

AML/CFT Supervisory Update

1 March 2021

Andrew Kermode and Ashley Whyte



ISLE OF MAN
FINANCIAL SERVICES AUTHORITY

Lught-Reill Shirveishyn Argidoil Ellan Vannin

Contents

- Changing Risk Based Supervision
 - Introduction
 - Financial Crime (AML/CFT)
- Financial Crime (AML/CFT) Supervision
 - Using standard data
 - Sector comparisons and reports (2017 & 2018 data)
- AML/CFT ongoing initiatives



Risk Based Supervision (RBS): Introduction

- Our regulatory objectives include the **protection of customers**, and the **reduction of financial crime**.
- We are currently working on an updated approach to RBS.
- Generally, RBS uses a combination of **impact** and **risk** to drive supervisory focus, and resource allocation, at sector and firm level. A firm posing a higher impact or higher risk to our objectives will be subject to a different level of supervision than a lower impact or lower risk firm.
- **Impact** is broadly considered as the capacity of a firm to cause harm or disruption by failing, or by carrying on its business in an unsafe manner.
- **Risk** is more nuanced and includes a focus on probability.



Risk Based Supervision (RBS): Introduction

- To assess **Risk**, the common approach is to consider **Inherent Risk** (the risks a firm runs before mitigation) and the quality of **Governance, Management and Controls**.



- Supervisory tools can then be deployed to address the higher residual risks, and the focus may differ depending on a firm's impact rating. These supervisory tools may include intervention measures.



Risk Based Supervision (RBS): Introduction

- Our proposed approach for RBS considers risk across seven “level 1” risk categories:-
 - Strategic / business model risk
 - Prudential risk
 - **Financial crime risk**
 - Operational risk
 - Conduct risk
 - Governance / management risk (Inherent)
 - Client Assets risk
- Each risk category will be allocated a risk rating (expected to be one of four levels)



Risk based supervision: financial crime

Inherent risk

- Factors: customers, products and services, delivery, geography

Governance, management and controls

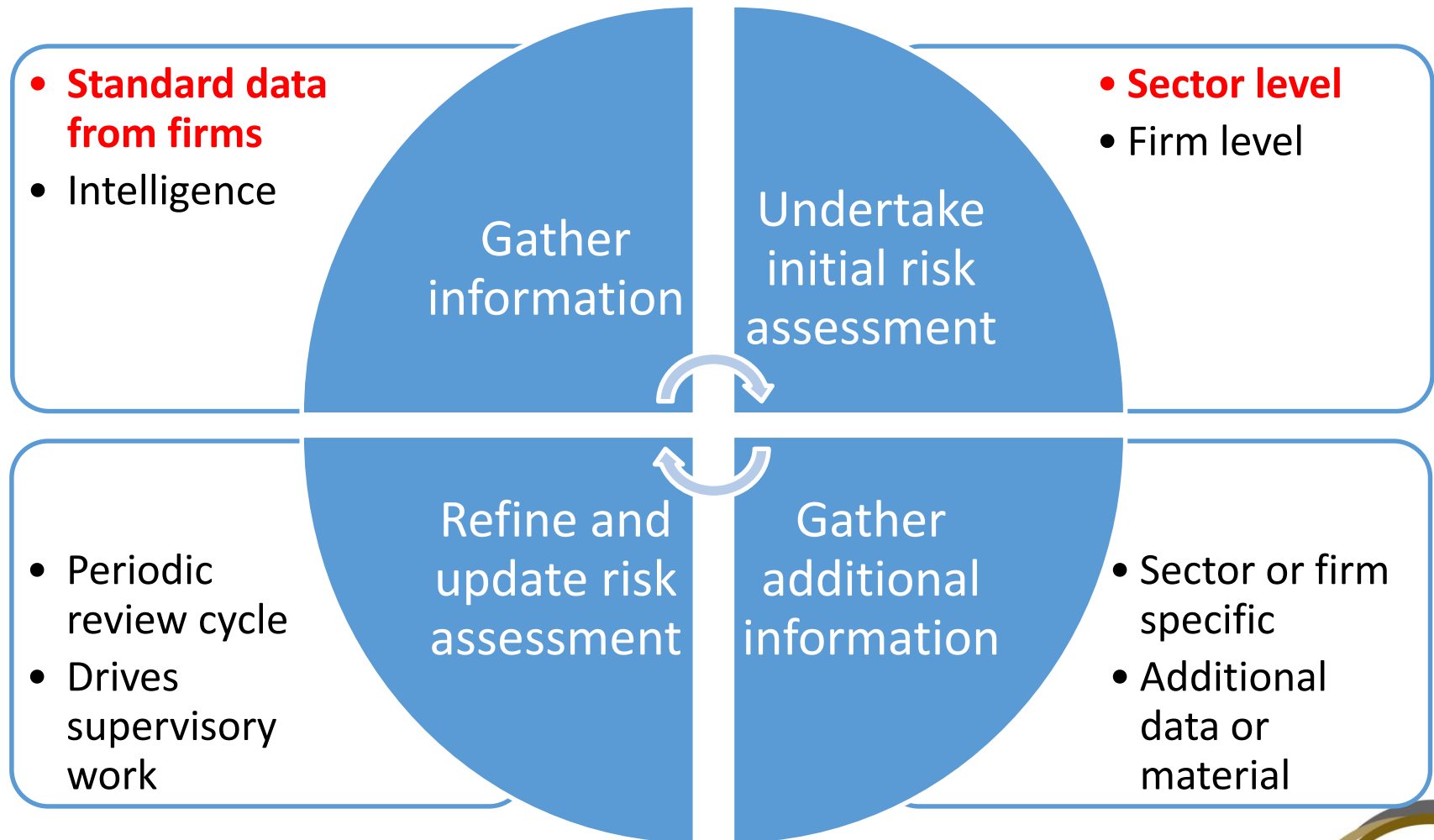
- Factors: internal controls (including policies, procedures, risk monitoring and MI), compliance / risk and internal audit, board and senior management oversight

Residual risk

- Net risk: for example, if a firm poses a high inherent risk but has strong governance, management and controls the residual risk would be reduced

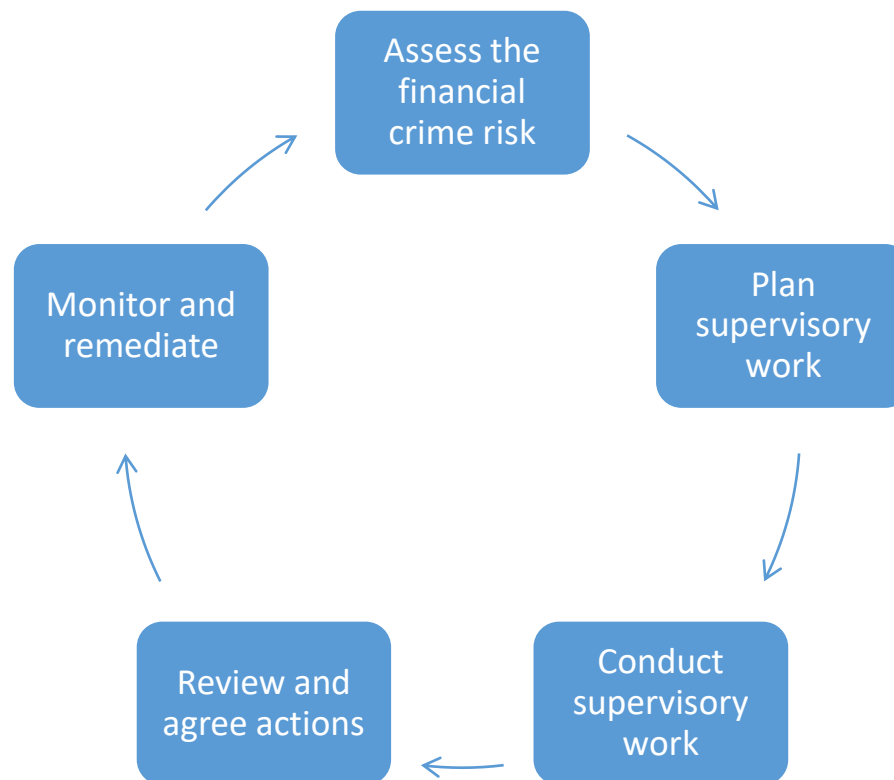


Risk based supervision: financial crime



Risk based supervision: financial crime

Assessment can be at sector or firm level (frequency and intensity of action will reflect assessed risk and impact):-



Financial crime supervision: using standard data

- Annual data received from firms in a consistent format for 3 full cycles (2017, 2018 and 2019)
- 2020 data set due end June 2021
- Analysis of 2017 and 2018 data completed for FSA08 sectors, with 2019 data in progress:
 - Banks
 - Fund Managers / Administrators
 - Investment Firms (including financial advisors)
 - Trust and Corporate Service Providers
- Analysis of data for insurance and pensions in progress (2018 & 2019)



Financial crime supervision: using standard data

- Data analysed at sector levels helps to show how different sectors compare, noting some information is “best endeavours”
- Sector reports prepared - helps us to evidence decision making for RBS at sector level, and where to focus resources (sectors, topics, firms)
- Data provides better evidence for the Island’s periodic National Risk Assessment work
- Sector reports will be published on our website at www.iomfsa.im/amlcft/sector-reports



Financial crime supervision: sector comparisons (2017-2018)

Overview

<i>Data set</i>	SECTORS				
	Banks	TCSPs	Investments	Fund Managers / Administrators	Financial Advisors
Population	12 (13)	115 (114)	18 (18)	14 (14)	15 (15)
Staff numbers	2,060 (2,040)	1,904 (1,794)	310 (293)	220 (220)	139 (130)
Sector risk view	MEDIUM HIGH	MEDIUM HIGH	MEDIUM	MEDIUM	LOW

2017 data is shown in brackets, where applicable



Financial crime supervision: sector comparisons (2017-2018)

Customer risk: type of customer

<i>Data set</i>	SECTORS				
<i>Customer type (by number)</i>	Banks	TCSPs	Investments	Fund Managers / Administrators *	Financial Advisors
Individuals	91% (94%)	TCSPs provide services to corporate (64%) and trust (36%) vehicles.	58% (56%)	61% (74%)	97% (97%)
Corporate / trust / other	9% (6%)	Around 75% are "asset holding" structures.	42% (44%)	39% (26%)	3% (3%)

2017 data is shown in brackets, where applicable

** = this data is for investors only*



Financial crime supervision: sector comparisons (2017-2018)

Customer risk: residency of individuals (as a % of total individuals)

<i>Data set</i>	SECTORS				
Country <i>(where more than 5%)</i>	Banks	TCSPs	Investments	Fund Managers / Administrators *	Financial Advisors
IOM	21.9% (22.5%)	N/A	34.9% (31.6%)	3.1% (21.7%)**	92.1% (90.9%)
UK	22.5% (23.5%)		11.9% (22.1%)	40.9% (31.3%)	6.8% (7.9%)
South Africa	7.4% (8.3%)		25.6% (21.6%)	27.4% (19.8%)	N/A
Jersey	8.9% (8.5%)		N/A	N/A	N/A
Guernsey	5.2% (4.9%)		N/A	N/A	N/A
UAE	N/A		5.2% (3.9%)	N/A	N/A

2017 data is shown in brackets, where applicable.

** = this data is for investors only, ** = IOM data for 2017 is overstated*



Financial crime supervision: sector comparisons (2017-2018)

Customer risk: residency of corporate / trust / other* (as a % of total other)

<i>Data set</i>	SECTORS				
<i>Country (where more than 5%)</i>	Banks	TCSPs	Investments	Fund Managers / Administrators **	Financial Advisors
IOM	64.9% (43.6%)	61% (58%)	60.7% (56.7%)	30.4% (26.1%)	Majority IOM (only 3% of all customers are not individuals)
UK	13.5% (18.2%)	Overseas countries accounted for 39% (42%). The most common overseas countries reported were UK, BVI, and Cayman Islands	7.5% (13.8%)	16% (23.8%)	
Jersey	7.4% (10.8%)		N/A		
Guernsey	6.1% (12.8%)		6.1% (3.7%)	6.1% (8.1%)	
Malta	N/A		9.0% (8.4%)	N/A	
Ireland				7.4% (n/a)	
Luxembourg				6.1% (5.1%)	

2017 data is shown in brackets, where applicable

* = this is the residency of the structure / vehicle (e.g. place of incorporation or establishment)

** = this data is for investors only



Financial crime supervision: sector comparisons (2017-2018)

Customer risk: residency of UBOs (of structures / vehicles)* (as a % of total other)

<i>Data set</i>	SECTORS				
Country (where more than 5%)	Banks	TCSPs***	Investments	Fund Managers / Administrators**	Financial Advisors
IOM	28.5% (40.2%)	7.2% (9.8%)	56.4% (36.8%)	28.2% (23%)	Majority UBOs are IOM (only 3% of all customers are not individuals)
UK	41.7% (29.8%)	65.9% (54.7%)	18.4% (22.4%)	22.2% (24.4%)	
South Africa	N/A	N/A	11.1% (17.7%)	6.6% (8.8%)	
Guernsey	N/A	N/A	N/A	5.7% (7.1%)	

2017 data is shown in brackets, where applicable

* = this is the residency of the structure / vehicle (e.g. place of incorporation or establishment)

** = this data is for investors only

*** = residency of beneficial owners, settlors, and any other key principals



Financial crime supervision: sector comparisons (2017-2018)

Customer risk: PEPs

<i>Data set</i>	SECTORS				
<i>PEPs*</i>	Banks	TCSPs	Investments	Fund Managers / Administrators	Financial Advisors
Foreign PEPs	1,318 (1,224)	2,644 (2,332)	141 (117)	244 (165)**	3 (1)
Domestic (IOM) PEPs	384 (425)	217 (249)	81 (49)	8 (3)**	109 (56)
All PEPs (as % of all customers)	0.27% (0.29%)	6.93% (5.97%)	1.66% (1.32%)	2.50% (0.90%***)	0.46% (0.23%)

2017 data is shown in brackets, where applicable

** = these are the number of customers (for TCSPs, client entities) who are, or are associated with, PEPs*

*** This data is at fund and investor level. Of the 244 foreign PEP connections reported in 2018, 44 were associated with funds, and 200 were at investor level.*

**** This data is investors only*



Financial crime supervision: sector comparisons (2017-2018)

Customer risk: higher risk as reported by firms (includes PEPs assessed as higher risk)

<i>Data set</i>	SECTORS				
	Banks	TCSPs	Investments	Fund Managers / Administrators	Financial Advisors
<i>All higher risk customers</i>					
As a % of all customers	2.31% (2.72%)	17.9% (17.6%)	4.65% (2.89%)	4.67% (4.14%)	0.65% (0.62%)
<i>New higher risk customers</i>					
As a % of all new customers	3.45% (7.7%)	12% (8.7%)	4.69% (2.48%)	1.43% (3.57%)	0.19% (0.16%)

2017 data is shown in brackets, where applicable. Data for fund managers / administrators is for investors into the funds, rather than the funds themselves.



Financial crime supervision: sector comparisons (2017-2018)

Delivery of services:

<i>Data set</i>	SECTORS				
	Banks	TCSPs	Investments	Fund Managers / Administrators	Financial Advisors
<i>Establishing relationships (new customers)</i>	Approximate 50% split	Approximate 70% non face to face	Majority (over 80%) non face to face	Majority of investors non face to face	Nearly 100% face to face
<i>Use of introducers (new customers)</i>	One third introduced	Around 20% introduced	More than 70% introduced	Only 5% introduced	Limited introduced
<i>Main location of introducers</i>	South Africa, UAE, IOM, UK	Mainly IOM (legal firms) and UK	South Africa, UAE, IOM, UK	South Africa, IOM	N/A

The above information is provided on a “best endeavours basis” and represents a broad view based on 2017 and 2018 data.



Financial crime supervision: sector comparisons (2017-2018)

Tackling financial crime: general

Topic	SECTORS				
	Banks	TCSPs	Investments	Fund Managers / Administrators	Financial Advisors
Training	Good coverage	Good coverage	Good coverage	Good coverage	Good coverage
Outsourcing (in respect of AML/CFT functions)	Moderate – mainly to group companies / centres, with elements to third parties	Limited – only to group companies or other IOM regulated firms	Limited - only to group companies or other IOM regulated firms	Limited – only to group companies or other IOM regulated firms	Limited
New business declined	65 (169)	8 (22)	0 (4)	None	None
Business terminated	253 (207)	16 (10)	None	None	None
Blocked / frozen	130: £38m (96: £14m)	24: £101m (39: £317m)	3: £8m (None)	33: £9m (None)	None

2017 data is shown in brackets, where applicable. Data for fund managers / administrators is at fund and investor level



Financial crime supervision: sector comparisons (2017-2018)

Tackling financial crime: identifying and reporting suspicious activity

<i>Topic</i>	SECTORS				
	Banks	TCSPs	Investments	Fund Managers / Administrators	Financial Advisors
<i>Money laundering related</i>					
Internal SARs	1,163 (1,357)	209 (215)	15 (13)	14 (6)	0 (4)
External SARs (to FIU)	519 (813)	127 (129)	10 (9)	9 (7)	0 (3)
<i>SAR "conversion" rate</i>	<i>45% (60%)</i>	<i>61% (60%)</i>	<i>67% (69%)</i>	<i>64% (100%)</i>	<i>N/A (75%)</i>
General intelligence reports to FIU	66 (26)	21 (6)	None	1 (0)	0 (1)
ML enquiries received	276 (193)	33 (39)	3 (1)	0 (1)	1 (0)

2017 data is shown in brackets, where applicable



Financial crime supervision: sector comparisons (2017-2018)

Tackling financial crime: identifying and reporting suspicious activity

<i>Topic</i>	SECTORS				
	Banks	TCSPs	Investments	Fund Managers / Administrators	Financial Advisors
<i>Terrorist financing related</i>					
Internal SARs	1 (3)	0 (1)	None	None	None
External SARs (to FIU)	0 (2)	0 (1)	None	None	None
<i>SAR “conversion” rate</i>	0% (67%)	N/A (100%)	N/A	N/A	N/A
TF enquiries received from law enforcement etc	1 (1)	None	None	None	1 (0)

2017 data is shown in brackets, where applicable



Financial crime supervision: sector comparisons (2017-2018)

Managing and reporting of sanctions

Topic	SECTORS				
	Banks	TCSPs	Investments	Fund Managers / Administrators	Financial Advisors
Screening – at on-boarding	Yes	Yes	Yes	Yes	Generally yes
Screening - periodic	Yes, mostly daily, plus payments screening	Yes – around 33% perform daily monitoring	Yes (lists updated or periodically) – <i>not daily</i>	Yes (lists updated, and 50% daily monitoring)	Generally yes (lists updated or periodically) – <i>not daily</i>
Disclosures	1 (7)	3 (1)	None	None	None
Blocked and frozen accounts	22: £4.2m (13: £3.7m)	5: £185k (5: £175k)	None	1: £40k (0)	None

2017 data is shown in brackets, where applicable

