



Virgin Islands Terrorist Financing Risk Assessment

AML Unit

BVI Financial Services Commission



AGENDA

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Overview

- Goes further than the initial assessment within the 2016 National Risk Assessment (NRA) to look beyond the structures in place for criminalisation of terrorism and TF and the implementation of the UNSCRs
- Identifies and analyses the Virgin Islands' current Terrorist Financing (TF) risks within the Financial Services, DNFBP and NPO sectors
- Focuses on the specific TF threats and vulnerabilities associated with each sector and the impact these threats and vulnerabilities have on the overall level of TF risk within the Territory at both a domestic and international level



Sectors Reviewed

Banking

Financing Business

Money Services

Insurance

Trust and Company Services Providers (TCSPs)

Investment Business

Insolvency Services

Emerging Products



Sectors Reviewed

DNFBPs

- Lawyers
- Accountants
- Notaries Public
- Real Estate Agents
- Dealers in Precious Metals and Stones (Jewelers)

High Value Goods Dealers

- Car Dealers
- Yacht Brokers and Dealers
- Furniture Dealers

Non-profit Organisations



Methodology

- **Review of TF Threats within the Jurisdiction**
 - Trade with high-risk jurisdictions (domestic and international)
 - Collection and movement of funds (domestic and international)
 - Migration of workers from identified high-risk jurisdictions
 - Domestic Cooperation
 - International Cooperation
 - Sanctions
- **Application of Risk Matrix**
 - Threats (Sector Vulnerabilities – Mitigating Controls) = Risk
(Assessed in relation to exposure to domestic and foreign TF)



Data and Data Sources: 2015 - 2019

- **Macro-fiscal data** - Ministry of Finance
- **Supervisory, inspection and enforcement data** – FSC, FIA
- **Prosecutorial data** - ODPP
- **Criminal investigations data** - RVIPF
- **Seizure and confiscation data** - RVIPF, HMC, ODPP
- **Financial intelligence and SARs data** - FIA
- **International Cooperation/MLAT data** - FIA, FSC, GO, AGC
- **International sanctions and extradition data** – GO
- **Labour and workforce data** – DLWD
- **Trade data (imports/exports)** – HMC
- **Immigration data** - ID



Vulnerability Indicators

Structural Elements	Materiality	Sector or Product Specific TF Vulnerabilities	Compliance with FATF Standards relevant to TF	Effectiveness of AML/CFT Regime and other weaknesses
Existence and effectiveness of TF policies and procedures	Links to high-risk jurisdictions	Level of awareness and compliance with TF requirements	Existence of framework for implementation of TFS	Quality of TF related SARs filed
Existence of sanctions screening procedures	Level of regulation within sector	Level of occurrence of misuse of products/services for TF purposes	Frequency of sanctions breaches	Availability of BO information upon request
Effective implementation of sanctions screening procedures	Identification of sector in TF typologies	Level of financial flows through high-risk jurisdictions	Number of criminal proceedings involving sector	

Control Factors

Knowledge of AML/CFT Obligations	Prior Risk Assessment Rating	Risk Mitigation Policies and Procedures in Place	Training and Information Sharing	Maintenance of BO Information
Poor understanding of CFT obligations	High	Level of understanding of TF risk	Level of exposure to CFT training	Degree to which BO information is maintained in accordance with legislative requirements
Satisfactory understanding of CFT obligations	Medium	Level of effectiveness of risk mitigation policies	Timeliness in responding to requests for information	
Good understanding of CFT Obligations	Low	Adequacy of sanctions monitoring framework		

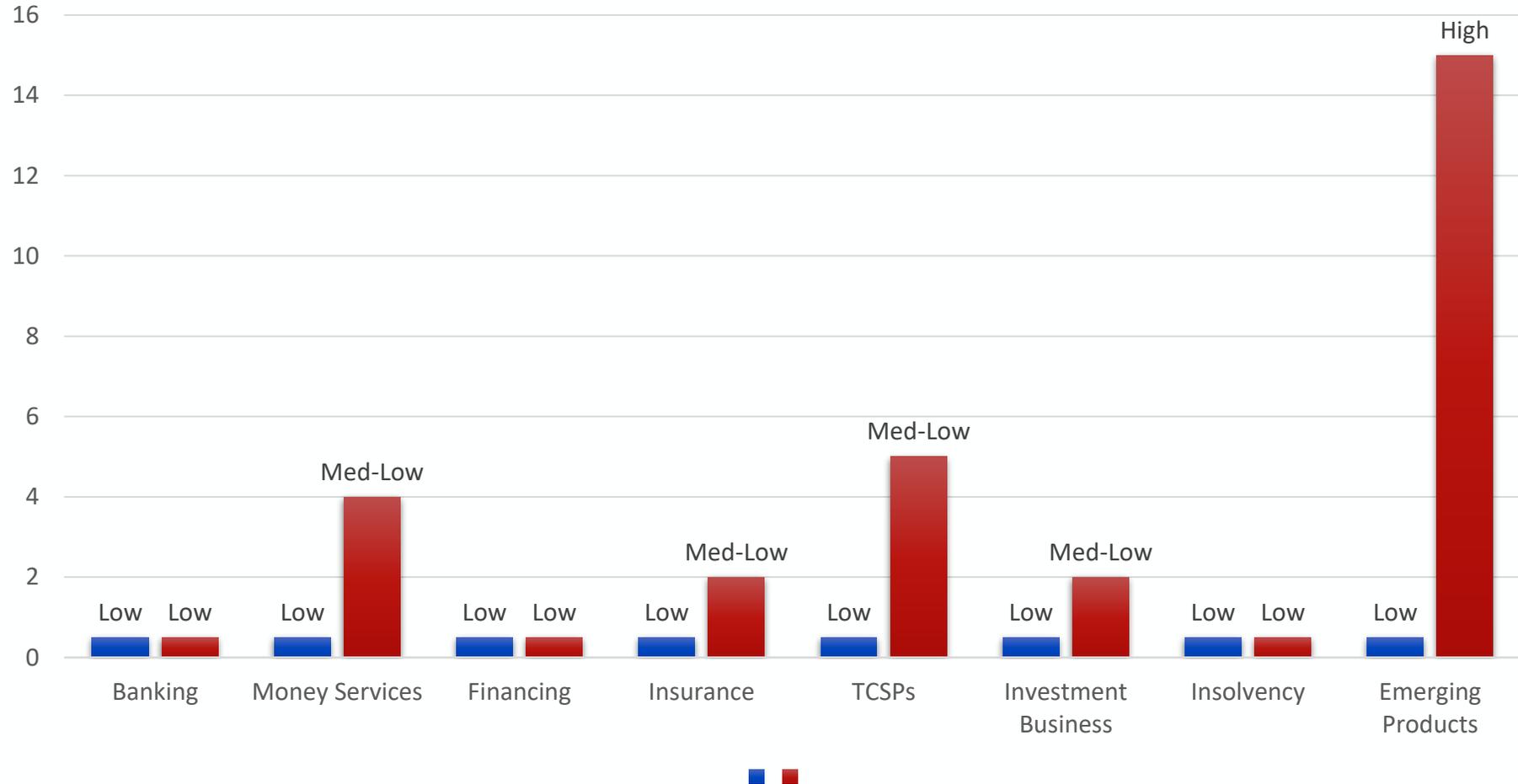
Overall FI Sector Ratings

Sector	Net Score	Risk Rating
Banking	0	Low
Financing	0	Low
Money Services	5	Medium-Low
Insurance	2	Medium-Low
TCSPs	4	Medium-Low
Investment Business	3	Medium-Low
Insolvency Services	0	Low
Emerging Products	19	High



Financial Institutions Sector Ratings

Financial Institutions TF Risk: Domestic vs Foreign

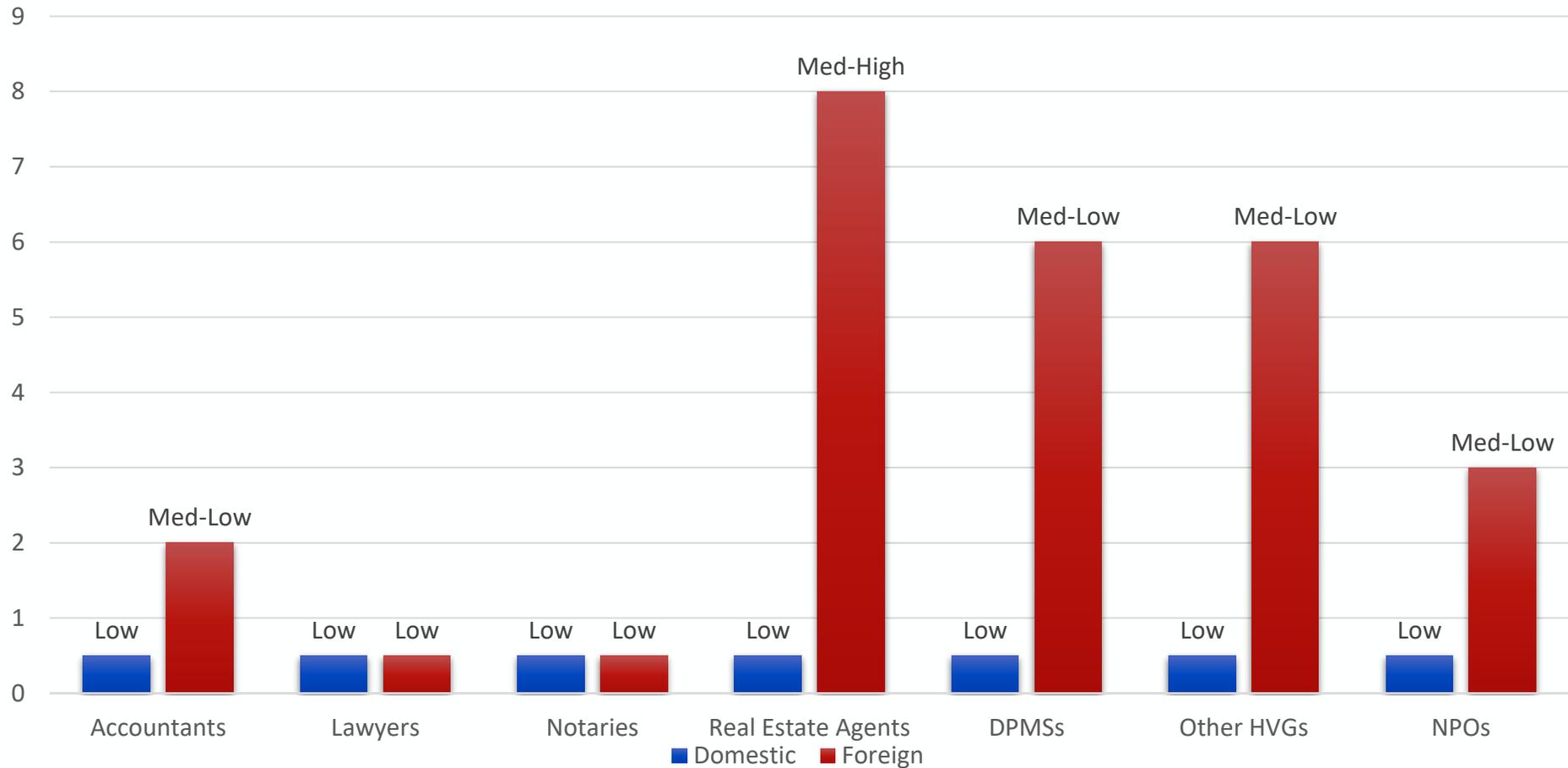


Overall DNFBP and NPO Sector Ratings

Product	Net Score	Risk Rating
Accountants	4	Medium-Low
Lawyers	0	Low
Real Estate Agents	9	Medium-High
DPMSs (Jewellers)	6	Medium-Low
Other HVGs	7	Medium-Low
NPOs	6	Medium-Low

DNFBP and NPO Sector Ratings

DNFBP and NPO Sectors TF Risk: Domestic vs Foreign



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

- Limited to the provision of small, short-term loans
- Loans made primarily to connected persons
- Limited product offerings
- Limited exposure to high-risk jurisdictions

Money Services

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

Insurance

- Limited product offerings
- Large volume of face-to-face business
- Transactions limited to payment of premiums
- Limited exposure to high-risk jurisdictions



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 for non-face-to-face business
- Exposure to high-risk clients and jurisdictions



Assessment Findings: Banking (L:L)

- Products and services offered are standard and not of an overly complex nature
- Vast majority of business still conducted face-to-face based on the products and services offered
- Exposure to high-risk customers and PEPs is highly localised
- Volume of activities within the sector that involve high-risk jurisdictions is small and not conducted on a regular basis
- No evidence of any direct link to any Tier 1 or Tier 2 jurisdiction, with the exception of Trinidad and Tobago which is a trading partner
- No reports of any VI banking institutions being used to facilitate the financing of any domestic or foreign terrorist activities



Assessment Findings: Financing Services (L:L)

- Licensees are relatively small with client bases that are generally connected, such as employees
- 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
- Exposure to high-risk customers and PEPs is highly localised



Assessment Findings: Money Services (L:ML)

- Level of outbound remittances is commensurate with the current demographic composition of the local labour force
- Funds generated in the VI have been transmitted to some Tier 1 and Tier 2 jurisdictions. However, no evidence that any of these funds were used to support or finance foreign terrorist activities
- As transactions tend to be one-off there is potentially a higher level of risk associated with verification of BO information, but as approximately 93% of all transactions are outbound, the issue of verification does not appear to elevate the risk of any possible TF threat
- Confirmation of BO information on transactions rests with the local sending party for which there is no evidence of radicalisation



Assessment Findings: Insurance (L:ML)

- Most domestic business is conducted through face-to-face contact. Cash transactions are limited to the payment of premiums by some customers
- PEPs are generally local PEPs
- Given the nature and the way in which they operate, captive insurance providers are internationally considered low risk institutions
- No significant level of business relationships amongst Captives with any identified Tier 1 or Tier 2 countries
- Based on typologies and other international guidance, the use of the insurance sector for the purpose of TF is extremely limited
- Exposure to TF in the insurance sector comes through the provision of kidnap and ransom insurance and potential cyber-attacks. None of the insurance licensees within the sector are known to provide kidnap and ransom insurance



Assessment Findings: TCSPs (L:ML)

- Given the size of the client base and volume of transactions, the risk of misuse of available services and products for TF purposes is more elevated than in other sectors
- Some TCSPs provide services to clients operating in Tier 2 countries
- 11 of the 21 TF relate SARs were filed by TCSPs, which is not unexpected given the size of the sector
- Only one TF related MLA request was received in which a BVIBC serviced by a TCSP was the subject
- No evidence that trusts have been identified in any international typologies as typical vehicles used by terrorist organisations or sympathisers to facilitate TF



Assessment Findings: Investment Business (L:ML)

- Products and services offered are not generally attractive vehicles for providing financing to terrorist organisations, although the risk remains given the nature of the products
- The sector's diverse international client base means there is potential for exposure to some Tier 1 and Tier 2 countries. This, however, does not inherently indicate a higher risk of TF
- Generally, the client profile for investment schemes does not correspond to the profile of terrorist organisations
- The sector has not been identified as being particularly vulnerable to TF based on typology reports and other guidance provided by the international community



Assessment Findings: Insolvency Services (L:L)

- Appointments may involve the potential for non-face-to-face business
- Client base may include international PEPs and businesses operating in high-risk jurisdictions
- General nature of insolvency business not being on-going business makes the risk of the sector being used for any TF purposes extremely low

Assessment Findings:

Emerging Products and Technologies (L:H)

- Limited data indicating wide use of VAs or VASPs by terrorist organisations
- 9 of the 21 TF relate SARs received directly from one BVIBC engaged in VA and VASP type activities
- Unregulated BVIBCs operating globally pose an inherent risk, as these may, and do, operate as VA exchanges and ICOs. The likelihood of these entities being misused for TF purposes is therefore elevated.
- No evidence of misuse of BVIBCs involved with VAs or VASPs based on SARs filed, and MLA and other international cooperation requests received
- Vulnerability exists primarily in the higher degree of anonymity offered, making it difficult to identify beneficiaries of the transactions as majority of transactions are carried out on a non-face-to-face basis



National AML/CFT Recommendations

- Ensure 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 trained with regard to identification, investigation and prosecution of TF and TF related activities
- Ensure relevant data on analysis and dissemination of TF related SARs, international cooperation, and the investigation and prosecution of TF is maintained, collected and analysed
- Finalise and implement the Counter Terrorism Bill and other amendments to the AML/CFT regime
- Ensure the NRA and this Sectoral Risk Assessment are kept up to date, having regard to changes in the identified vulnerabilities and controls
- Ensure LEAs and CAs consider the findings of this report when developing policies and procedures to combat TF



National AML/CFT Recommendations

- Ensure the information in TF Risk Assessment is used to better understand the types of TF risks posed and where these risks lie to ensure more effective use of surveillance and investigative mechanisms to mitigate TF risk
- Ensure the proper framework is put in place to allow for effective AML/CFT supervision of the gaming sector prior to the Virgin Islands Gaming and Betting Control Act being brought into force
- Develop procedures to ensure all agencies involved in international sanctions matters (UN and UK) are aware of their specific responsibilities; and the process for dealing with breaches (including investigation and prosecution) is clearly documented
- Ensure a proper legal framework, policies and procedures are put in place to allow for prosecution under BVI law of legal persons and legal arrangements incorporated or established in the VI involved in identified sanctions breaches and other TF related offences
- Ensure the legal framework in the VI allows law enforcement and prosecutorial agencies to effectively take the proceeds out of crime and, where appropriate, apply proportionate and dissuasive penalties



Supervisor Specific Recommendations - FSC and FIA

- Ensure timely and effective outreach to FIs, DNFBPs and NPOs on the findings of this report, including how the report's findings should be utilised in the development of their AML/CFT policies and procedures
- Ensure necessary steps, such as increased desk-based and onsite monitoring are taken to evidence that FIs are carrying out and implementing the requirements of its AML/CFT regime with regard to TF
- Carry out ongoing outreach and training on red flag TF indicators to allow for better quality of SARs filings



Supervisor Specific Recommendations – FSC and FIA

- Ensure the findings of the NRA and this Report are considered when making changes to, or assessing the effectiveness of the AML/CFT regime which may impact FIs, DNFBPs and NPOs
- Ensure relevant AML/CFT data is maintained, collected and analysed to be able to demonstrate effective supervision, enforcement and international cooperation
- Ensure on-going public education in relation to emerging TF methods and trends, including collection and movement of funds



Supervisor Specific Recommendations - FSC

- Ensure steps are taken to take the proceeds out of crime by, where appropriate, application of proportionate and dissuasive penalties for breach of AML/CFT regime
- Ensure sufficient monitoring of the perimeter to detect BVIBCs involved in sanctions busting activities or owned by sanctioned individuals



Financial Services Sector Recommendations: What Should FIs Do?

- Monitor fund flows into and from Tier 1 and Tier 2 jurisdictions and take into account any developing trends that might indicate potential funding of overseas terrorist organisations
- Ensure proper verification and maintenance of BO information of clients
- Ensure proper identification of clients' source of funds and source of wealth
- Develop and maintain proper AML/CFT policies and procedures and ensure all staff are familiar with these policies and procedures
- Continue to monitor clients' transactions to be able to identify any developing trends that may signal possible TF activities;



Financial Services Sector Recommendations :

What Should FIs Do?

- Ensure staff are aware of FATF and FIA Guidance on red flag indicators and SARs filings
- Ensure staff are properly trained to identify red flag TF indicators to improve on the quality of SARs filings
- Conduct timely interrogations of client databases against sanctions listings in accordance with Virgin Islands Financial Sanctions Guidelines, to ensure proper identification of listed persons and entities, and demonstrate appropriate action is taken if such persons are identified
- Conduct and document institutional risk assessments which should also account for TF risk
- Ensure adherence to the requirements of the AMLR and the AMLTFCOP



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





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