the account for daily expenses or the volume of transactions of expenses is much lower than usual.

Lack of legitimate employment shown through the absence of payment of the relative taxes. This is indicated through customer due diligence documents collected.

Customer showing bruises or other signs of physical abuse.

Employing entity being reported to conduct cheap labour or unfair business practices or presenting indications that it is doing so.

## Product, Service and transaction HT/MS Risk

ATM activity indicates regularly timed usage on the same ATM machine which might suggest controlling of the cards by a third party.

Third-party purchasing of visa for entry in a country.

Wages paid out by an employer are incommensurate with the personnel numbers and the costs.

Recurrent transfers of funds, in round amounts, to a particular third party. This may indicate a case of debt bondage.

Fees transferred to recruitment entities or agencies, including overseas, which look suspicious, tend to be higher than the normal rates of recruitment fees and/or having payments transferred in various phases of the recruitment process and even during employment.

Fictitious contracts of employment or services.

Periodical salary payments are always identical (no variables such as overtime, vacation, sick leave, bonus payments, etc. are noticed where it is usual to have these).

Recurring payments lower than the minimum wage.

Business accounts having employee salary deductions stated as various cost types, such as, food and housing. From available documentation there are indications that the deductions are being made from the employee and declared as various cost types.

Salary cheques which are cashed, but most of the funds are deposited back into the employer's account or kept by the employer.

# HT/MS Indicators relative to sexual exploitation

## Customer HT/MS Risk

Customer's contact information transpired to be connected to advertising related to escort services, model agencies, entertainment agencies or sexual services identified through an open-source search.

An unusual number of joint account holders or authorised users of products who are unrelated individuals.

A third-party individual accompanying a customer when depositing funds and, at times, even handing the customer's identification documents over to the customer. When it comes to non-face-to-face one can even look, for example, at IP logins. However, one should be careful of masked, compromised IP logins and/or collective IP logins.

Noticing different writing styles when corresponding by email, presumably with the customer.

Multiple customers opening multiple bank accounts and using a common mobile number, address, and employment reference.

Opening a number of accounts in different branches or different banks by using aliases and being presented with false documentation.

The customer or the entity was subject to investigations or prosecutions related to HT/MS. Subject persons need to evaluate the court decisions.

## Geographical HT/MS Risk

A number of low value transactions being transferred to jurisdictions with a high risk of sexual exploitation which also links to other information/red flags connected to sexual exploitation.

Suspicious transactions linked to known nightclub districts.

## Product, Service and transaction HT/MS Risk

Customer's account is generally funded through third-party individuals' cash deposits and funds transfers.

Cash deposits conducted at different locations within the country and withdrawals and/or purchases performed in different locations.

Payments using credit cards are conducted outside of normal hours of the business, involving massage parlours and beauty salons.

Frequent ATM cash deposits which at times are followed by ATM withdrawals in different locations.

Recurrent payments to individuals or entities connected with the sex industry, escort agencies, model agencies and entertainment agencies.

Regular purchasing in multiples of a minor amount of VFAs over the dark web.

Purchasing can be performed directly by the customer or through exchanges.

Use of pre-paid cards by the customer or by related third parties.

Transfers of funds which involve third parties having aliases in brackets.

Frequent payments for hotel bookings which include two or more separate rooms but registered under the name of the same individual.

Repeated transfers occurring from multiple accounts to the same third party.

Low value wire transfers associated with subscription fees or otherwise, being transferred to entities involved in sexual services or the pornographic industry.

Frequent transactions related to hotels or other accommodation facilities which seem unrelated to the customer's personal use or the stated business activity.

Frequent and significant payments covering transportation or logistics services outside general business hours.

Suspicious transactions covering the cost for daily nourishment from bars, restaurants and guest houses. This would generally be daily nourishment for a number of people.

Citation of addresses linked to prostitution (discovered through open-source searches).

Frequent low-value deposits and payments through an online payment service which are deposited in a personal account. Eventually making use of the funds for virtual currency deposits, or payment of bills (e.g., credit card bills).

Frequent purchases at pharmacy, clothing stores, underwear stores in a short time and which is inconsistent with ordinary activity.

# HT/MS Indicators relative to human trafficking in all its forms

## Customer HT/MS Risk

Multiple customers opening multiple accounts and using a common mobile number, address and employment reference.

Frequent expenses for logistics, transportation or travel agents which is not immediately explained by the customer's profile.

Avoidance of face-to-face contact by the customer or customer showing signs of fear, distress, or depression.

Customer accounts which indicate the control of a third-party (different handwriting in any form and/or customer does not know the address by heart).

A customer is generally accompanied by a third party (e.g. a translator) who holds the customer's identification documents for the common operation of the account or making deposits/withdrawals.

Customer presenting forged documents.

Customer's phone number changes frequently or does not work.

An entity's balance sheet displaying assets in cash and profits with no legitimate trade explanation.

## Geographical HT/MS Risk

Transactions transferred to jurisdictions with a higher risk for human trafficking or transactions taking place between two jurisdictions on a known trafficking route, as reported, for instance, by Malta's Human Rights Directorate, national law enforcement agencies, or other competent authorities.

Customers appear to regularly travel through, and transact from, different geographic locations.

## Product, Service and transaction HT/MS Risk

High and/or regular financial transactions taking place at the airport or ports or similar transportation hubs, that are not explained by the customer's profile or declared employment.

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Very frequent transactions on food, necessities or accommodation that are significantly higher than for the usual consumer, indicating that food and other goods are being purchased for multiple individuals.

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A salary which is received and instantly withdrawn in cash.

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Use of money remittance to transfer part of the salary or for the payment of debts. Wire transfers originating from multiple unrelated persons to the same beneficiary. The persons might use a common address and phone number. There could also be lack of knowledge by the customers when asked about the reason for the wire transfers.

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Frequent transactions using third-party payment processors (TPPPs).

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Accounts opened in the name of the customer's children with substantial activity taking place.

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Indications that an account is used as a funnel account.

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Customer accounts having lump sum withdrawals

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Use of third-party accounts.

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A substantial number of personal cheques are deposited into business accounts for no reason.

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A number of transfers from personal accounts made to business accounts.

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Loan contracts used to structure funds.

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Source of funds cannot be verified.

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Purchasing of merchandise which is incommensurate with the regular business norm (mobile phones, condoms, sex toys, and airline tickets purchased in large quantities or purchased regularly).

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Cash deposits of a large amount into an account. The deposits would then be followed with bank draft purchases, transfers of electronic funds and/or the issuing of cheques.

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The customer's profits or deposits do not correlate to the customer's size or type of business. An entity's financial turnover does not correlate to the expected commercial turnover when considering the size or type of business.

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A number of individual accounts which are concurrently opened and closed.

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# HT/MS Indicators relative to human smuggling

As mentioned above, human smuggling is distinct from human trafficking. However, due to the potential risks of HT/MS taking place within the context of human smuggling it was deemed relevant to also include red flags related to human smuggling.

## Customer HT/MS Risk

The lifestyle adopted by the customer is incommensurate with the employment or business undertaking. The profits or deposits are significantly greater than that of peers in similar professions or business lines.

Customers' accounts are closed due to suspicious activity. New customers reflect similar activity to the activity previously occurring in the closed customers' accounts (with frequent transactions, cash intensive and involving the same individuals that used to receive or send funds from or to the closed accounts).

Frequently exchanging small-denomination bills for larger denomination bills by a customer who is not operating a cash intensive business.

## Geographical HT/MS Risk

A customer's account operates as a funnel account, where cash deposits, usually kept below the reporting threshold, occur in locations where the customer does not reside or conduct business.

## Product, Service and Transaction HT/MS Risk

Beneficiaries receiving wire transfers from countries with high migrant populations where the beneficiaries are not nationals of those countries.

Payment is received in cash where significant cash receipts are inconsistent with the customer's line of business. Wide use of cash to buy assets and to conduct payments.

Cheques deposited from a probable funnel account appear to be already signed with a different handwriting in the signature and recipient fields.

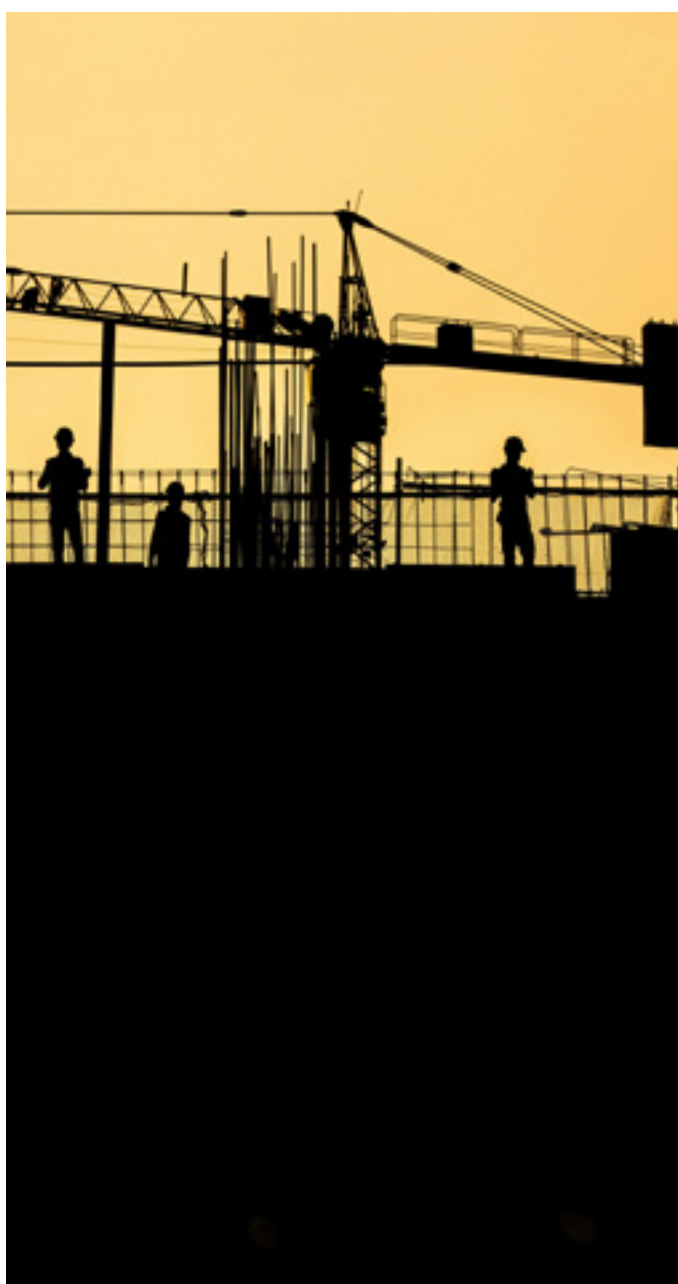
Multiple, apparently unrelated, customers sending wire transfers to the same recipient.

Similar transactional information to be noted includes but is not limited to common addresses, contact numbers and amounts.



# High Risk Industries and Countries in terms of HT/MS

It is particularly important for subject persons to be aware of customers' links to the industries and countries identified as being exposed to a higher risk of a HT/MS connection. The risks may be identified on both the victim's and perpetrator's side. A review of literature sources and expert opinions have led to the identification of the following high-risk sectors in relevant industries on a global level. Those found to be especially relevant for the Maltese context by national financial crime and anti-human trafficking experts<sup>26</sup> are displayed in bold italic letters.



## 1. Agriculture, Forestry and Fisheries

Crop and animal production, hunting and related service activities, i.e., growing of Brazil nuts, chestnuts, cocoa, sugar cane, rice, and raising of cattle.

Forestry and logging.

Fisheries and aquaculture.

## 2. Mining and Quarrying

Mining of coal and lignite.

Mining of metal ores, i.e., of iron ores, non-ferrous metal ores like gold, and uranium and thorium ores.

Other mining and quarrying, i.e., diamond mining, quarrying of stone, sand and clay, and extraction of salt.

## 3. Manufacturing

Manufacture of food products, e.g., processing and preserving of meat, fish, crustaceans, fruits, and vegetables.

Manufacture of tobacco products.

Manufacture of textiles, e.g., dyeing, preparation and spinning of textile fibers, weaving of textiles, finishing of textiles, and manufacture of carpets and rugs.

Manufacture of wearing apparel.

<sup>26</sup> Result of the workshop conducted during the "Roundtable Discussion on Human Trafficking and Modern Slavery Risks and the Financial Sector", held in Attard, Malta, on 18 and 19 July 2023.

## 4. Construction

**Construction of buildings.**

**Civil engineering, i.e., construction of roads, railways, bridges and tunnels.**

**Specialised construction activities, e.g., demolition and site preparation.**

## 5. Transportation and Warehousing

Land transport and transport via pipelines, i.e., freight transport by road and removal services.

Water transport, i.e., sea and coastal freight water transport.

Warehousing and support activities for transportation, i.e., cargo handling.

**Taxi services**

## 6. Accommodation and Food Service Activities

Accommodation, i.e., hotels and similar accommodation.

Food and beverage service activities, i.e., event catering, beverage serving activities, and **food delivery services.**

## 7. Information and Communication

Motion picture, video and television program production, sound recording, and music publishing activities, i.e., production of pornographic material.

## 8. Administrative and Support Service Activities

Employment activities, i.e., activities of employment placement agencies, temporary employment agency activities, and other human resources provision.

Travel agencies, tour operator reservation service and related activities.

Services to buildings and landscape activities, i.e., combined facilities support activities and cleaning activities.

## 9. Human Health and Social Work Activities

**Residential care activities.**

Social work activities without accommodation.

## 10. Other Service Activities

Other Personal Service Activities not elsewhere classified, i.e., activities related to the red-light industry, **massage parlours/salons**, escort services, dating services, services of marriage bureaus, shoe shiners.

## 11. Activities of households as employers

**Activities of households as employers of domestic personnel, e.g., cleaning persons, housekeepers, and nannies.**

To determine the countries that constitute a high HT/MS risk to Malta, it is recommended to analyse the:

Typical countries of **origin** of victims and perpetrators in Malta

Typical **destination** countries of the victims of HT/MS from Malta

# Automated Transaction Monitoring Systems

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Transactional indicators can be valuable tools for assisting compliance personnel in identifying and analysing potentially suspicious transactions related to HT/MS. Differentiating HT/MS activities from other types of criminal behaviour can be challenging, but these indicators can provide useful support. It is important to note that these indicators may not be compatible with standard AML/CFT software utilised by subject persons, which typically filters out transactions deemed suspicious. Consequently, transactions associated with HT/MS-related ML might go unnoticed by AML software, thereby circumventing analysis by subject persons and remaining unreported. Employing advanced automated transaction monitoring systems can prove beneficial in detecting illicit financial flows stemming from HT/MS. The most promising approaches in this regard include the following:

- 1** Subject persons could combine the usual money-laundering indicators with an increased monitoring of customers who have a high risk of being associated with HT/MS (links to HT/MS high-risk industry and/or HT/MS high-risk country).
- 2** Subject persons could more closely monitor transactions to and from regions facing crises, which might increase risk of HT/MS. Monitoring should identify abrupt changes in the transactional behaviour of a customer from a HT/MS high-risk industry.
- 3** Subject persons could intensify the monitoring of transactions between locations (countries, and cities if possible) that are typical origins and destinations for HT/MS. If individuals are typically moved from A to B, it is worth looking at transactions from B to A. This could be combined with the usual money-laundering indicators.

A complete guide on automated transaction monitoring “Detecting Financial Flows of Modern Slavery and Human Trafficking” was published by FAST in early 2023<sup>27</sup>.

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<sup>27</sup> Accessible at: [http://collections.unu.edu/eserv/UNU:9113/Indicators\\_Guide\\_Final.pdf](http://collections.unu.edu/eserv/UNU:9113/Indicators_Guide_Final.pdf)

# Case Studies

The following sanitised case studies are based on actual cases analysed by the FIAU's intelligence analysts where there was a reasonable suspicion of laundering the proceeds of HT/MS- related ML. Details have been altered to prevent the identification of any specific persons or entities.

## Case Study 1 – Airline tickets, higher risk industry for human trafficking and inquiries from law enforcement

A foreign national residing in Malta was the sole shareholder and director of a local company involved in the construction industry. The entity had not submitted audited accounts since 2017.

The reporting subject person took into consideration the customer's business and the customer's risk profile. The large amounts and number of ticket purchases from different airlines were deemed to be incommensurate with the type of business and the business undertaking. From the corporate account, approximately 40 transactions were made in one year, sometimes registering up to 5 airline ticket purchases per month. In addition, the subject person's customer was subject to several requests for information from law enforcement.

In this case study one can notice an important red flag indicator which has also been listed in this guidance note. The subject person noticed the discrepancy between the purchasing of the airline tickets and the type of business and the business undertaking, that is the construction services entity. It is important that subject persons are careful when processing transactions, ensuring comprehensive transaction monitoring, to identify these particular red flags.

## Case Study 2 – Sexual exploitation

The customer of a subject person was a company incorporated in another EU country, with a holding company and Beneficial Owner (BO) national from the same country. As per the company's statutory documents, the entity was operating in the gaming industry. However, it was noticed that the transactional activity was not in line with the declared operations of the company.

The BO was also flagged through a search in a commercially available database as being a wanted person by the police in the BO's country and for which an international arrest warrant was issued. The person was apprehended on another continent, fleeing arrest for 1 year.

The customer's balance was always kept at a minimum level and the account was mainly used to funnel funds. In this case a total of approximately € 350,000 in 1 year, were channelled to and from different companies and individuals, generally through payments institutions. The amounts would mostly enter and exit the account in the same day or by the second day. Out of the total turnover, €130,000 were paid in multiple rounded payments to an individual with no apparent connection to the company or its activity.

According to open sources, the person was a businessman who, along with over 15 other individuals, was charged with being part of a criminal organisation which abused approximately 500 women in 5 years. The men are thought to have gained over €20,000,000 in illicit proceeds from this activity.

The role of this individual is thought to have been providing legal basis for the outflow of money from the criminal organisation. The individual was also a co-owner of the company (a gaming entity) running the front of this illegal activity.

The person is thought to be the owner or co-owner of many companies in the same country, with family members and associates allegedly owning many other companies around the world.

In this case study one can notice a number of red flags, indicators of ML/FT which have been provided in the guidance. One can notice the compliance staff's flagging of the transactional activity being incommensurate to the business undertaking. Additionally, the compliance staff also found out that the UBO was a wanted person with an international arrest warrant. Another red flag is that the funnel accounts mentioned in the case study having deposits and withdrawals occurring over a short period. In addition, one may observe the payments in multiple rounded amounts to an individual with no apparent connection to the company or the company's undertaking. It is also worth mentioning the ML/FT typology of front companies which was listed as a common typology in the context of HT/MS. In this case study the front company was an entity operating in the gaming industry.

**As may be observed through this case study, the ML/FT red flags may be multiple and interconnected. At times the red flags provided, if taken singularly, might not confirm the likelihood of ML/FT using funds from these crimes. That is why extensive knowledge of ML/FT red flags and typologies are vital in identifying signs of ML/FT. Additionally, one cannot but highlight the importance of open-source intelligence as a vital and proactive means, for subject persons and authorities alike, to identify human trafficking rings in Malta. Including through prostitution marketing websites, social media advertisements, recruitment through dating apps, online fake or deceptive job recruitment and online fora.**



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