



**ISLE OF MAN  
FINANCIAL SERVICES AUTHORITY**

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## **Preventing Financial Crime**

**Analysis of firms' data**

**(2018 and 2019)**

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

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## 1. Introduction and Key Findings for TCSPs

- 1.1 The Isle of Man Financial Services Authority's ("the Authority") regulatory objectives<sup>1</sup> include "the reduction of financial crime". The Authority receives, and analyses, annual AML/CFT data from regulated and registered entities to help it monitor AML/CFT threats and trends in, and across, sectors. Reports are prepared to help show a view across sectors<sup>2</sup>, excluding gambling, that are subject to the Island's AML/CFT framework. The Authority also uses this information to help with its risk assessment of sectors, and individual firms.
- 1.2 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.
- 1.3 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/settlers/other key principals, TCSPs' assessment of customer risk, reporting and monitoring of financial crime and sanctions, and the use of introducers and third parties.
- 1.4 **Table 1** below provides information on the population of **TCSPs** who were required to submit the annual AML/CFT data return for December 2019 and December 2018.

**Table 1: Population of TCSP firms for the purpose of this Report**

	December 2019	December 2018
Number of TCSPs <sup>3</sup>	112	115

- 1.5 The analysis confirms that the client base is relatively diverse, with a wide geographical spread of customers (for this purpose beneficial owners, settlers 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.

<sup>1</sup> as set out in the Financial Services Act 2008 ("FSA08")

<sup>2</sup> 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.

<sup>3</sup> The population excludes professional officers, and any fund managers / administrators that also only have class 4 permissions in relation to corporate services to funds.

- 1.6 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.
- 1.7 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. The importance of TCSPs having strong and effective monitoring and control frameworks is therefore paramount.

## 2. Objectives

- 2.1 The gathering and analysis of data from firms about AML/CFT helps the Authority to achieve the regulatory objective of “*the reduction of financial crime*”.
- 2.2 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.
- 2.3 The data underpins the Island’s understanding of the wider financial crime environment and forms a key part of the National Risk Assessment process.

### 3. Customer risk profile – TCSPs

#### A. Client entity profile

- 3.1 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 2019 the total number of client entities reported was **34,456 (2018: 41,255)**. Of this, **61.4%** related to corporate vehicles (**2018: 63.6%**) and **38.6%** to trust vehicles (**2018: 36.4%**). **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)	
	2019	2018	2019	2018	2019	2018
Fully managed service	37.6%	43.4%	33.1%	32.1%	70.7%	75.5%
Part managed service <sup>4</sup>	6.9%	5.7%	1.0%	0.9%	7.9%	6.6%
Limited services <sup>5</sup>	16.6%	14.2%	4.5%	3.4%	21.1%	17.6%
Services to exempt funds <sup>6</sup>	0.3%	0.3%			0.3%	0.3%
<b>TOTAL</b>	<b>61.4%</b>	<b>63.6%</b>	<b>38.6%</b>	<b>36.4%</b>	<b>100%</b>	<b>100%</b>

- 3.2 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 **82%** of structures reported in that category in 2019 (**2018: 76%**). **Table 2b** below provides further information.

Of the client entities under management, the estimated value of “assets under management” for 2019 was **£138 billion (2018: £137 billion)**.

*Note: the overall number of client entities reported fell by 16.5% between 2019 and 2018. Although there have been some general movements across the sector, circa 50% of this decline is related to one firm which was winding down and ceased to be a reporter in 2019.*

<sup>4</sup> 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.

<sup>5</sup> This refers to the provision of registered office / registered agent services only (for companies) and trust administration only.

<sup>6</sup> 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)	
	2019	2018	2019	2018	2019	2018
Asset holding	46.0%	41.0%	36.0%	35.0%	82.0%	76.0%
Trading	6.0%	5.6%	0.2%	0.0%	6.2%	5.6%
Charitable	0.1%	0.1%	0.1%	0.1%	0.2%	0.2%
Other <sup>7</sup>	9.3%	16.9%	2.3%	1.3%	11.6%	18.2%
<b>TOTAL</b>	<b>61.4%</b>	<b>63.6%</b>	<b>38.6%</b>	<b>36.4%</b>	<b>100%</b>	<b>100%</b>

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

- 3.3 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 (**nearly 90%**), whereas there is more diversity for **corporate vehicles**, noting however that **75%** are now reported as being “Isle of Man”.

**Table 3a: residency of client entities**

PLACE OF INCORPORATION OR ESTABLISHMENT	Corporate vehicles (% of total corporate)		Trust vehicles (% of total trusts)		Other vehicles <sup>8</sup> (% of total other)	
	2019	2018	2019	2018	2019	2018
Isle of Man	75%	59%	89%	88%	66%	61%
Overseas	25%	41%	11%	12%	34%	39%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Further information pertaining to the “overseas” category is provided in **paragraph 3.5** and **table 3b** below.

- 3.4 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.

<sup>7</sup> In 2018, approximately 50% of the “other” activity for corporate vehicles related to a single TCSP due to the specific type of business conducted – this was not the case in 2019 as that TCSP had ceased to be a reporter. Other examples include dormant companies, or those in liquidation / pending dissolution.

<sup>8</sup> This includes partnerships and foundations.

3.5 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 2018 and 2019) 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	
	2019	2018
UK	27.3%	52.8%
British Virgin Islands	21.6%	12.7%
Cayman Islands	11.8%	6.5%
Jersey	5.3%	3.6%
Switzerland	3.5%	2.6%
<b>TOTAL</b>	<b>69.5%</b>	<b>78.2%</b>

*Note: In 2018, 70% of the corporate vehicles established in the UK were in connection with only one TCSP due to the specific type of business conducted – this TCSP ceased to be a reporter in 2019, hence the proportionate decline in “UK” in the above table.*

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

3.6 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 3.4 and 3.5) 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.

3.7 Of the total reported number of beneficial owners, settlors and any other key principals, the most common residency was the UK at **64.9% (2018: 65.9%)**, followed by the Isle of Man at **7.5% (2018: 7.2%)**.

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 2019	Residency at 31 December 2018
	Beneficial owners, settlor, and any other key principals	Beneficial owners, settlor, and any other key principals
Isle of Man	7.5%	7.2%
Channel Islands	0.8%	0.7%
UK	64.9%	65.9%
EU (excludes EEA and Switzerland)	7.3%	6.6%
Other Europe	2.7%	2.5%
Africa	5.9%	6.3%
Americas	4.0%	3.8%
Asia (including Middle East)	5.9%	6.2%
Oceania	1.0%	0.8%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>

**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)	
	2019	2018
UK	64.9%	65.9%
Isle of Man	7.5%	7.2%
South Africa	2.9%	3.3%
Ireland	2.8%	2.7%
United States of America	1.5%	1.5%
Kenya	1.2%	1.1%
<b>TOTAL</b>	<b>80.8%</b>	<b>81.7%</b>

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.

#### **D. Politically exposed persons and other higher risk customers**

3.8 **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. PEPs<sup>9</sup> include people with prominent public jobs who may be in a position to abuse their role for private gain.

<sup>9</sup> PEP is defined in the Anti-Money Laundering and Countering the Financing of Terrorism Code 2019.



3.9 At the end of 2019 TCSPs reported **2,694 client entities that were associated with PEPs<sup>10</sup> (2018: 2,861)**, including **2,492 with a connection to foreign PEPs (2018: 2,644)**. 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 2019	31 December 2018
Client entities who are associated with PEPs	2,694 (7.82%)	2,861 (6.93%)
<i>Of which are foreign PEPs</i>	2,492	2,644
<i>Of which are domestic PEPs</i>	202	217

3.10 At the end of 2019, **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 customer<sup>11</sup> has become a PEP. For the latter, the frequency of screening varied but was predominantly either annually (or even less frequent) or ad-hoc (**55 of the 112**) rather than through automated daily monitoring (**37 of the 112**); however, **nearly all** confirmed they always screen their customer records at the occurrence of a trigger event.

3.11 At the end of 2019 TCSPs reported **7,485 higher risk client entities (2018: 7,372)**; this includes client entities who are categorised as being higher risk for reasons other than 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.

<sup>10</sup> 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).

<sup>11</sup> For this purpose customer includes any individual connected to a client entity, for example the beneficial owner, director, settlor, etc.

**Table 4b: Higher-risk client entity relationships**

	Number of higher risk client entity relationships (total and new) (and as a % share of total / new client entity relationships)	
	December 2019	December 2018
Total higher risk client entities (includes any PEPs assessed as higher risk)	7,485 (21.7%)	7,372 (17.9%)
New higher risk client entities in the reporting period (includes any PEPs assessed as higher risk)	405 (21.3%)	488 (12.0%)

- 3.12 The proportion of total, and new, higher risk client entities as a percentage of all client entities increased in 2019 compared to 2018 (and 2017). This was however partly due to the overall client entity numbers decreasing in 2019 as explained in **paragraphs 3.2 and 3.5**.
- 3.13 Overall, compared to other sectors, PEPs and other higher risk customers represent a **relatively high proportion** of the total customer base of TCSPs (**more than 20%**).
- 3.14 The majority of TCSPs also reported that they review the customer risk assessment and CDD information for all higher risk (including higher risk PEPs) relationships at least annually.

## **4. Tackling Financial Crime – TCSPs**

### **A. Resourcing the fight against financial crime**

- 4.1 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 2019 TCSPs reported that they collectively employ **1,776 staff<sup>12</sup> in the Isle of Man (2018: 1,904)**, of which **299 (17%)** were reported as being in compliance and prevention of financial crime roles (**2018: 317 / 17%**).

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.

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<sup>12</sup> 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.

4.2 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 2019, TCSPs reported that **1,623 general refresher training places were filled (2018: 1,687)**.

This effectively represented **91%** of total staff employed (including directors) (**2018: 89%**). Further, **271** staff received induction or detailed training (**2018: 304**), effectively meaning all relevant staff received some form of AML/CFT training on an annual basis.

In addition, TCSPs reported that **387 staff (22%)** received additional specialist training (**2018: 316 / 17%**).

## **B. Outsourcing of processes to group entities or third parties**

4.3 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.

4.4 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 2019 only).

**Table 5: Outsourcing of AML/CFT activity**

Description	Undertaken by the Firm	Outsourced to Group <sup>13</sup>	Outsourced to Third Parties <sup>14</sup>
<b>Client on-boarding</b>			
<i>Customer risk assessments</i>	Yes - 99	Yes - 9	Yes - 4
<i>Collection of customer due diligence</i>	Yes – 98	Yes - 11	Yes - 3
<i>Customer screening (note 1)</i>	Yes – 98	Yes - 11	Yes - 7
<i>Customer acceptance</i>	Yes – 100	Yes - 10	Yes - 2
<b>Ongoing monitoring (note 1)</b>	Yes - 103	Yes - 10	Yes - 9
<b>MLRO &amp; Compliance activity</b>			
<i>MLRO / DMLRO activity</i>	Yes – 101	Yes - 7	Yes - 4
<i>Compliance activity (note 1)</i>	Yes – 100	Yes - 10	Yes – 5
<b>Staff screening and take-on (note 1)</b>	Yes - 89	Yes - 18	Yes - 12

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

- 4.5 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 2019, **181** 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 (**2018: 209**). In addition, **no** reports were raised which were terrorism related (**2018: none**).
- 4.6 MLROs must consider these reports, and decide whether a formal submission to the **Isle of Man Financial Intelligence Unit**<sup>15</sup> (“FIU”) is justified, and must be registered with the FIU’s “Themis” system to be able to make reports. At the end of 2019, of the **112** TCSPs (**2018: 115**), **107** reported they were registered on “Themis” (**2018: 109**). Of the five firms that did not report as being registered, none reported they made disclosures to the FIU or received enquiries from law enforcement.

<sup>13</sup> This was limited, with the exception of staff screening, to a group service company or another regulated group company.

<sup>14</sup> This was generally limited, with the exception of staff screening and the use of third party software for customer screening or ongoing monitoring, to regulated businesses in the Isle of Man with permission to provide management services.

<sup>15</sup> See <https://www.fiu.im/>

- 4.7 In 2019, after investigation by MLROs, **117** cases of knowledge or suspicion of money laundering were reported to the FIU (**2018: 127**). **No** reports were made that were terrorism related (**2018: 0**). Further, TCSPs reported **42** cases to the FIU regarding general intelligence (**2018: 21**).
- 4.8 In 2019 TCSPs handled **44** requests from law enforcement and other competent authorities (**2018: 65**). Of these, **22** explicitly related to money laundering or terrorism (**2018: 33**).
- 4.9 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 higher risk client entities and overall size of the sector.

**Table 6: Liaising with the authorities**

Description	Year ended 31 Dec 2019	Year ended 31 Dec 2018
Internal Money Laundering disclosures to the MLRO	181	209
External Money Laundering disclosures to the Financial Intelligence Unit	117	127
Internal Terrorist Financing disclosures to the MLRO	0	0
External Terrorist Financing disclosures to the Financial Intelligence Unit	0	0
Section 24 disclosures to the Financial Intelligence Unit	42	21
<b>Enquiries received from law enforcement authorities</b>	<b>26</b>	<b>46</b>
<i>Of which were Money Laundering related</i>	<i>17</i>	<i>29</i>
<i>Of which were Terrorism related</i>	<i>0</i>	<i>0</i>
<b>Enquiries received from other competent authorities</b>	<b>18</b>	<b>19</b>
<i>Of which were Money Laundering related</i>	<i>5</i>	<i>4</i>
<i>Of which were Terrorism related</i>	<i>0</i>	<i>0</i>

#### **D. Refusing and blocking services because of financial crime risk**

- 4.10 Concerns relating to financial crime may lead to firms turning away a prospective customer. In the year ended 31 December 2019 TCSPs reported that they **declined to on-board 11 principals** (new relationships) because of financial crime, terrorism or sanctions related concerns (**2018: 8**). 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 0.8%** of all new customer relationships established in 2019 (**2018: less than 0.3%**).

- 4.11 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 “consent<sup>16</sup>”. During the year ended 31 December 2019 **TCSPs terminated 20** existing relationships with principals because of financial crime, terrorism or sanctions related concerns (**2018: 16**).
- 4.12 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 2019 there were **9** accounts / structures blocked or frozen for money laundering or terrorism (**2018: 24**) with an estimated value of **£28 million (2018: £101 million)**.

**Table 7: disrupting provision of services**

Description	Year ended 31 Dec 2019		Year ended 31 Dec 2018	
	Number	Asset Value £'000	Number	Asset Value £'000
Number of potential new customer relationships declined for ML/FT or sanctions purposes	11		8	
Number of customer relationships terminated for ML/FT or sanction purposes	20		16	
Blocked or frozen accounts for AML/CFT purposes – subject to consent including restraint orders etc.	9	27,733	24	101,179
Blocked or frozen accounts for any other purpose (e.g. gone away)	36	92,265	53	401,678

## **E. The Isle of Man banking system as gatekeeper**

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

<sup>16</sup> 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).

- 4.14 **104 TCSPs (93%)** confirmed they only use the Island's banking sector for their own banking relationships (**2018: 108, being 94%**). Of the other **8 (7%)**, some were part of groups with operations outside the Isle of Man (**2018: 7, being 6%**).
- 4.15 The picture for client funds was quite different. Of the **112 TCSPs, 36 (32%)** reported that at least some clients' funds are held outside the Isle of Man's banking system (**2018: 40, being 35%**).
- 4.16 The predominant (usual) payment method utilised by TCSPs were bank transfers, with a relatively high proportion (about 50%) 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.
- 4.17 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.
- 4.18 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.

## **5. Managing and reporting of sanctions – TCSPs**

- 5.1 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.
- 5.2 At the end of 2019, **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 customer<sup>17</sup> 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 (**48 of the 112**) rather than through automated daily monitoring (**41 of the 112**).

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<sup>17</sup> For this purpose customer could relate to a corporate vehicle, a beneficial owner, director, settlor etc

Despite the lower proportion conducting daily screening of their records, **98 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 14, 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 still required in this area.

- 5.3 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 2019 there was **1** account blocked or frozen for financial sanctions purposes (**2018: 5**), with an aggregate value of **£40k (2018: £185k)**.
- 5.4 The law requires firms to identify and report any suspected breach of sanctions<sup>18</sup> 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 2019, **1 disclosure** was made for suspected breaches of sanctions (**2018: 3**).

**Table 8: managing and reporting sanctions**

Description	Year ended 31 Dec 2019		Year ended 31 Dec 2018	
	Number	Asset Value £'000	Number	Asset Value £'000
Number of disclosures made for suspected breach of sanctions	1		3	
Accounts blocked or frozen in the year for financial sanctions purposes	0	0	1	40
Blocked or frozen accounts for financial sanctions purposes released in the year	(4)	(145)	(1)	(30)
Number and value of blocked or frozen accounts for financial sanctions purposes as at the year end	1	40	5	185

<sup>18</sup> 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.



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

6.1 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).

6.2 In 2019, TCSPs reported that they on-boarded **1,310 new principals** related to **1,895 client entities (2018: 3,210 principals related to 4,055 client entities)**. Of these new relationships, **54%** was reported as direct business (including client referrals) **(2018: 83%)**, whereas introduced business accounted for **46% (2018: 17%)**.

The change in profile in 2019 compared to that in 2018, both in terms of total new principals / clients, and the mix of business, was materially influenced by the following:-

- In 2018, of the amount reported as direct business (including client referrals), 61% related to one TCSP reflective of its specific business model – this TCSP ceased to be a reporter in 2019; and
- One TCSP reported an increase in introduced business in 2019 which arose from a client transfer arrangement in the period.

6.3 In 2019 TCSPs reported that approximately **59%** of new relationships were either met by the firm or a related party to the firm **(2018: 29%)**, and **41%** of relationships were established on a non face to face basis (including through introducers) **(2018: 71%)**.

The change in profile in 2019 compared to that in 2018 was materially influenced by the following:-

- In 2018, of the amount reported as established on a non face to face basis, 70% related to one TCSP reflective of its specific business model – this TCSP ceased to be a reporter in 2019.

6.4 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 (number of introducers) 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 2019 and 2018 were:-

- United Kingdom
- Isle of Man
- Cyprus (*new to top 5 in 2019*)
- Ireland
- South Africa
- Switzerland (*not in top 5 for 2019*)

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:-

- The report is based on data provided by firms; the Authority does not check the accuracy of data for every firm but may raise questions with firms.
- 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 3B and 3C is not fully consistent.