AGENDA

Overview – Why Update?

- Objective of National AML/CFT Policy and Strategy
  - Sectoral assessments to be updated periodically

- Government's commitment to updating every 2 years
  - Ongoing shifts in global AML/CFT standards
  - Changes to threats and vulnerabilities that impact the Territory's risk of ML, TF and PF
  - Trigger events

- Findings aid in making changes to, and assessing the effectiveness of the AML/CFT Regime

Overview – Key Points

- Covers both the FI and DNFBP sectors

- Provides a consolidated update to the two ML risk assessments conducted in 2020

- Provides a more in-depth review of:
  - the overall ML threats to the jurisdiction
  - the Territory's AML operational framework and its vulnerabilities
  - available products and services

Methodology

- ML risk is a function of ML threats, vulnerabilities and consequences

- Considered Risk from 3 Perspectives
  - National
  - Sectoral
  - Product

- Application of Risk Matrix
  - Threats + (Vulnerabilities – Mitigating Controls) = Risk

Data and Data Sources: 2020 - 2022

- **Macro-fiscal data** - Ministry of Finance
- **Prudential and statistical returns** - FSC
- **Supervisory and inspection data** – FSC, FIA
- **Enforcement data** – FSC, FIA
- **Prosecutorial data** - ODPP
- **Crime statistics and intelligence data** - RVIPF
- **Seizure, confiscation and forfeiture data** - RVIPF, HMC, ODPP
- **Suspicious activity statistics** – FIA
- **Migrant detention data** - ID
- **Corporate Registry data** - ROCA
- **International Cooperation/MLA data** - FIA, FSC, AGC, RVIPF, HMC, ITA
- **Feedback-** FIs, DNFBPs and Public Sector Agencies

ML Threats Considered

Proceeds of Domestic Criminality
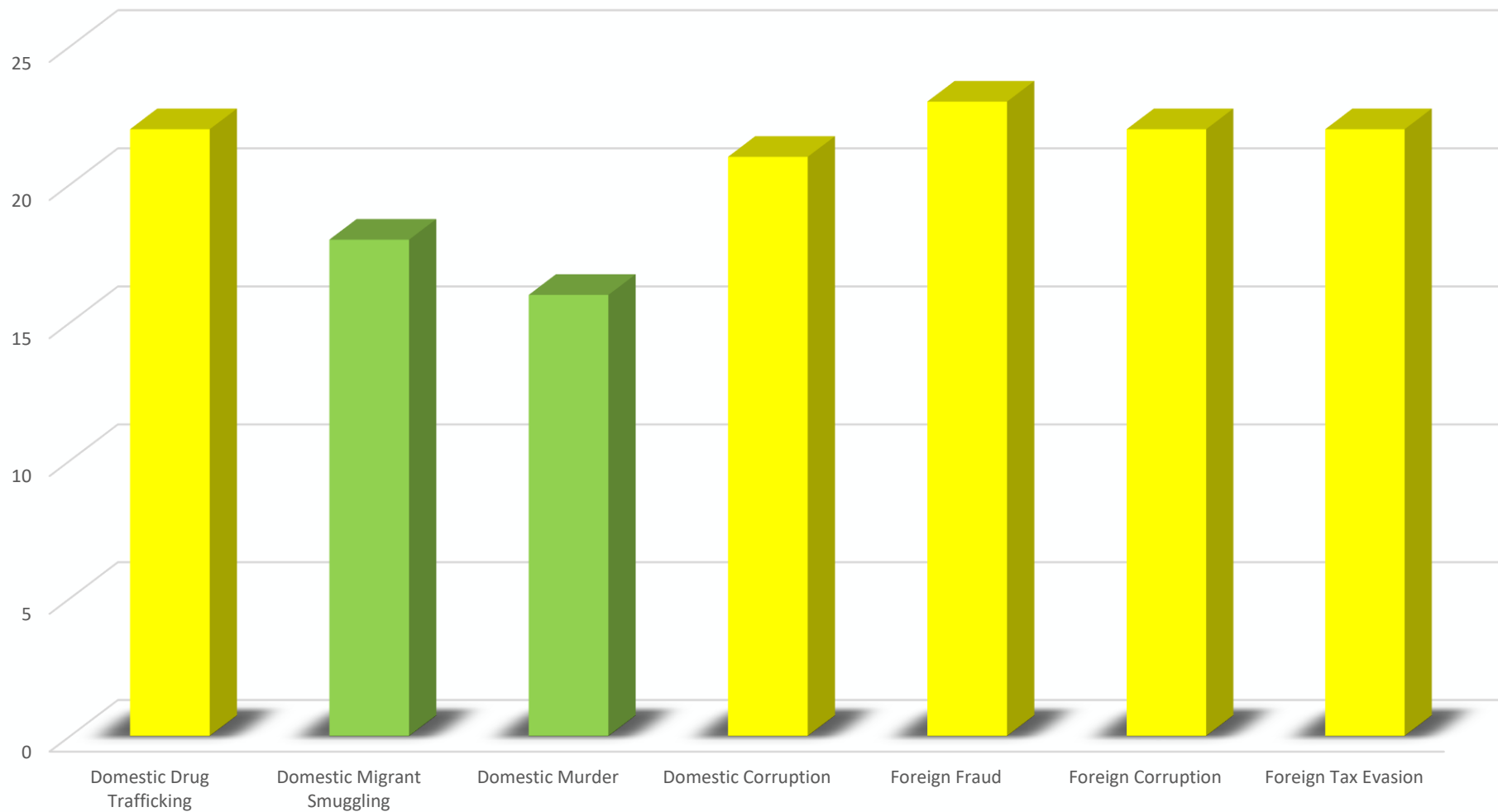
- Drug Trafficking
- Migrant Smuggling
- Murder
- Corruption

Proceeds of Foreign Criminality
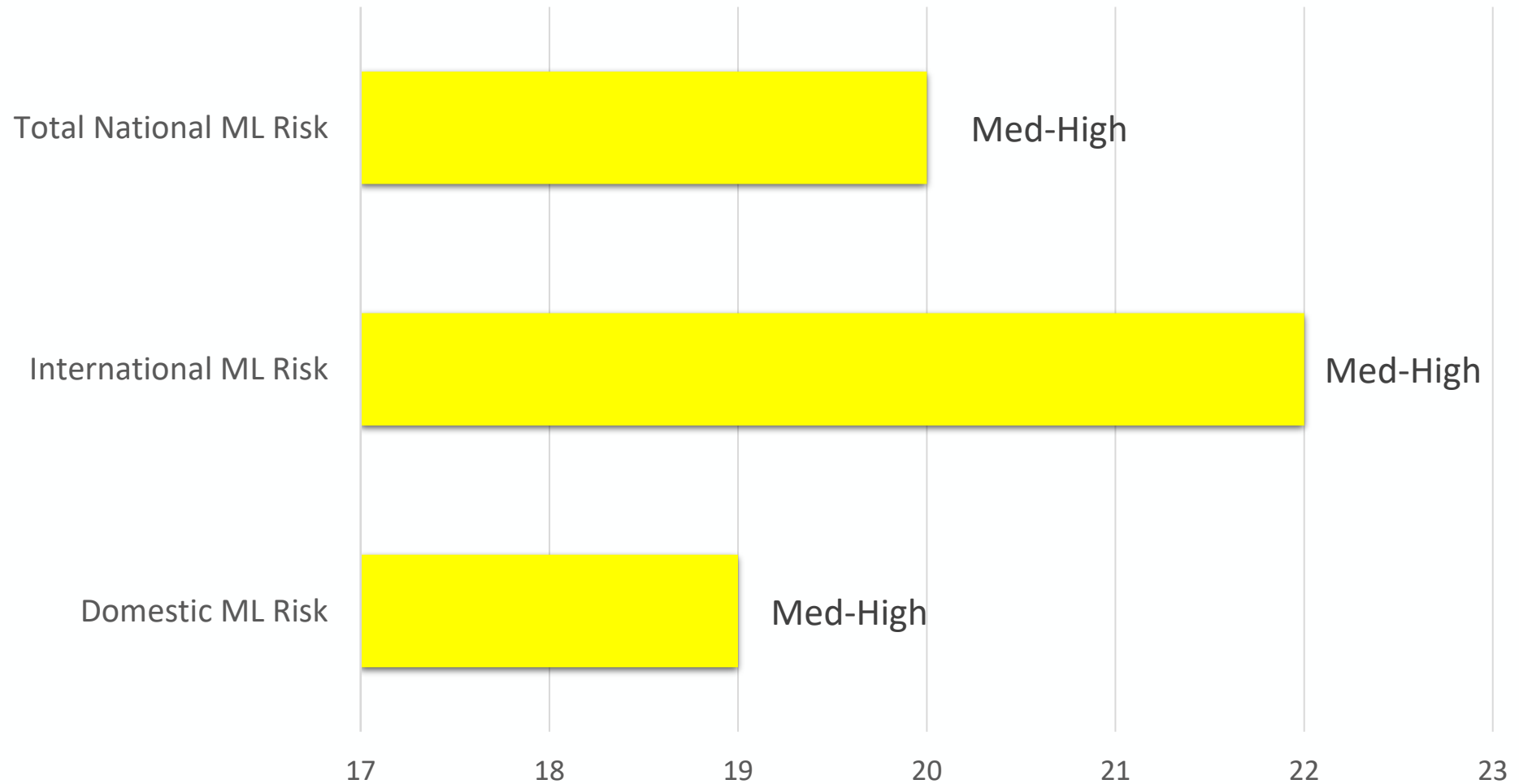
- Fraud
- Corruption
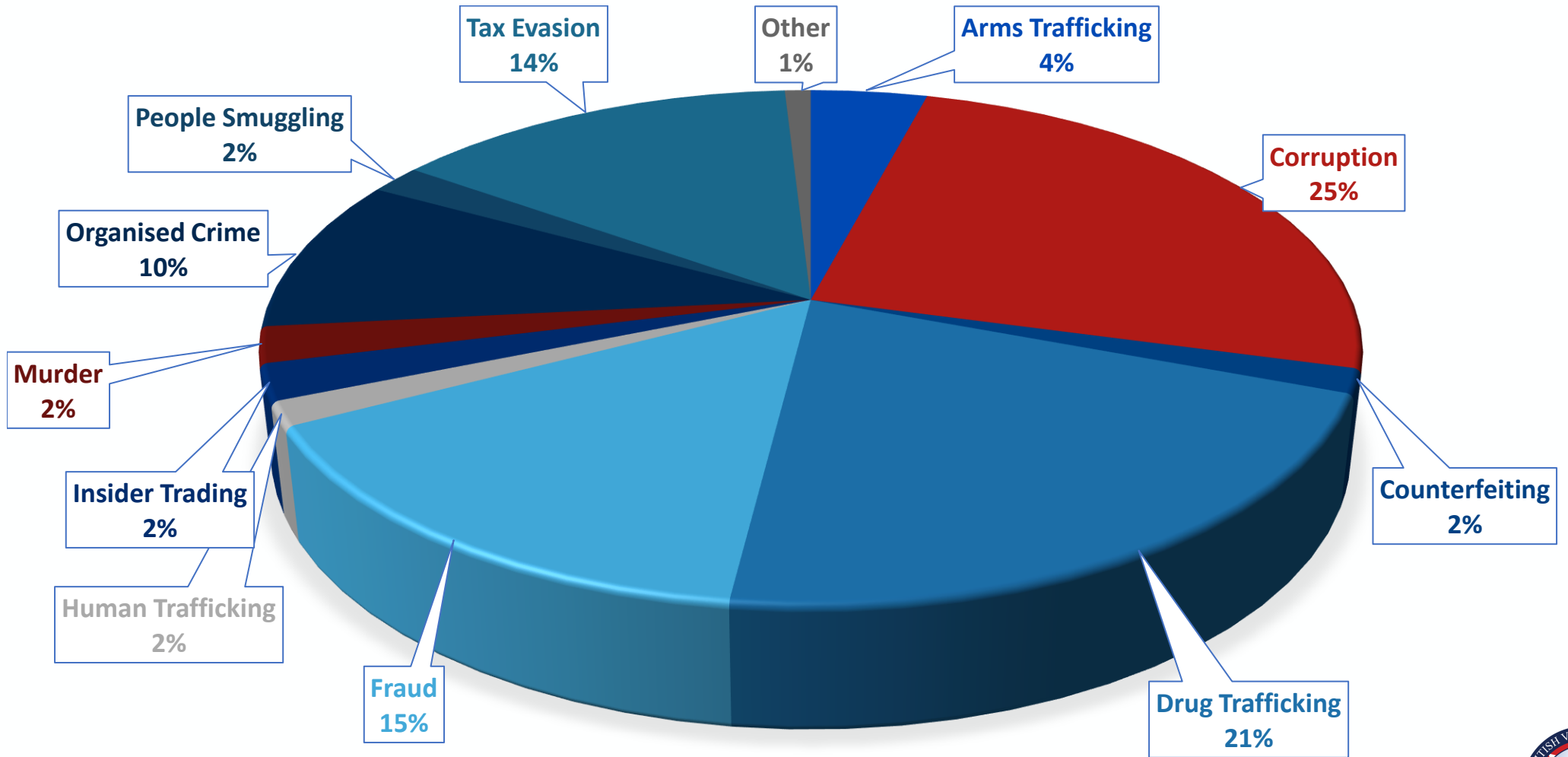- Tax Evasion

Emerging Threats

- Cyber Crime

Top Domestic & Foreign ML Threats

Private Sector Views on ML Threats

National Operational Vulnerabilities

- **Proper ML threat mitigation depends on effectiveness of Competent Authorities and Law Enforcement Agencies**

- **Vulnerabilities identified within key agencies:**
  - Sub-optimal levels of resourcing
  - Lack of proper policies and procedures
  - Inefficient data maintenance
  - Insufficient training
  - Limited investigations and prosecutions
  - Limited strategic and operational analysis and dissemination of intelligence (coordination and cooperation)
  - Lack of prioritization of ML cases
  - Potential corruption within

Financial Sectors Reviewed

Banking

Financing Business

Money Services

Insurance

Trust and Company Services Providers (TCSPs)

Investment Business

Insolvency Services

Virtual Asset Services Providers

Sector Demographics - 2022

Banking	Financing Business	Money Services	Insurance (2021)
• 7 licensees • 25% of economic activity of financial services sector • Total income - $108.6 mil ↑ • Total assets held - $2.8 bil ↑ • Total deposits - $2.15 bil ↑ • Value of Loans - $1.59 bil↑ ($1.07 mil outstanding) ↓ • total value of non-resident loans - 4.8% of all total loans • non-resident deposits account for 21.3% of all deposits. ↑	• 3 licensees • Approx. 800 clients • Average annual transactions- 420 ↑ • Average transaction value - $1.08 million ↑ • One licensee accounts for 91% of value of all transactions	• 2 licensees • 4.5% of economic activity of financial services sector • 90.18% of all transactions are outbound ↓ • Approx. value of outbound transactions - $47.11 million ↓ • Average transaction value - $296 ↑ • Approx. value of inbound transactions - $6.71 million ↑ • Top jurisdictions receiving outward transfers – Dom. Republic, Jamaica, Guyana and St. Vincent & the Grenadines	• 107 insurance business licensees ↓ • 38 domestic insurers↓ • 3.6 % of economic activity of financial services sector • Premiums - $168.88 million ↓ • Claims - $16.77 million ↓ • 46 captive insurers ↓ • Gross assets held by captives - $1.22 billion as at end of 2021) ↑ • Premiums - $383.96 million ↑ • Claims - $175.34 million ↑

Sector Demographics - 2022

| TCSPs	Investment Business	Insolvency Services	VASPs
• 287 fiduciary services licensees ↑ • 105 Registered Agents↑ servicing 349,518 clients ↓ • 77 TCSPs licensed exclusively to provide trust business ↓ • 1,130 PTCs (2021) ↓ • 6,227 Express trusts (2021) ↓ • Value of trusts under administration - $183.66 billion (2021) ↑ • 1,540 VISTAs (2021)	• 1,884 registered funds ↑ • 275 investment business licensees ↓ • 653 approved investment managers ↑ • 53 authorised representatives ↑ • Investment Funds - total NAV - $298 billion (2021) ↑ • Approved managers – total AUM - $33.7 billion (2021) ↑	• 25 insolvency services licensees (full licenses) • 248 appointments made between 2020 and 2022 ↓ • 42% of appointments related to BVIBCs located in the Far East ↑ • 305 joint appointments between 2020 and 2022 ↑	• Currently unlicensed* • large portion of business is in classes of VASPs identified as exchanges, trading platforms, custodians, brokers, wallet providers and transfer services providers • VASP clientele are predominantly unsophisticated retail clients who invest or trade small sums • number of VA related SARs accounted for 76.10% of all SARs

Risk Factors - Sectors

Sector Characteristics	Products and Services	Nature of Clientele (Customer Risk)	Geographic Reach	Delivery Channels Used	Susceptibility of Abuse
Extent of sector's economic significance	Nature of products and services offered	Size of customer base	Exposure to high-risk jurisdictions as identified by FATF	Extent to which delivery of products can be conducted with anonymity	Extent sector identified in reported suspicious activities
Complexity of operating structure	Volume, speed and frequency of client transactions	Customer status (PEP, HNW)		Complexity of delivery channels utilised	Extent sector identified in reported criminal proceedings locally and internationally
Scope and accessibility of operations	Intended purpose of product or service	Type of customer and ability to identify BO			

Summary of Risk

	Finance Business	Insolvency	Insurance	Money Services	Banking	Investment Business	TCSPs	VASPs
Sector Characteristics	ML	ML	MH	MH	MH	MH	H	H
Products/ Services	ML	L	L	MH	MH	MH	MH	H
Customer	L	ML	ML	ML	ML	MH	H	H
Geographic	L	ML	ML	ML	ML	MH	H	H
Delivery Channels	L	L	L	L	ML	MH	H	H
Susceptibility to Abuse	L	L	L	ML	ML	MH	H	H
Overall	**L**	**L**	**L**	**ML**	**ML**	**MH**	**H**	**H**

FI Comparative Risk Ratings 2020 & 2022
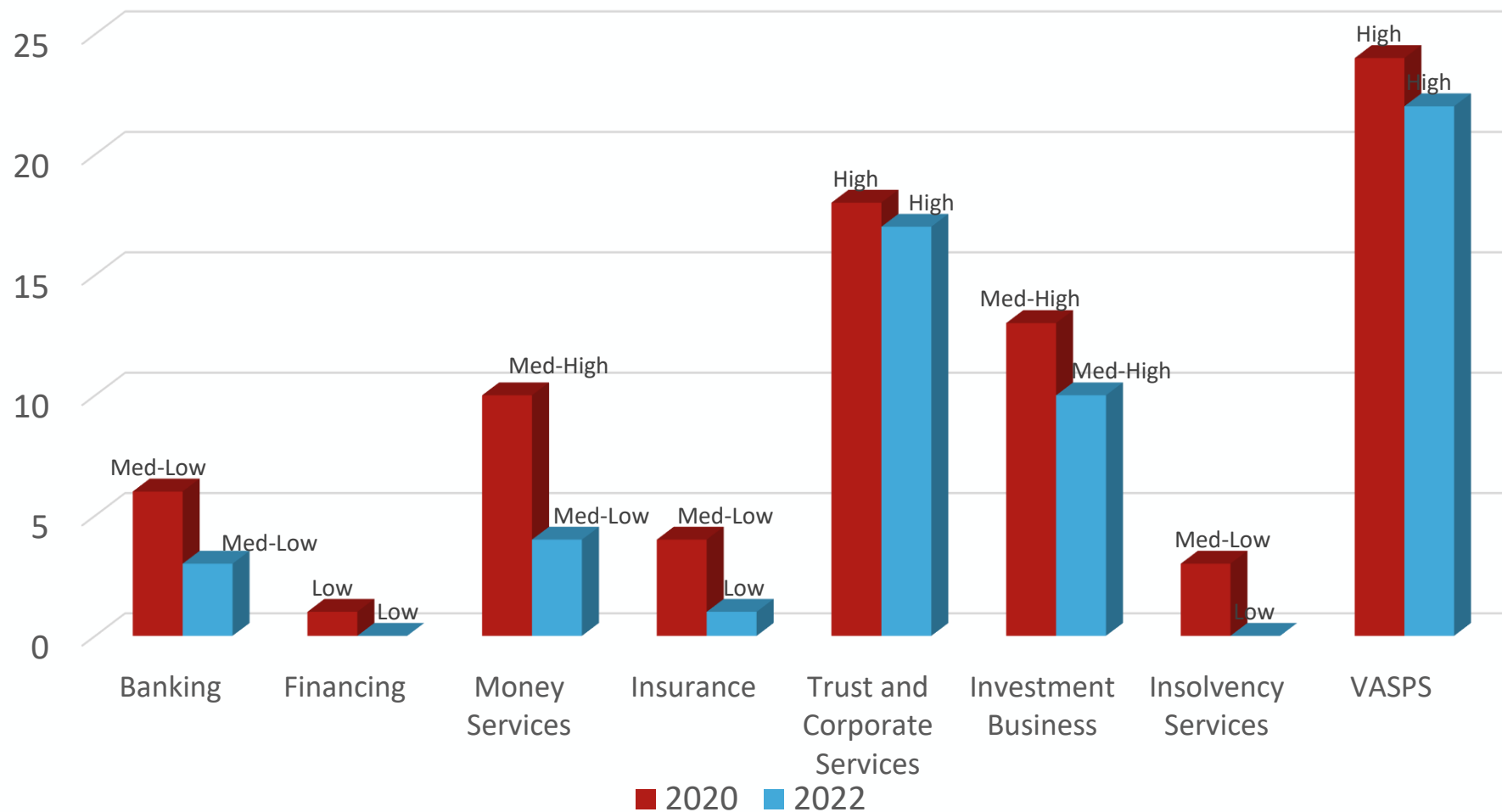
Assessment Findings: Banking (ML)

- Products and services offered are predominantly offered on a face-to-face basis and are relatively standard

- Facilities provided predominantly to local residents and businesses

- Most PEPs utilising these services are domestic PEPs. Foreign PEPs are connected to an account operated by a legal person for which the PEP may be the beneficial owner and director

- Cross-border transactions primarily involve transfers to and from North America, Asia, the UK and the Caribbean

- Large proportion of business is still conducted face-to-face based on institutions' infrastructure and the products and services offered

- Sector accounts for approximately 6.23% of all SARs filed; valued at $34,155,279

- Most SARs filed involve unknown source of funds relating to cash deposits via ATM or other options and ATH mobile account-to-account transfers; suspected ML or fraud

- Improvement in timeliness of SARs filings

- 43% of the sector feel they could benefit from additional AML training

Assessment Findings: Financing Services (L)

- Services currently limited to the provision of small, short-term loans to connected persons, payment plans for insurance premiums, and buying bank loans for collection of outstanding payments

- Services offered to local residents on a face-to-face basis and delivery channels are simple in nature

- High-risk customers such as PEPs are domestic

- Clients and services provided within this sector do not involve high-risk jurisdictions

- No SARs filed, and no criminal proceedings taken against any FBs during the reporting period

- Entities within this sector feel there is need for additional AML training

Assessment Findings: Money Services (ML)

- MSBs currently only provide money transmission services

- Small number, coupled with the limited products and services offered, reduces the ML vulnerabilities

- Business is conducted face-to-face. Customers are generally natural persons

- As MSB transactions tend to be one-off there is potential for a higher level of risk associated with the verification of BO information

- Level of risk mitigating procedures were found to be adequate BUT weaknesses found in sanctions screening procedures, timeliness of SARs filings and identification of PEPs when executing initial transaction

- Limited exposure to high-risk customer types, such as foreign PEPs. PEPs utilising these services are all domestically resident persons

- Approx. 0.06% of all SARs filed are filed by MSBs; valued at $29,590 ↓

- 33% of SARs filed by MSBs were directly related to ML suspicions

- No enforcement action or criminal proceedings were taken against any MSBs during the reporting period

- Entities within this sector feel there is need for additional AML training

Assessment Findings: Insurance (ML)

- Insurance business relates to provision of life and health insurance (50%) (11%), and property and casualty insurance business (45%) (89%)

- Clients are individuals, corporate entities and intermediaries

- Domestic business is only provided to local clients. 96% of captive insurer and insurance manager clients originate in the US; remaining 4% spread across South America, Europe and the Caribbean

- Limited non-face-to-face business

- <1% of all SARs filed

- 16% of SARs filed identified matters of possible fraud

- 8% of enforcement actions were attributed to the insurance sector; none were AML related

- 27% of the sector feel the need for additional training within their organisations

Assessment Findings: TCSPs (H)

	TSPs	CSPs	Total Sector
Sector Characteristics	MH	H	H
Products and Services	MH	H	MH
Nature of Clientele (Customer Risk)	H	H	H
Geographic Risk	H	H	H
Delivery Channels	MH	H	H
Susceptibility to Abuse	MH	H	H

Assessment Findings: TCSPs (H)

- A small portion of clientele includes other financial institutions that require licensing and regulation, which reduces the client risk for those TCSPs

- Susceptibility to misuse is enhanced due to:
  - broad range of products and services provided,
  - large number of PEPs and other high-risk individuals who utilise products/services

- At the end of 2021, TCSPs reported providing products and services to a total of 14,870 PEPs
  - Hong Kong - 51.9%
  - Mainland China - 12.25%
  - Singapore - 3.61%
  - 145 other countries – 32.24%

- TCSPs engaged over 8,000 third party introducers. Most are in the same group as the TCSP or emanate from jurisdictions not considered to be high-risk

- Only 24.46% of TCSPs conduct more than 50% of their business on a face-to-face basis

- MLA requests received (both criminal and civil) generally involve BVIBCs serviced by TCSPs and involve matters of ML, fraud and tax evasion. (coincides with the key foreign predicate offences identified)
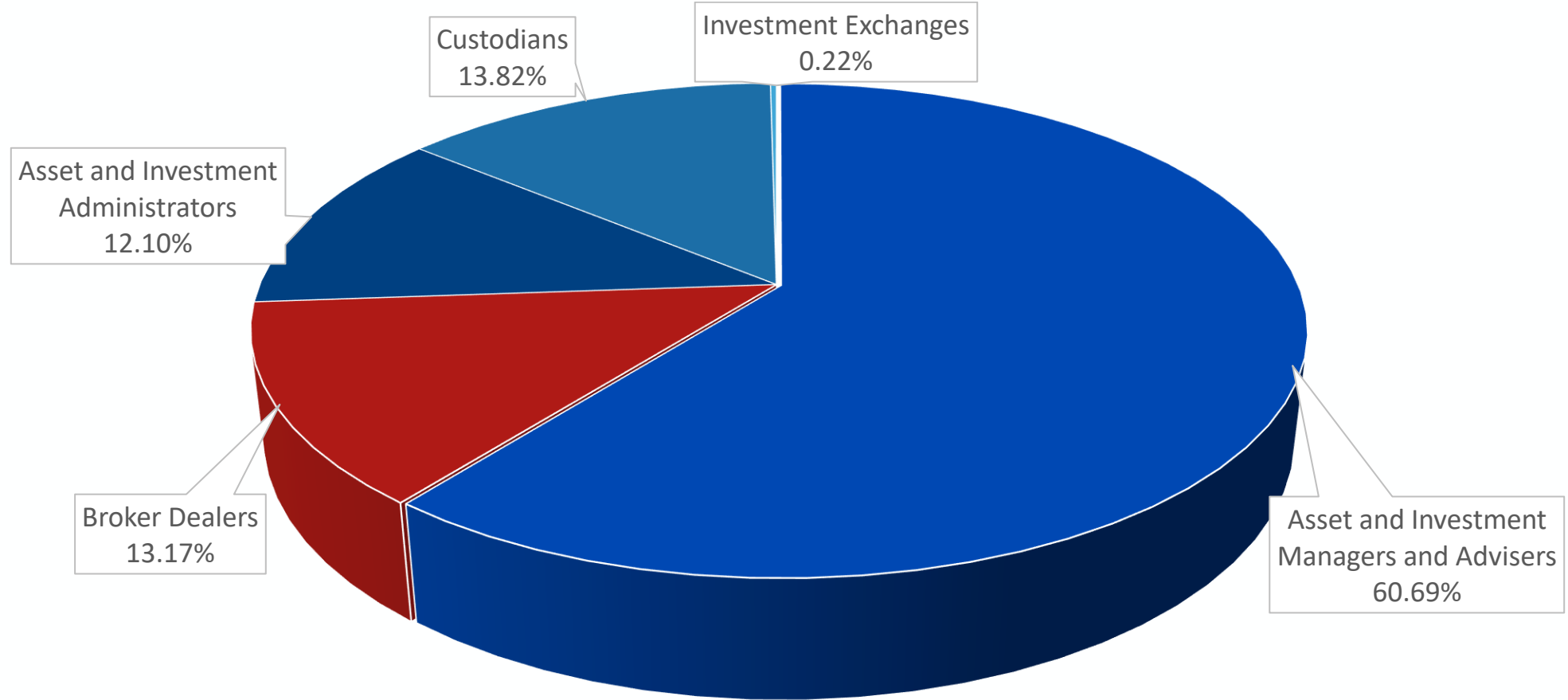
Assessment Findings: TCSPs (H)

- SARs filed by TCSPs account for 15.6% of all SARs filed
  - Transactions identified were valued at $505.8 million
  - Primarily related to fraud, ML and sanctions related matters, failure to provide CDD information

- Threat not be based solely on the volume of the reported transactions, but also in whether TCSPs and their clients are being manipulated to facilitate non-legitimate transactions linked to ML and other predicate offences

- Account for 13.4% of all enforcement actions taken by FSC

- Actions resulted in $297,000 in administrative penalties, $255,000 of which related to AML breaches as a result of deficiencies in:
  - compliance with CDD and ECDD measures,
  - testing third party relationships,
  - conducting risk assessments, and
  - maintain records and underlying documentation.

- Value of the imposed administrative penalties accounted for 60% of the total value of such penalties.

- 48% of the sector considers it could benefit from additional AML training within individual organisations

Assessment Findings: Investment Business (MH)

	Asset Administrators	Custodians	Asset & Investment Managers	Brokers/ Dealers	Exchanges	Overall Sector
Sector Characteristics	ML	ML	H	MH	MH	MH
Products and Services	ML	ML	MH	MH	MH	MH
Nature of Clientele (Customer Risk)	ML	MH	MH	H	H	MH
Geographic Risk	ML	MH	MH	H	MH	MH
Delivery Channels	ML	ML	MH	H	H	MH
Susceptibility to Abuse	ML	L	MH	MH	H	MH
Overall Risk	ML	ML	MH	MH	**MH**	MH

Assessment Findings: Investment Business (MH)

Custodians
13.82%

Investment Exchanges
0.22%

Asset and Investment
Administrators
12.10%

Asset and Investment
Managers and Advisers
60.69%

Broker Dealers
13.17%

- Asset and Investment Managers and Advisers
- Broker Dealers
- Asset and Investment Administrators
- Custodians
- Investment Exchanges

Assessment Findings: Investment Business (MH)

- Products can be attractive vehicles for criminals due to the complex structure and range of products and services offered

- The inherent vulnerabilities lie in the clientele and the worldwide nature of the business reach. Clients are often considered to be at an elevated risk for ML, particularly those identified as PEPs

- Due to the nature of investment business, most service providers reside outside the VI and are geographically dispersed, some in high-risk jurisdictions, which in itself provides a high level of inherent risk

- Assets held by these entities are held with financial institutions that are widely dispersed geographically including in some high-risk jurisdictions

- High volume of cross-border transactions presents ML risks

Assessment Findings: Investment Business

- Majority of BVI funds have functionaries that are not licensed or based in the BVI. This makes it difficult to carry out proper oversight

- Some overseas functionaries may not be licensed or be required to be licensed in the jurisdictions in which they operate. This heightens the level of risk within the sector

- Low level of SARs filings (0.03% of all reported SARs) is inconsistent with the inherent risk posed by this sector.
  - Related to potential ML, fraud, failure to provide DD information, and other suspicious activity

- Enforcement action taken by FSC
  - $165,000 in Administrative penalties (non-AML related)
  - 5 Warning letters (AML related) for non-compliance with AML laws, policies and procedures.

- 42% of the sector feels there is a need for additional AML training within their individual organisations

Assessment Findings: Insolvency Services (L)

- IPs comprise mainly accountants and legal practitioners who tend to be part of accountancy firms or law firms

- Services provided include administrator, administrative receiver, receiver, interim supervisor, supervisor, provisional liquidator, insolvent liquidator or bankruptcy trustee services

- Diversity of clients including international PEPs, potential for non-face-to-face business, and appointments involving businesses operating in high-risk jurisdictions increase sector vulnerability

- Vulnerabilities are mitigated by strict statutory reporting requirements

- <1% of all SARs filed

- 55% of SARs filed related to suspected fraud and ML

Assessment Findings: Virtual Assets Services Providers (H)

- Clientele are predominantly unsophisticated retail clients who invest or trade small sums **HOWEVER** some clients are institutional investors and legal persons that trade substantial sums

- Significant majority of customers are concentrated on trading platforms and exchanges

- ML risk lies with the nature of products and services, ease of transactions, anonymity in executing cross-jurisdictional transactions, and volume of cross-border transactions

- Risk posed is heightened by the fact that clients are geographically dispersed and located in jurisdictions of varying risk including some high-risk jurisdictions.

- 76.10% of all SARs filed were VA related (433% increase over 2018-2019)
  - $17B value (97% of total value of reported SARs)
  - primary reasons for filing related to fraud and potential ML

- Vulnerabilities in the AML structure include lack of legislative and supervisory framework, as well as lack of investigative and prosecutorial expertise
  - Steps are being taken by FSC & FIA to address the vulnerabilities in their areas

DNFBP Sectors Reviewed

Legal Practitioners (and Notaries)

Accountants

Real Estate Agents

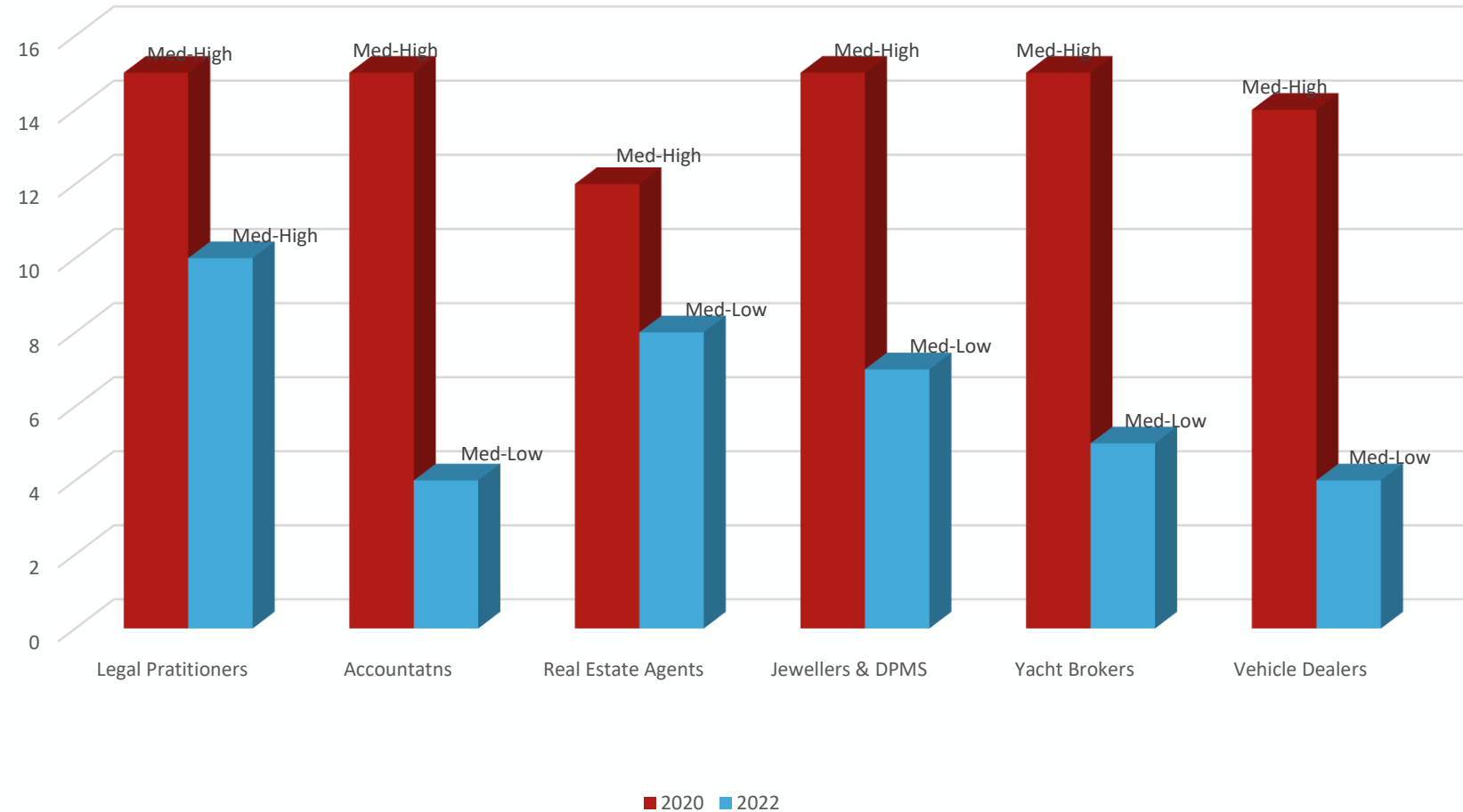Jewellers and Dealers in Precious Metals and Stones

Vehicle Dealers

Yacht Brokers

Other High Value Goods Dealers

DNFBP Comparative Risk Ratings 2020 & 2022

Products Reviewed

Legal Persons

- BVI Business Companies (BVIBCs)
- Micro Business Companies (MBC)
- Limited Partnerships
- Foreign Companies

Legal Arrangements

- Trusts
  - Express Trusts
  - Virgin Islands Special Trust (VISTAS)

Emerging Products and Technologies

- Gaming and Betting
- Medicinal Marijuana
- Decentralised Financial Products

Risk Factors - Products

Nature and Complexity	Purpose of Products and Services	Nature of Clientele	Geographic Reach	Delivery Channels Used	Susceptibility of Abuse
Extent to which product is required to be registered or incorporated	Volume, speed and frequency of client transactions associated with products	Vulnerabilities associated with products' clientele profile	Exposure to high-risk jurisdictions as identified by FATF	Extent to which delivery of products can be conducted with anonymity	Extent product identified in reported suspicious activities
Extent to which product is utilized for complex transactions	Types of business products used to facilitate	Extent to which products are utilized by domestic or international customers		Complexity of delivery channels utilised	Extent product identified in reported criminal proceedings locally and internationally
Nature of ownership of product					

Product/Service Comparative Risk Ratings 2020 & 2022
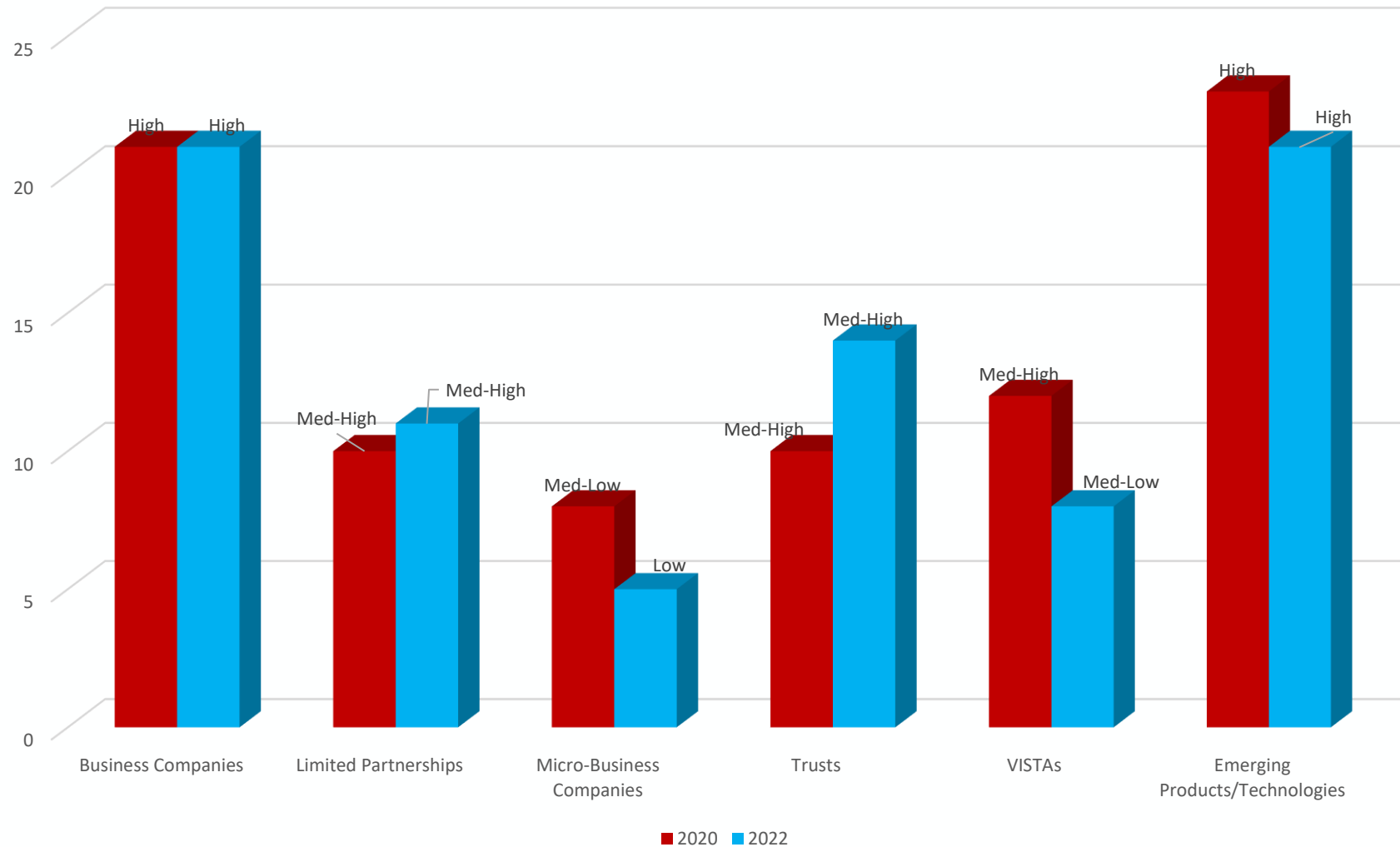
Assessment Findings - Legal Persons

- Inherent vulnerabilities driven by:
  - Complexity of available structures
  - Complexity of international financial transactions they engage in
  - Level of non-face to face transactions
  - Use by high-risk customers (including PEPs)
  - Level of cross-border business activity
  - Potential to conceal source of assets and identity of BOs
- Legal persons and more specifically BVIBCs, are the subject of the greatest number of SARs filed with the FIA
- 1,125 SARs involved BVIBCs. This accounted for roughly 15.6% of total SARs received
- Transactions identified relate primarily to possible cases of fraud and ML
- 99% of both criminal and civil MLA requests received generally involve BVIBCs
- Most of the requests involve matters of ML, fraud and tax evasion which match directly with the key foreign predicate offences

Assessment Findings - Legal Arrangements

- Used to a lesser extent to facilitate international trade

- Can form part of larger, complex, corporate structures carrying out activities on a transnational basis. Also used to segregate ownership of assets, which may allow criminals to distance themselves from their illicit gains

- Inherent vulnerabilities driven by:

  - Complexity of available structures

  - Potential to conceal source of assets and identify of BOs

  - Use by of high-risk customers (including foreign PEPs)

- Control measures in place within the TCSP sector aid in mitigating the overall risk, more so than with legal persons given the nature of these structures

- Not subject to registration requirements making it difficult at times to identify existing trustees and beneficiaries primarily where they do not have a BVI trustee

- Not usually the subject of many SARs filed with the FIA

- FIA did not receive any SARs filed by trustees or where the subject of the SAR was a trust or trustee

- Concern with this lack of filing is whether the legal arrangements themselves are sufficiently aware of the requirements or whether they simply choose not to file

Assessment Findings - Emerging Products and Technologies

- **Gaming and Betting**
  - Covered by the GBCA
  - Gambling activities currently remain prohibited
  - Foreign lottery tickets are normally sold in the VI. Have seen increase in USVI lottery tickets sales
  - Other forms of gambling identified in the VI include betting at illegal car races and cock fights, on card games, as well as sports betting and betting on lottery numbers from various US States (i.e., "keeping numbers")
  - Intelligence suggests that activities related to "keeping numbers" are being used as a form of money laundering

- **Medicinal Marijuana**
  - CLA, which was passed in 2020 allows possession of medical cannabis by adults
  - Need to make sure that the CLA is fully compliant with international regulations such as the 1961 Single Convention on Narcotic Drugs to ensure compliance with international obligations
  - Impact of legalisation and level of regulation of the product is unknown, therefore the risk remains elevated

Assessment Findings - Emerging Products and Technologies

- **Decentralised Financial Products (DeFi)**

  - Facilitate transfer of funds, and purchase and exchange of financial assets

  - The ML risk is elevated where such activities are carried on in an unregulated space where these DeFis are not subject to any AML/CFT obligations

  - Exposure to ML risk lies not only with the actual DeFi activities, but also in the VI's ability to identify the BVI entities through which DeFi activity is currently being facilitated, and take the necessary steps to prevent any unauthorised activity

- **Other Products: Mobile Phone App Transfers, Hawala Style Systems**

  - Quick transfer of funds

  - Do not require regulated money services

Expectations: All Regulated Sectors

- Review and adjust policies, procedures and internal controls having regard to the findings of the Report, other identifiable risk factors and legislative changes

- Enhanced monitoring of clients based on risk

- Demonstrable understanding of clients' behaviour and ability to identify potential areas of concern

- Ability to demonstrate adjustments to the level of client monitoring based on changes in activity *(i.e. ensure that sufficient information on the day-to-day business activities of a BVIBC is maintained to timely identify potential changes to its AML/CFT risk. This may include receipt of banking and other transactions records)*

- Ability to demonstrate proper monitoring of financial sanctions notices and actions taken relative to potential breaches *(i.e. entities must show that they are able to search their entire database of clients including beneficial owners, directors, trustees, settlors etc. within 24 hours of notice being issued. This 24 hours includes notifying relevant authorities as well as taking necessary measures to freeze any known assets)*

Expectations: All Regulated Sectors

- Implementation of institutional risk assessment frameworks
  - Amendment to Section 11 of the AMLTFCOP - Commission expects all regulated entities to carry out full institutional AML/CFT risk assessments and make those available to senior management and relevant staff, primarily client-facing and staff responsible for the take on of clients, as well as to competent authorities upon request.

- Ensure timely and accurate submission of all statistical returns including AML/CFT returns

- Ensure adequate procedures and controls are in place for verification and maintenance of information on legal persons, legal arrangements and BOs

- Demonstrate understanding of client verification procedures

- Ensure staff are properly trained

- Ensure clients fully understand their AML/CFT obligations including filing SARs

Expectations: All Regulated Sectors

- Understanding of ML risk within your sector

  - Identify the main ML risks within your sector

  - Know how your business, products and services can be used to facilitate ML

  - Identify what mitigating measures need to be taken to minimise this risk

  - Demonstrate effective implementation of these mitigating measures

Where To Find The Report

bvifsc.vg/risk-assessments