



**ISLE OF MAN
FINANCIAL SERVICES AUTHORITY**

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Preventing Financial Crime

**Analysis of firms' data
(2017 and 2018)**

**TRUST AND CORPORATE SERVICE
PROVIDERS (“TCSPs”)**

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1. Introduction and Key Findings for TCSPs

1.1 This report is focused on those firms whose primary business is that of being a **TCSP**. For this purpose it specifically excludes those firms whose primary business is the provision of fund management / administration, but who also provide corporate services to collective investment schemes (“funds”); this is mainly because data in respect of fund managers / administrators is covered in a separate sector report.

Reports for other sectors are also produced.

1.2 This report provides an analysis of two years of data and covers areas such as the geographical profile of customers (corporate and trust vehicles) and beneficial owners / settlors / other key principals, TCSPs’ assessment of customer risk, reporting and monitoring of financial crime and sanctions, and the use of introducers and third parties.

1.3 **Table 1** below provides information on the population of **TCSPs** who were required to submit the annual AML/CFT data return for December 2018 and December 2017.

Table 1: Population of investment firms for the purpose of this Report

	December 2018	December 2017
Number of TCSPs ¹	115	114

1.4 The analysis confirms that the client base is relatively diverse, with a wide geographical spread of customers (for this purpose beneficial owners, settlors and other key principals) by residency, noting some concentration to the UK. The data also confirms that a material portion of business is conducted on a non face to face basis, with some also through introducers, aspects that can increase inherent risk.

1.5 TCSPs also reported they do undertake business with foreign PEPs, and that the proportion of client entities assessed by firms as posing a higher risk is relatively high compared to other sectors.

1.6 The above profile, coupled with the nature of products and services offered by TCSPs (which can include more complex arrangements, and limited services such as registered office / registered agent only) results in a higher inherent risk of TCSPs being exposed to a range of money laundering, terrorist financing, and sanctions threats.

¹ The population excludes professional officers, and any fund managers / administrators that also only have class 4 permissions in relation to corporate services to funds.

The importance of TCSPs having strong and effective monitoring and control frameworks is therefore paramount.

2. Background to the AML/CFT data return

- 2.1 The Isle of Man Financial Services Authority's ("the Authority") regulatory objectives² include "the reduction of financial crime". In its **2018-2021 Strategic Plan** the Authority sets out its *long term goals* and *strategic objectives* which include:-

Long term goal	Strategic objective
<i>Continue to develop our identity and culture and to operate as a forward looking integrated regulator</i>	<i>Enhance the framework to protect consumers and deter financial crime</i>
<i>Fully implement a risk-based supervisory approach for every entity within our remit, including vulnerability to financial crime</i>	<i>Encourage innovation and continuous improvement in all that we do</i>
<i>Be an International Financial Centre which is recognised as effectively deterring financial crime</i>	

- 2.2 During 2016-2017 the Authority consulted on, and subsequently introduced, a pilot annual AML/CFT data return, designed to obtain information from regulated and registered entities to help the Authority monitor AML/CFT threats and trends in, and across, sectors. The table below shows the scope of returns to date and the planned returns for submission in 2020 and thereafter:

Responders	Annual reporting period	Basis for the information	Submission deadline
All regulated entities ³ Sample of registered entities ⁴	31 December 2016	Best endeavours ⁵	29 November 2017
All regulated and registered entities (firms)	31 December 2017	Part actual data, part best endeavours	31 December 2018
All firms	31 December 2018	Part actual data, part best endeavours	31 December 2019
All firms	31 December 2019	Part actual data, part best endeavours	30 September 2020, contingency to 31 December 2020
All firms	31 December 2020 and thereafter	Actual data (unless by exception)	30 June 2021 and 30 June thereafter

² as set out in the Financial Services Act 2008 ("FSA08")

³ Regulated under the FSA08, the Insurance Act 2008 and the Retirement Benefits Schemes Act 2000

⁴ Registered under the Designated Businesses (Registration and Oversight) Act 2015.

⁵ Refer Annex 1: Data Quality.

2.3 Based on the original pilot exercise (December 2016 data), high level results were presented to industry groups during 2018. The Authority has now also analysed the 2017 and 2018 data and developed, for the first time, a collective industry view across sectors⁶, excluding gambling, that are subject to the Island's AML/CFT framework. The Authority will use this information to help with its risk assessment of sectors, and individual firms.

3. Objectives

3.1 The gathering and analysis of data from all firms about AML/CFT helps the Authority to achieve the regulatory objective of "*the reduction of financial crime*".

3.2 The data informs the Authority's understanding of the ***inherent risks*** that firms, and sectors, may pose, and supports the Authority's AML/CFT supervisory work utilising a risk based approach. Some information provided also relates to a firm's ***control environment***. The information that must be reported is dependent on the type of activity a firm undertakes, for example a bank must report more information when compared to a financial advisory firm. Key areas of focus include:-

- The jurisdictional risk profile of the customer base and ultimate beneficial owners;
- The extent of non-face to face and introduced business undertaken by firms;
- Identification and reporting of suspicious activity for both money laundering and terrorist financing;
- Monitoring and screening processes adopted, including for sanctions;
- How firms categorise customer risk;
- The level of politically exposed persons in the system, and how these are identified;
- The compliance and internal audit mechanisms;
- Outsourcing of AML/CFT processes;
- The payment methods accepted by firms in relation to incoming and outgoing transfers; and
- The types of client or product / services provided.

3.3 The data underpins the Island's understanding of the wider financial crime environment and forms a key part of the National Risk Assessment process, alongside

⁶ The data does not include information from the small number of firms who are regulated only for bureau de change, agency payment services, or cheque cashing. These firms currently submit different AML/CFT statistical data which is analysed separately.

the specific quarterly financial flow data that the Authority receives from the Island’s banking sector.

4. Customer risk profile – TCSPs

A. Client entity profile

4.1 TCSPs are required to report information about their client entity portfolio, including the type of service provided, and the risk profile of the client entity book.

As at the end of 2018 the total number of client entities reported was **41,255 (2017: 43,219)**. Of this, **63.6%** related to corporate vehicles (**2017: 64.5%**) and **36.4%** to trust vehicles (**2017: 35.5%**). **Table 2a** below provides a more detailed breakdown.

Table 2a: client entity profile

SERVICE	Corporate vehicles (% of total client entities)		Trust vehicles (% of total client entities)		Total client entity relationships (% of total)	
	2018	2017	2018	2017	2018	2017
Fully managed service	43.4%	46.0%	32.1%	31.5%	75.5%	77.5%
Part managed service ⁷	5.7%	5.4%	0.9%	1.0%	6.6%	6.4%
Limited services ⁸	14.2%	12.8%	3.4%	3.0%	17.6%	15.8%
Services to exempt funds ⁹	0.3%	0.3%			0.3%	0.3%
TOTAL	63.6%	64.5%	36.4%	35.5%	100%	100%

4.2 TCSPs also report information about the type (activity) of client entities they provide services to, and an estimate of the value of total assets of the client entities that they manage.

The most common activity of client entities is classified as “asset holding”, with **76%** of structures reported in that category in 2018 (**2017: 73%**). **Table 2b** below provides further information.

Of the client entities under management, the estimated value of “assets under management” for 2018 was **£137 billion (2017: £141 billion)**.

⁷ For companies this includes situations such as where the TCSP is not providing directors to the company, and for trusts references a joint trustee basis.

⁸ This refers to the provision of registered office / registered agent services only (for companies) and trust administration only.

⁹ This is classified as class 3 regulated activity and is not covered in depth in this report.

Table 2b: client entity activity

ACTIVITY	Corporate vehicles (% of total client entities)		Trust vehicles (% of total client entities)		Total client entity relationships (% of total)	
	2018	2017	2018	2017	2018	2017
Asset holding	41.0%	39.9%	35.0%	33.1%	76.0%	73.0%
Trading	5.6%	5.8%	0.0%	0.0%	5.6%	5.8%
Charitable	0.1%	0.2%	0.1%	0.1%	0.2%	0.3%
Other ¹⁰	16.9%	18.6%	1.3%	2.3%	18.2%	20.9%
TOTAL	63.6%	64.5%	36.4%	35.5%	100%	100%

B. Geographical profile – residency of structures (client entities)

- 4.3 TCSPs are also required to report basic information about the place of incorporation / establishment of companies, trusts and other client entity structures they provide services to. The majority of trusts are established as being in the Isle of Man, whereas there is more diversity for corporate vehicles.

Table 3a: residency of client entities

PLACE OF OR INCORPORATION OR ESTABLISHMENT	Corporate vehicles (% of total corporate)		Trust vehicles (% of total trusts)		Other vehicles ¹¹ (% of total other)	
	2018	2017	2018	2017	2018	2017
Isle of Man	63%	59%	88%	88%	61%	58%
Overseas	37%	41%	12%	12%	39%	42%
TOTAL	100%	100%	100%	100%	100%	100%

Further information pertaining to the “overseas” is provided in **paragraph 4.5** and **table 3b** below.

- 4.4 Firms are required to report their customer relationships according to the residency of the customer, based on the ISO country code standard. This information enables the Authority to consider jurisdictional risk, and the extent to which customers are linked to higher-risk jurisdictions, when assessing sectors and firms.

¹⁰ Approximately 50% of the “other” activity for corporate vehicles related to a single TCSP due to the specific type of business conducted. Other examples include dormant companies, or those in liquidation / pending dissolution.

¹¹ This includes partnerships and foundations.

4.5 TCSPs reported residency information pertaining to their customers in mainly one of two ways:-

- Solely based on the country of incorporation of the corporate vehicle or place of establishment of the trust; or
- Solely based on the residency of the key principals they contract with (which will normally be a natural person).

Based on the data for the residency of “non-natural persons” only (which is a reasonable proxy for country of incorporation / establishment of corporate and trust vehicles), the main “overseas” countries of incorporation / establishment (for 2017 and 2018) were reported as the UK, British Virgin Islands and the Cayman Islands. **Table 3b** provides further information.

Table 3b: Top 5 “overseas” countries by residency of corporate / trust vehicle

Country of residence / establishment of the corporate / trust vehicle	As a % of all “overseas” countries	
	2018	2017
UK	52.8%	58.5%
British Virgin Islands	12.7%	11.2%
Cayman Islands	6.5%	10.5%
Jersey	3.6%	3.2%
Switzerland	2.6%	2.5%
TOTAL	78.2%	85.9%

70% of the corporate vehicles established in the UK in 2018 were in connection with only one TCSP due to the specific type of business conducted (2017: 80%).

C. Geographical profile – residency of principals / ultimate beneficial owners

4.6 TCSPs provide services to corporate and trust vehicles (“entities”) and must understand who the beneficial owners of such entities are. In addition to reporting geographical residency information at an entity relationship level (see paragraphs 4.4 and 4.5) TCSPs provide residency data about the beneficial ownership of entities. For trusts, this may include residency of the settlor. In many cases, beneficial owners and settlors will be the key principals which TCSPs engage with.

4.7 Of the total reported number of beneficial owners, settlors and any other key principals, the most common residency was the UK at **65.9% (2017: 54.7%)**, followed by the Isle of Man at **7.2% (2017: 9.8%)**.

Tables 3a and 3b below provide a more detailed breakdown.

Table 3a: Residency of the beneficial owners, settlors and any other key principals of entities

	Residency at 31 December 2018	Residency at 31 December 2017
	Beneficial owners, settlor, and any other key principals	Beneficial owners, settlor, and any other key principals
Isle of Man	7.2%	9.8%
Channel Islands	0.7%	1.0%
UK	65.9%	54.7%
EU (excludes EEA and Switzerland)	6.6%	9.5%
Other Europe	2.5%	3.9%
Africa	6.3%	7.0%
Americas	3.8%	5.4%
Asia (including Middle East)	6.2%	7.6%
Oceania	0.8%	1.1%
TOTAL	100%	100%

Table 3b: Countries in excess of 1%, by residency of the beneficial owners, settlors and any other key principals

	Country of residence of the beneficial owner, settlor and any other key principals (% of total number)	
	2018	2017
UK	65.9%	54.7%
Isle of Man	7.2%	9.8%
South Africa	3.3%	2.8%
Ireland	2.7%	3.6%
United States of America	1.5%	1.9%
Kenya	1.1%	1.6%
Switzerland	n/a	1.5%
United Arab Emirates	n/a	1.0%
TOTAL	81.7%	76.9%

The jurisdictional profile of the beneficial owners, settlors and any other key principals for **TCSPs** is relatively wide in its scope, albeit with a particular concentration in the UK.

The material rise in exposure to UK in 2018 is primarily due to a change in reported data for one TCSP. In 2018 it reported a significant exposure to UK through additional reporting related to employee benefit trusts (inclusion of residency data of

beneficiaries and any economic settlors), whereas in 2017 this information was not included.

D. Politically exposed persons and other high risk customers

4.8 **Tables 4a and 4b** show customer relationships, as assessed by TCSPs, deemed to pose a higher risk of money laundering, and the level of politically exposed persons (“PEPs”) among the customer base. PEPs¹² include people with prominent public jobs who may be in a position to abuse their role for private gain.

4.9 At the end of 2018 TCSPs reported **2,861 client entities that were associated with PEPs¹³ (2017: 2,581)**, including **2,644 with a connection to foreign PEPs (2017: 2,332)**. Firms are required to identify PEPs at the start of a business relationship and, through effective monitoring, if any persons subsequently become PEPs. Firms are required by law to undertake enhanced checks and monitoring of all customers who are, or are associated with, foreign PEPs and any domestic PEPs who the firm assesses as posing a higher risk.

Table 4a: PEP relationships

	Number of client entity PEP relationships (and as a % share of all client entity relationships)	
	31 December 2018	31 December 2017
Client entities who are associated with PEPs	2,861 (6.93%)	2,581 (5.97%)
<i>Of which are foreign PEPs</i>	2,644	2,332
<i>Of which are domestic PEPs</i>	217	249

4.10 At the end of 2018, **all TCSPs** confirmed that they screen for PEPs at the commencement of a business relationship, and screen their customer records on a periodic basis to determine if a customer¹⁴ has become a PEP. For the latter, the frequency of screening varied but was predominantly either annually (or even less frequent) or ad-hoc (**59 of the 115**) rather than through automated daily monitoring (**33 of the 115**); however, **nearly all** confirmed they always screen their customer records at the occurrence of a trigger event.

4.11 At the end of 2018 TCSPs reported **7,372 higher risk client entities (2017: 7,591)**; this includes client entities who are categorised as being higher risk for reasons other than

¹² PEP is defined in the Anti-Money Laundering and Countering the Financing of Terrorism Code 2019.

¹³ TCSPs are requested to report the number of client entities associated with PEPs (for example where a PEP may be a beneficial owner, director, settlor etc).

¹⁴ For this purpose customer includes any individual connected to a client entity, for example the beneficial owner, director, settlor, etc.

being connected to a PEP. Where firms identify that customers pose a higher risk, either at the outset of a business relationship, or through an event that occurs during the business relationship, they are legally required to conduct enhanced customer due diligence.

Table 4b: High-risk client entity relationships

	Number of high risk client entity relationships (total and new) (and as a % share of total / new client entity relationships)	
	December 2018	December 2017
Total high risk client entities (includes any PEPs assessed as higher risk)	7,372 (17.9%)	7,591 (17.6%)
New high risk client entities in the reporting period (includes any PEPs assessed as higher risk)	488 (12.0%)	589 (8.7%)

- 4.12 The proportion of total, and new, high risk client entities as a percentage of all client entities increased in 2018 compared to 2017. This was consistent with the increase seen in client entities being reported as connected to foreign PEPs.
- 4.13 Overall, **compared to other sectors**, PEPs and other high risk customers represent a **relatively high proportion** of the total customer base of TCSPs (**more than 15%, but less than 20%**).
- 4.14 The majority of TCSPs also reported that they review the customer risk assessment and CDD information for all high risk (including higher risk PEPs) relationships at least annually.

5. Tackling Financial Crime – TCSPs

A. Resourcing the fight against financial crime

- 5.1 To effectively monitor and address the risk that persons abuse the financial system for money laundering and terrorist financing requires a significant amount of firms’ time and resources. As at 31 December 2018 TCSPs reported that they collectively employ **1,904 staff¹⁵ in the Isle of Man (2017: 1,794)**, of which **317 (17%)** were reported as being in compliance and prevention of financial crime roles (**2017: 310 / 17%**).

¹⁵ This includes IOM individuals employed through a group company but working for the TCSP. Where a TCSP is managed by another TCSP and both report staff numbers, these are only counted once for this report.

It should be noted that compliance roles are not solely focused on financial crime, with governance of client entities, and protection of clients' assets also being key features of the TCSP sector.

- 5.2 Relevant staff require ongoing training to ensure they have the effective knowledge to help detect and prevent their firm from being misused by criminals. In the year ended 31 December 2018, TCSPs reported that **1,687 general refresher training places were filled (2017: 1,660)**. This effectively represented **89%** of total staff employed (including directors) **(2017: 93%)**. Further, **304** staff received induction or detailed training **(2017: 326)**, effectively meaning all relevant staff received some form of AML/CFT training on an annual basis.

In addition, TCSPs reported that **316 staff (17%)** received additional specialist training **(2017: 374 / 21%)**.

B. Outsourcing of processes to group entities or third parties

- 5.3 Information is obtained on the outsourcing of certain activities or functions to group entities or third parties. Where outsourcing occurs firms should have robust monitoring and control processes in place, as responsibility remains with the firm. Information is requested in respect of the following:-

- Customer on-boarding (including for risk assessments, collection of due diligence, screening, and business acceptance);
- Ongoing monitoring;
- MLRO and Compliance activity (for AML/CFT); and
- Staff screening and take-on.

- 5.4 It was evident from the reporting by TCSPs that they do not generally outsource the activity relating to the above. Any outsourcing was limited to either group companies (as part of a service company model) or to third parties who are themselves regulated businesses in the Isle of Man providing management services. There was slightly more use of pure third party outsourcing for the screening of staff at take-on. **Table 5** below provides more information (for 2018 only).

Table 5: Outsourcing of AML/CFT activity

Description	Undertaken by the Firm	Outsourced to Group ¹⁶	Outsourced to Third Parties ¹⁷
Client on-boarding			
<i>Customer risk assessments</i>	Yes - 102	Yes - 10	Yes - 3
<i>Collection of customer due diligence</i>	Yes – 101	Yes - 11	Yes - 3
<i>Customer screening (note 1)</i>	Yes – 100	Yes - 13	Yes - 8
<i>Customer acceptance</i>	Yes – 102	Yes - 10	Yes - 3
Ongoing monitoring (note 1)	Yes - 105	Yes - 11	Yes - 7
MLRO & Compliance activity			
<i>MLRO / DMLRO activity</i>	Yes – 102	Yes - 8	Yes - 5
<i>Compliance activity (note 1)</i>	Yes – 104	Yes - 10	Yes – 6
Staff screening and take-on (note 1)	Yes - 90	Yes - 19	Yes - 18

Note 1: for these activities, some TCSPs reported they undertake part of the activity themselves but also outsource elements to group or a third party.

C. Monitoring for, and reporting of, financial crime

- 5.5 The law requires employees of firms to report knowledge or suspicion of money laundering within their firm, to their MLRO. In the year ended 31 December 2018, **209** cases of concern, suspicion or knowledge of money laundering were either identified by staff, generated through automated processes, or identified from other intelligence sources, and reported to the firms’ MLROs (**2017: 215**). In addition, **no** reports were raised which were terrorism related (**2017: 1**).
- 5.6 MLROs must consider these reports, and decide whether a formal submission to the **Isle of Man Financial Intelligence Unit**¹⁸ (“FIU”) is justified, and must be registered with the FIU’s “Themis” system to be able to make reports. At the end of 2018, of the **115** TCSPs, **109 (95%)** reported they were registered on “Themis”. Of the six firms that did not report as being registered **only 1** was managed by another TCSP; however, none of these firms reported they made disclosures to the FIU or received enquiries from law enforcement.

¹⁶ This was limited, with the exception of staff screening, to a group service company or another regulated group company.

¹⁷ This was generally limited, with the exception of staff screening and the use of third party software for customer screening, to regulated businesses in the Isle of Man with permission to provide management services.

¹⁸ See <https://www.fiu.im/>

- 5.7 In 2018, after investigation by MLROs, **127** cases of knowledge or suspicion of money laundering were reported to the FIU (**2017: 129**). **No** reports were made that were terrorism related (**2017: 1**). Further, TCSPs reported **21** cases to the FIU regarding general intelligence (**2017: 6**).
- 5.8 In 2018 TCSPs handled **65** requests from law enforcement and other competent authorities (**2017: 52**). Of these, **33** explicitly related to money laundering or terrorism (**2017: 39**).
- 5.9 Engagement between the FIU, other law enforcement agencies and financial firms is a crucial component that supports investigations and prosecutions, not only in the Isle of Man but as part of international cooperation. The level of reporting for the TCSP sector is not unexpected taking into account the reported levels of high risk client entities and overall size of the sector.

Table 6: Liaising with the authorities

Description	Year ended 31 Dec 2018	Year ended 31 Dec 2017
Internal Money Laundering disclosures to the MLRO	209	215
External Money Laundering disclosures to the Financial Intelligence Unit	127	129
Internal Terrorist Financing disclosures to the MLRO	0	1
External Terrorist Financing disclosures to the Financial Intelligence Unit	0	1
Section 24 disclosures to the Financial Intelligence Unit	21	6
Enquiries received from law enforcement authorities	46	44
<i>Of which were Money Laundering related</i>	29	37
<i>Of which were Terrorism related</i>	0	0
Enquiries received from other competent authorities	19	8
<i>Of which were Money Laundering related</i>	4	2
<i>Of which were Terrorism related</i>	0	0

D. Refusing and blocking services because of financial crime risk

- 5.10 Concerns relating to financial crime may lead to firms turning away a prospective customer. In the year ended 31 December 2018 TCSPs reported that they **declined to on-board 8 principals** (new relationships) because of financial crime, terrorism or sanctions related concerns (**2017: 22**). In some cases, TCSPs would not always have knowledge or suspicion of financial crime but principals (customers) may have posed an unacceptable risk.

The total number of **declined cases** equated to **less than 0.3%** of all new customer relationships established in 2018.

- 5.11 Firms are required to monitor ongoing business relationships and may cease to provide services because of their own financial crime risk appetite, or may terminate relationships under certain circumstances, including liaising with the FIU if a matter is subject to “consent¹⁹”. During the year ended 31 December 2018 **TCSPs terminated 16** existing relationships with principals because of financial crime, terrorism or sanctions related concerns (**2017: 10**).
- 5.12 In addition to terminating relationships, firms may be requested by law enforcement agencies to block or freeze accounts, or may themselves put additional controls around accounts / structures if information is required from a customer. As at the end of 2018 there were **24** accounts / structures blocked or frozen for money laundering or terrorism (**2017: 39**) with an estimated value of **£101 million (2017: £317 million)**.

Table 7: disrupting provision of services

Description	Year ended 31 Dec 2018		Year ended 31 Dec 2017	
	Number	Asset Value £'000	Number	Asset Value £'000
Number of potential new customer relationships declined for ML/FT or sanctions purposes	8		22	
Number of customer relationships terminated for ML/FT or sanction purposes	16		10	
Blocked or frozen accounts for AML/CFT purposes – subject to consent including restraint orders etc.	24	101,179	39	317,225
Blocked or frozen accounts for any other purpose (e.g. gone away)	53	401,678	51	46,968

E. The Isle of Man banking system as gatekeeper

- 5.13 When it comes to the material flow of funds into and out of the Island, the banking sector plays an important gatekeeper role. TCSPs reported the extent to which they use (themselves or for their clients) the Island’s banking system. In addition to using the Island’s banking sector, firms may also hold bank accounts for themselves, or their clients, outside the Island. Firms are also requested to explain the types of payment

¹⁹ Section 154 of the Proceeds of Crime Act provides a reporting mechanism called “an authorised disclosure”, which is a means by which a defence against money laundering can be obtained by a firm. Making an authorised disclosure can be used as the vehicle to seek consent to commit a prohibited act (i.e. possessing, acquiring, moving known or suspected criminal property).

method they accept (for inward and outward remittance, where relevant) and the extent to which they are utilised.

- 5.14 In 2018, of the **115 TCSPs, 108 (94%)** confirmed they only use the Island's banking sector for their own banking relationships. Of the other **7 (6%)**, some were part of groups with operations outside the Isle of Man.
- 5.15 The picture for client funds was quite different. Of the **115 TCSPs, 40 (35%)** reported that at least some clients' funds are held outside the Isle of Man's banking system **(2017: 42, being 37%)**.
- 5.16 The predominant (usual) payment method utilised by TCSPs were bank transfers, with a relatively high proportion also reporting occasional use of cheques. A smaller number of TCSPs reported some occasional or exceptional use of bankers' drafts and debit / credit cards. Further, in specie property transfers were utilised, albeit mostly on an occasional or exceptional basis. Cash was rarely accepted.
- 5.17 The above shows that TCSPs mostly use Isle of Man based banks for their own needs, but a material portion have client entities who have banking arrangements outside the Island. The latter shows it is even more important that TCSPs have high standards in place to prevent structures being used to facilitate money laundering or terrorist financing, as a key gatekeeper and introducer of business to other sectors.

TCSPs also mainly utilise very standard methods of payment, with limited cash activity.

- 5.18 The Island's banks report the value and number of transactions by country (for money flowing in and out of the Island) on a quarterly basis. Further information is contained in the Preventing Financial Crime report for the banking sector.

6. Managing and reporting of sanctions – TCSPs

- 6.1 It is important that firms have robust controls in place to ensure they comply with local and international sanctions. In order to help achieve this firms must have appropriate monitoring and screening tools to identify whether any of their customers (existing or prospective) are sanctioned individuals or organisations, and also to make sure funds paid / received are not made to / from sanctioned individuals or organisations.
- 6.2 At the end of 2018, **all TCSPs** confirmed that they screen for sanctions at the commencement of a business relationship, and screen their customer records on a

periodic basis to determine if a customer²⁰ has become subject to sanctions. For the latter, the frequency of screening varied with the highest proportion being either annually (or even less frequent) or ad-hoc (**51 of the 115**) rather than through automated daily monitoring (**37 of the 115**).

Despite the lower proportion conducting daily screening of their records, **100 TCSPs** confirmed they always screen their customer records at the point where sanctions lists are updated, which helps to mitigate the risks. **However, of the other 15, only one** undertook daily screening to help mitigate the risk of failing to check their records when sanctions lists are updated – indicating that some improvements in the control environment are required in this area.

- 6.3 There is always potential that firms hold the funds of sanctioned individuals or organisations, mainly because such individuals / organisations will not have been subject to sanctions when they were originally accepted as a customer. In such cases, firms may be required to block or freeze assets for financial sanctions purposes. As at the end of 2018 there were **5** accounts blocked or frozen for financial sanctions purposes (**2017: 5**), with an aggregate value of **£185k (2017: £175k)**.
- 6.4 The law requires firms to identify and report any suspected breach of sanctions²¹ to the **Financial Intelligence Unit**. In practice, these reports will be made by a firm’s MLRO or Deputy MLRO using Themis (with processes in place internally for employees to report to the MLRO / Deputy MLRO). In the year ended 31 December 2018, **3 disclosures** were made for suspected breaches of sanctions (**2017: zero**).

Table 8: managing and reporting sanctions

Description	Year ended 31 Dec 2018		Year ended 31 Dec 2017	
	Number	Asset Value £'000	Number	Asset Value £'000
Number of disclosures made for suspected breach of sanctions	3		0	
Accounts blocked or frozen in the year for financial sanctions purposes	1	40	4	145
Blocked or frozen accounts for financial sanctions purposes released in the year	(1)	(30)	0	0
Number and value of blocked or frozen accounts for financial sanctions purposes as at the year end	5	185	5	175

²⁰ For this purpose customer could relate to a corporate vehicle, a beneficial owner, director, settlor etc

²¹ With reference to the “Sanctions List”, which means the list of persons who are currently subject to international sanctions which apply in the Isle of Man: this list is maintained by the Customs and Excise Division of the Treasury of the Isle of Man.

7. Delivery of services: face to face, use of introducers and third parties – TCSPs

7.1 How a firm delivers its products and services to customers can range from direct relationships with face to face interaction before a business relationship is established, or an occasional transaction conducted, to situations where relationships are established remotely directly by the customer, or through introducers / third parties (and sometimes through more than one layer of introducer / third party).

7.2 In 2018, TCSPs reported that they on-boarded **3,210 new principals** related to **4,055 client entities (2017: 4,867 principals related to 6,796 client entities)**. Of these new relationships, **83%** was reported as direct business (including client referrals) **(2017: 77%)**, whereas introduced business accounted for **17% (2017: 23%)**.

In 2018, of the amount reported as direct business (including client referrals), 61% related to one TCSP reflective of its specific business model (2017: 69%).

7.3 In 2018, on a “best endeavours basis”, TCSPs reported that approximately **29%** of new relationships were either met by the firm or a related party to the firm **(2017: 23%)**, and **71%** of relationships were established on a non face to face basis (including through introducers) **(2017: 77%)**.

However, in 2018, of the amount established on a non face to face basis, 70% related to one TCSP reflective of its specific business model (2017: 82%).

7.4 For introduced business, the main source of introductions were from UK and Isle of Man based firms that are regulated or registered for the purpose of AML/CFT compliance. In respect of introductions from Isle of Man based firms, the most common source was from Isle of Man advocates / legal practitioners.

For relationships introduced to TCSPs, the top 5 residency of the introducers (in terms of the number of clients introduced) for both 2018 and 2017 were:-

- United Kingdom
- Isle of Man
- Ireland
- South Africa
- Switzerland

Even where introducers are utilised, TCSPs reported that, in many cases, they obtain evidence of verification of identity of the principals from the introducer, rather than

utilising the concessions available in law (relying on the introducer to hold that evidence, where an introducer is eligible to do so).

Annex 1 – Data Quality

The following matters should be noted in relation to the data provided in this report:-

- Parts of some firms' data is provided on a "best endeavours basis" and therefore cannot be considered as 100% accurate.
- The figures for customer numbers (principals), including PEPs, is based on a simple sum of individual firms' data. A customer (principal) of one firm may also have relationships with another and be counted twice in this data.
- The reporting of residency information at client entity, principal, and beneficial owner level varied meaning the data in sections 4B and 4C is not fully consistent. Further, some TCSPs changed their reporting methodology between 2017 and 2018. This has been taken into account in preparing and analysing the data, with appropriate adjustments made where required.