



Virgin Islands Sectoral ML Risk Assessment of Financial Institutions

AML Unit

BVI Financial Services Commission



AGENDA

1. Overview
2. Methodology and Data
3. Ratings
4. Risk Factors
5. Assessment Findings
6. Recommendations
7. Expectations
8. Questions

Why a Sectoral Risk Assessment?

- Builds on the initial NRA findings by further identifying and analysing the Virgin Islands' current Money Laundering (ML) risks within the Banking, Financing, Money Services, Insurance, Investment, Insolvency and Trust and Company Services Provider sectors
- Focuses on the specific ML threats and vulnerabilities associated with each financial sector and the impact these threats and vulnerabilities have on the overall level of ML risk within each sector
- Used to determine what effect the actions taken to address the deficiencies identified in the initial National Risk Assessment (NRA) Report have had on the ML risk to the Territory



Sectors Reviewed

Banking

Financing Business

Money Services

Insurance

Trust and Company Services Providers (TCSPs)

Investment Business

Insolvency Services



Products Reviewed

Legal Persons

- BVI Business Companies (BCs)
- Micro Business Companies (MBC)

Legal Arrangements

- Trusts
 - Expressed Trusts
 - Virgin Islands Special Trust (VISTAS)
 - Private Trust Companies (PTCs)
- Limited Partnerships

Emerging Products and Technologies

- Virtual Assets
- Virtual Assets Service Providers (VASPs)



Methodology

- **Review of ML Threats within the Jurisdiction**
 - Domestic Predicates
 - Foreign Predicates
 - Domestic Cooperation
 - International Cooperation
 - Sanctions
- **Application of Risk Matrix**
 - Sector Vulnerabilities – Mitigating Controls = Risk

Data and Data Sources: 2015 - 2019

- **Macro-fiscal data** - Ministry of Finance
- **Prudential and statistical returns** - FSC
- **Supervisory and inspection data** - FSC
- **Enforcement data** - FSC
- **Prosecutorial data** - ODPP
- **Crime statistics** - RVIPIF
- **Seizure and confiscation data** - RVIPIF, HMC, ODPP
- **Suspicious activity statistics** - FIA
- **Corporate Registry data** - ROCA
- **International Cooperation/MLAT data** - FIA, GO, AGC



Vulnerability Indicators

Entity Characteristics	Products and Services Offered	Nature of Clientele	Geographic Reach	Delivery Channels Used	Susceptibility of Abuse
Size of sector	Level of variation in products and services offered	Size of customer base	Level of involvement with high-risk jurisdictions	Complexity of delivery channels used	Identified instances of involvement in suspicious activities
Integration with other sectors	Number of cash transactions	Diversity of customer base	Frequency of activities conducted with high-risk jurisdictions	Level of transactions conducted non-face-to-face or via introduced business	Number of criminal proceedings involving sector
Scope of operations	Volume and frequency of transactions	Level of variation in scope of activity	Importance of volume of activities conducted		

Control Factors

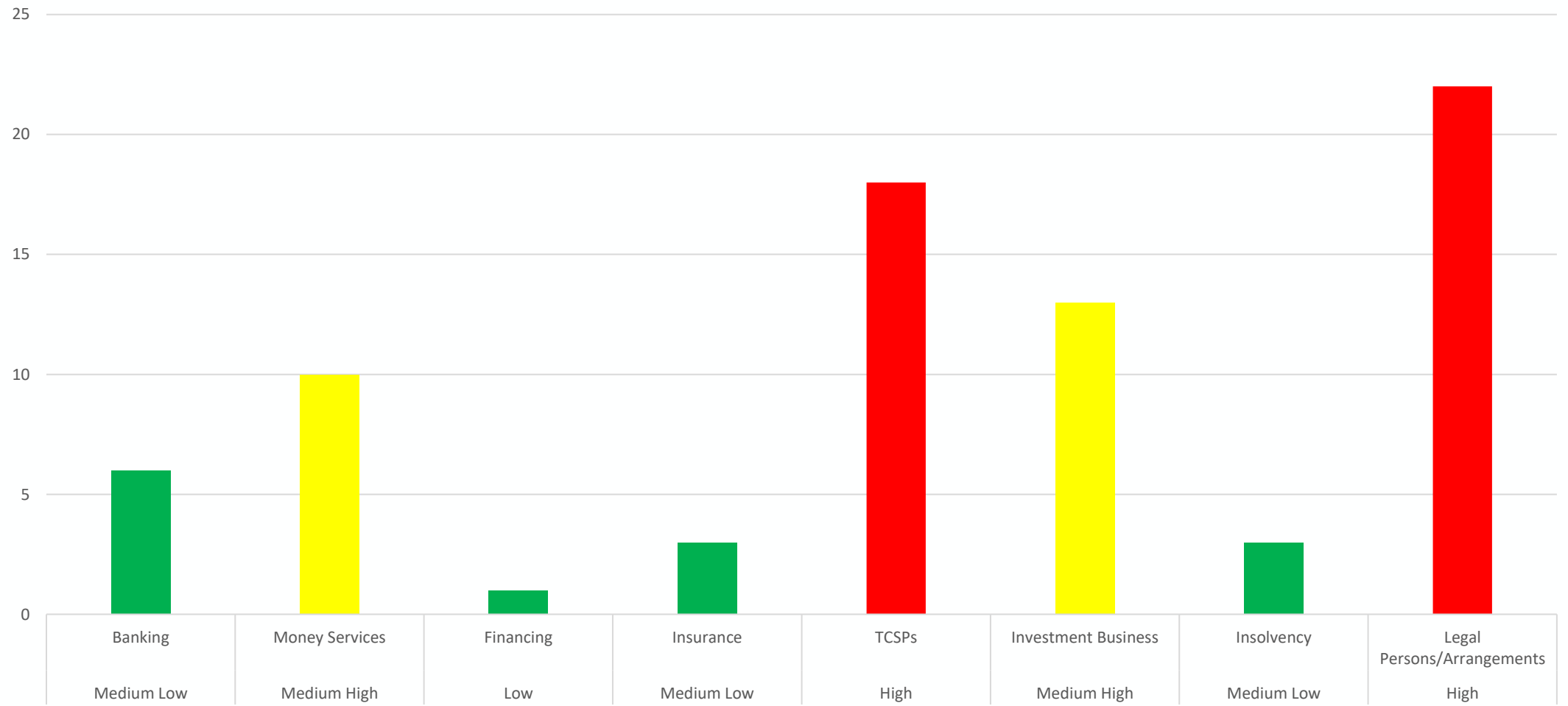
Knowledge of AML/CFT Obligations	Prior Risk Assessment Rating	Risk Mitigation Policies and Procedures in Place	Compliance with maintenance of BO information	Actions Taken by Supervisor
Poor understanding of AML obligations	High	Low	Marginally compliant	High percentage of actions taken based on AML/CFT shortcomings
Satisfactory understanding of AML obligations	Medium	Adequate	Relatively compliant	Moderate percentage of actions taken based on AML/CFT shortcomings
Good understanding of AML Obligations	Low	High	Highly compliant	Low percentage of actions taken based on AML/CFT shortcomings

Overall Sector Ratings

Sector	Net Score	Risk Rating
Banking	6	Medium-Low
Financing	1	Low
Money Services	10	Medium-High
Insurance	3	Medium-Low
TCSPs	18	High
Investment Business	13	Medium-High
Insolvency Services	3	Medium-Low
Legal Persons/Arrangements*	22	High



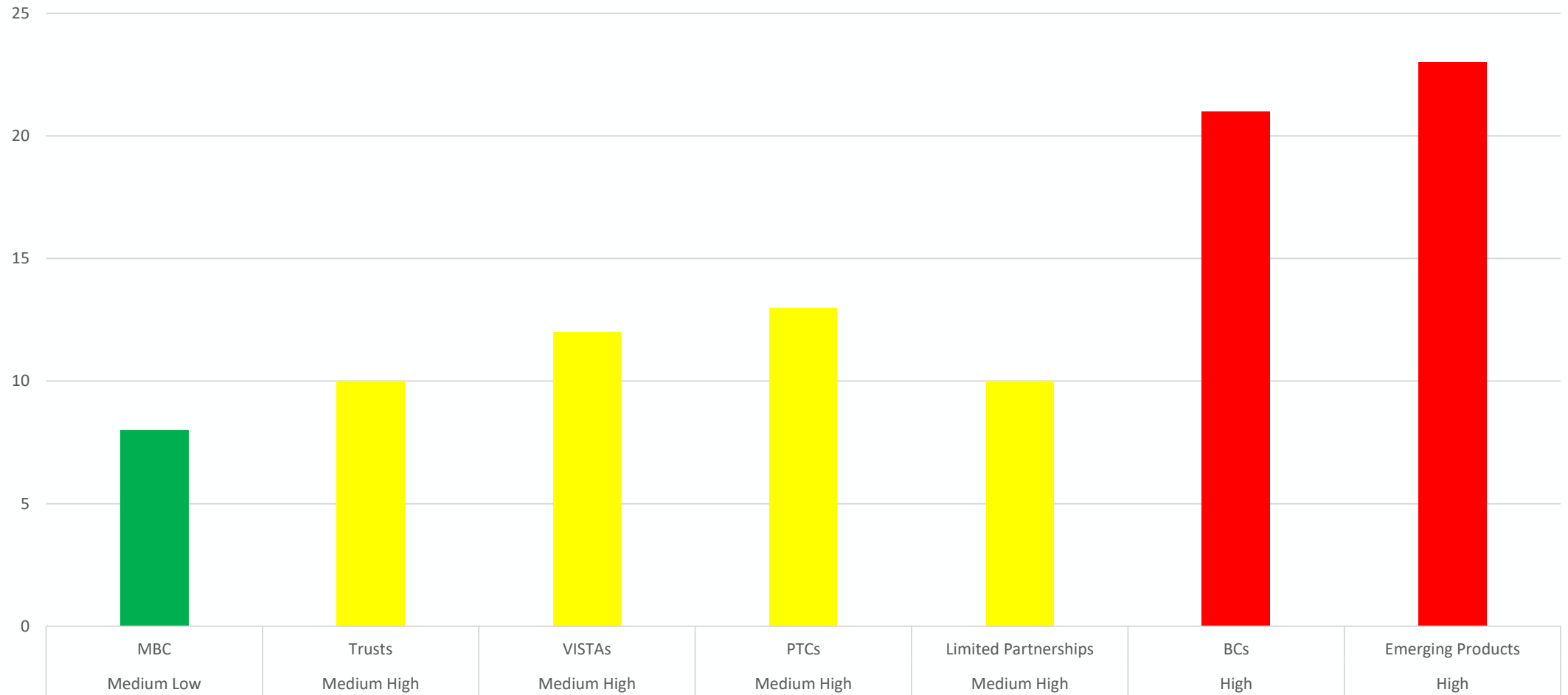
Sector Ratings



Overall Product Ratings

Product	Net Score	Risk Rating
Micro-Business Companies	8	Medium-Low
Trusts	10	Medium-High
VISTAs	12	Medium-High
PTCs	13	Medium-High
Limited Partnerships	10	Medium-High
Business Companies	21	High
Emerging Products/Technologies	23	High

Product/Service Ratings



Sector Demographics - 2019

Banking	Financing Business	Money Services
<ul style="list-style-type: none">• 7 licensees (6 commercial, 1 private wealth management)• Total income - \$92.6 million• Total assets - \$2.44 billion• Total deposits - \$1.97 billion• Value of Loans - \$1.39 billion (\$1.29 billion outstanding)• Non-resident loans make up 5% of value of total loans• Non-resident deposits make up 14.2% of all deposits	<ul style="list-style-type: none">• 3 licensees• Approx. 1,000 clients• Average annual transactions - 51• Average transaction value - \$113,000• One licensee accounts for 85% of value of all transactions	<ul style="list-style-type: none">• 2 licensees• 92.68% of all transactions are outbound• Approx. value of outbound transactions - \$84.075 million• Average transaction value - \$288• Approx. value of inbound transactions - \$5.967 million/annum• Top jurisdictions receiving outward transfers – Dom. Republic, Jamaica, Guyana

Sector Demographics - 2019

Insurance (2018)	TCSPs	Investment Business	Insolvency Services
<ul style="list-style-type: none"> • 139 insurance business licensees • 39 domestic insurers • Premiums - \$184.93 million • Claims - \$831.07 million • 59 captive insurers • Gross assets held by captives - \$1.18 billion (as of 2018) • Premiums - \$306.51 million • Claims - \$73.61 million 	<ul style="list-style-type: none"> • 258 fiduciary services licensees • 98 Registered Agents servicing 387,344 clients • 147 TCSPs licensed to provide trust business • 8,641 Express trusts • 1,545 VISTAs • 1,164 PTCs • Value of trusts under administration - \$158.81 billion 	<ul style="list-style-type: none"> • 1,479 registered funds • 569 investment business licensees (Cat 1A – 6B) • 281 approved investment managers • 49 authorised representatives • Investment Funds - total NAV - \$182 billion • Approved managers – total AUM - \$7 billion • Investment managers and advisors – total AUM - \$8 billion 	<ul style="list-style-type: none"> • 28 insolvency services licensees (full licenses) • 99 appointments made • Most appointments related to BVIBCs located in the Far East – 36% • 467 appointments between 2015 and 2019 • 172 joint appointments between 2015 and 2019



Identified Risk Factors

Banking

- Large size and value of transactions
- Large volume of cross-border transactions
- Exposure to high-risk customers and jurisdictions

Financing Business

- Potential to use loan facilities to launder proceeds of crime

Money Services

- Cash intensive nature of sector
- Wide geographic dispersion of clientele
- Large volume of cross-border transactions
- Exposure to high-risk jurisdictions

Insurance

- Inadequate procedures and controls for verification and maintenance of information on BOs and legal persons

Identified Risk Factors

TCSPs

- Large size and nature of sector
- Complexity of available structures
- Large size and value of transactions
- Wide geographic dispersion of clientele
- Large number of non-face to face transactions
- Exposure to high-risk customers and jurisdictions

Investment Business

- Large size and nature of sector
- Complexity of available structures
- Large size and value of transactions
- Wide geographic dispersion of clientele
- Large number of non-face to face transactions
- Exposure to high-risk customers and jurisdictions

Insolvency Services

- Potential collusion between IPs and clients
- Exposure to high-risk clients and jurisdictions



Assessment Findings: Banking (ML)

- Approximately 17% of all SARs filed are filed by banks
- Most SARs involving the domestic sector are filed by banks and involve large cash transactions, unusually large deposits and comingling of accounts
- SARs are not always filed timely based on when transactions occur
- AML/CFT compliance inspections found deficiencies related to:
 - verification procedures
 - updating of CDD information, particularly in relation to high-risk clients
 - employee training
 - SARs analysis, and
 - lack of access to Board by compliance officers and senior management



Assessment Findings: Financing Services (L)

- No SARs filed, and no criminal proceedings taken against any FBs during the reporting period
- Services currently limited to the provision of small, short term loans to connected persons or payment plans for insurance premiums
- Business conducted face-to-face and does not involve high-risk jurisdictions
- No enforcement actions taken against FBs during the reporting period



Assessment Findings: Money Services (MH)

- Approx. 8.4% of all SARs filed are filed by MSBs
- 23.4% of SARs filed by MSBs were directly related to ML suspicions
- Potential for a higher level of risk associated with the verification of BO information as MSB transactions tend to be one-off
- AML deficiencies identified during the inspection process indicate weaknesses in relation to the proper conduct of risk assessments on clients, and the execution of ECDD measures



Assessment Findings: Insurance (ML)

- 0.71% of all SARs filed are filed by insurance sector
- 23.5% of SARs filed by the insurance sector identified matters of possible fraud
- The most frequent AML/CFT deficiency identified related to lack of proper verification procedures carried out with regard to legal persons
- 22.6% of all AML/CFT related enforcement actions were attributed to the insurance sector

Assessment Findings: TCSPs (H)

- SARs filed by TCSPs account for 68% of all SARs filed
- Increased vulnerability due to potential for legal persons and legal arrangements to be used to conceal source of assets and identity of beneficial owners
- MLA requests of both criminal and civil natures received generally involve BVIBCs serviced by TCSPs and involve matters of ML, fraud and tax evasion. (This coincides with the key foreign predicate offences identified by the RVIPF)
- General infractions identified in SARs filed by TCSPs related to fraud, tax evasion, ML, and failing to provide due diligence information



Assessment Findings: TCSPs Cont'd

- **The general AML/CFT deficiencies identified by the inspection process centered on matters of:**
 - verification of all types of clients
 - compliance with CDD measures
 - reporting of SARs
 - internal controls



Assessment Findings: Investment Business (MH)

- Low level of SARs filings (0.08% of all reported SARs) which is inconsistent with the inherent risk posed by this sector. Initial analysis indicates that this may be caused by entities' lack of understanding that whether they operate physically in the Territory or outside they must file SARs with the FIA. Much outreach and education is needed
- Majority of businesses operating outside of Territory
- High volume of cross-border transactions presents ML risks
- Some overseas functionaries may not be licensed or be required to be licensed in the jurisdictions in which they operate, which also heightens the level of risk within the sector



Assessment Findings: Investment Business Cont'd

- Complex structure of the products offered make them attractive vehicles for criminals. Increases the opportunity for regulatory arbitrage by criminals
- Clients are often considered to be at an elevated risk for ML, particularly those identified as PEPs
- AML deficiencies identified related to licensees' duty to conduct risk assessments on their clients and the requirement to update CDD information and perform enhanced CDD



Assessment Findings: Insolvency Services (ML)

- 0.42% of all SARs filed are filed by insolvency sector
- 60% of SARs filed by insolvency sector related to a lack of availability of proper CDD information, other instances involved PEPs or possible instances of fraud
- The threat of ML is low. Vulnerability lies in diversity of clients which may include international PEPs, the potential for non-face-to-face business, and appointments involving businesses operating in high-risk jurisdictions



Assessment Findings:

Legal Persons and Legal Arrangements

- Risk to the Territory is largely reputational. Allegations that stand to pose the most reputational risk include those of opacity, ML and fraud
- Inherent vulnerability is driven by the complexity of the available structures and the complexity of the international financial transactions they engage in as this heightens the risk of these structures being used to facilitate ML
- BVIBCs are the subject of the greatest number of SARs filed with the FIA which relate primarily to possible cases of fraud, ML, counterfeiting and tax evasion
- Most MLA requests involve matters of ML, fraud and tax evasion which match directly with the key foreign predicate offences identified



National AML/CFT Recommendations

- Ensure that the NRA and Sectoral Assessments are kept up to date, having regard to changes in the identified vulnerabilities and controls
- Ensure that the findings of the NRA and this Report are considered when making changes or assessing the effectiveness of the AML/CFT regime
- Ensure all relevant CAs and LEAs are adequately resourced
- Address challenges faced by law enforcement agencies in identifying, investigating, and prosecuting ML and other financial crimes, including all predicate offenses



National AML/CFT Recommendations

- Ensure that relevant AML/CFT data is maintained, collected and analysed to ensure the Territory can demonstrate that it is effective in the investigation and prosecution of ML, provision of international cooperation, and analysis and dissemination of SARs
- Finalise and implement legislative and other amendments to the AML/CFT regime to ensure full technical compliance with FATF Recommendations



Supervisor Specific Recommendations

- Ensure timely and effective outreach to financial institutions on the findings of this report, including how the report's findings should be utilised in the development of their own AML/CFT policies and procedures
- Ensure necessary steps such as increased desk-based and onsite monitoring are taken to demonstrate that financial institutions are carrying out and implementing the requirements of its AML/CFT regime
- Ensure that steps are taken to address the risk posed by emerging technologies with specific reference to VAs and VASPs



Supervisor Specific Recommendations

- Ensure that the findings of the NRA and this Report are considered when making changes or assessing the effectiveness of the AML/CFT regime
- Ensure that relevant AML/CFT data is maintained, collected and analysed to ensure the FSC can demonstrate that it is effective in its supervision and enforcement of licensees and provision of international cooperation



Expectations: Supervisor

- Full implementation of the Risk Assessment Framework
- Increased monitoring of licensees based on risk
- More focused inspections based on areas of risk identified in SRA and other monitoring mechanisms
- Proper and timely analysis of inspections and enforcement findings
- Publication of AML/CFT and other regulatory data



Expectations: All Regulated Sectors

- 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 hour includes notifying relevant authorities as well as taking necessary measures to freeze any known assets)*
- Review and adjust policies, procedures and internal controls having regard to the findings of the Sectoral Report and other identifiable risk factors
- Ensure staff are properly trained



Expectations: All Regulated Sectors

- Implementation of institutional risk assessment frameworks
 - Section 26(1) of the Regulatory Code requires FIs to establish and maintain: (a) a strategy and policy for the effective management of all significant risks that the licensee is or may be exposed to and (b) systems and controls that are sufficient to ensure that the risk management strategy and policies are implemented. This would include ML/TF risks.
 - Section 11 of the AMLTFCOP requires FIs and DNFBPs to maintain internal controls that would allow them to conduct an assessment of ML/TF risks of business relationships or one-off transactions and mitigate such risks accordingly. Internal controls must include written procedures to implement risk-based customer due-diligence policies, processes and procedures, providing additional controls for higher risk customers, transactions and products as may be necessary.
 - Section 11 of the AMLTFCOP will be amended to make it explicit for all relevant businesses to carry out institutional risk assessments and record such, including making them available to competent authorities upon request.
 - 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.



Expectations: Banking

- Ensure SARs are filed in a timely manner
- Ensure timely and accurate submission of all statistical returns including AML/CFT returns
- Ensure that your institution does not have the AML deficiencies identified in compliance inspections:
 - verification procedures
 - updating of CDD information, particularly in relation to high-risk clients
 - employee training
 - SARs analysis, and
 - lack of access to Board by compliance officers and senior management



Expectations: Financing Services

- Demonstrate understanding of client verification procedures
- Ensure timely and accurate submission of all statistical returns including AML/CFT returns
- Ensure staff are trained on how to identify and report on suspicious activities



Expectations: Money Services

- Ensure proper verification of BO information is carried out on all transactions
- Ensure timely and accurate submission of all statistical returns including AML/CFT returns
- Ensure that your institution does not have the deficiencies identified in compliance inspections:
 - proper conduct of risk assessments on clients
 - execution of ECDD measures



Expectations: TCSPs

- Ensure timely and accurate submission of all statistical returns including AML/CFT returns
- Ensure staff are trained to identify and report on suspicious activities
- Ensure third-party introducers fully understand their AML/CFT obligations and apply equivalent AML/CFT measures
- Ensure that your institution does not have the AML deficiencies identified in compliance inspections:
 - proper client verification procedures
 - compliance with CDD measures
 - maintenance and execution of proper internal control measures



Expectations: Investment Business

- Ensure entities operating outside the jurisdiction fully understand their AML/CFT obligations including filing SARs
- Authorised Representatives should take a more active role in ensuring entities fully understand and are aware of all obligations
- Ensure timely and accurate submission of all statistical returns including mutual funds returns and AML/CFT returns
- Ensure staff are trained to identify and report on suspicious activities
- Ensure overseas functionaries apply equivalent AML/CFT measures
- Ensure that your institution does not have the AML deficiencies identified in compliance inspections:
 - conducting proper risk assessment on clients
 - updating of CDD information, particularly in relation to high-risk clients
 - performing ECDD on high-risk clients



Expectations: Insurance Business

- Ensure adequate procedures and controls are in place for verification and maintenance of information on BOs and legal persons
- Ensure timely and accurate submission of all statistical returns including AML/CFT returns
- Ensure staff are trained to identify and report on suspicious activities



Expectations: Insolvency Practitioners

- Ensure adequate procedures and controls are in place for verification and maintenance of information on BOs and legal persons
- Ensure entities involved in joint appointments fully understand their AML/CFT obligations including filing SARs
- Ensure timely and accurate submission of all statistical returns including AML/CFT returns
- Ensure staff are trained to identify and report on suspicious activities



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