



ISLE OF MAN FINANCIAL SERVICES  
AUTHORITY

# Foreign PEP Thematic Webinar

17 May 2023

# Presenters



ISLE OF MAN  
FINANCIAL SERVICES AUTHORITY

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This morning's webinar by the Isle of Man Financial Services Authority will be hosted by:



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## Agenda

- Key points
- Regulatory Objectives
- Where it started
- Phase 1 findings
- Phase 2 findings
- Summary of good practice
- Questions

# Key Points

- Foreign PEP customers only
- Sample of firms involved:
  - Data – 91 firms
  - Inspections – 29 firms
- Range of findings – context in individual inspection reports. Reports – exception only.
- Please review the published report and implement the learning points – use AML/CFT Handbook



# Regulatory Objectives

- Protecting consumers
- Reducing financial crime
- Maintaining confidence in the financial services sector through effective regulation



# Where the project started (2020)

- National Risk Assessment
- Several years of AML/CFT statistical data
- MONEYVAL
- Supervisory inspections – findings



# How we selected – Phase 1 (2021)

- AML/CFT Statistical Returns
- 97 licenceholders or DNFBPs included (data received from 91)
- Phase 1 was a data collection exercise
- Multiple data points obtained specific to foreign PEPs
- Data on residency and nationality of foreign PEPs



# What we found out – Phase 1

Sector	Number of entities per sector	Number of PEP Customers	Number of unique PEPS
Banking	8	1,722	1,802
Designated Business	13	654	338
Fiduciary Services	33	2,130	1,469
Funds	2	20	37
Investment Business	8	139	77
Life	20	6,858	6,286
Retirement Benefit Schemes Administrator	5	3	3
Services to Collective Investment Scheme	2	22	92
<b>Grand Total</b>	<b>91</b>	<b>11,548</b>	<b>10,104</b>

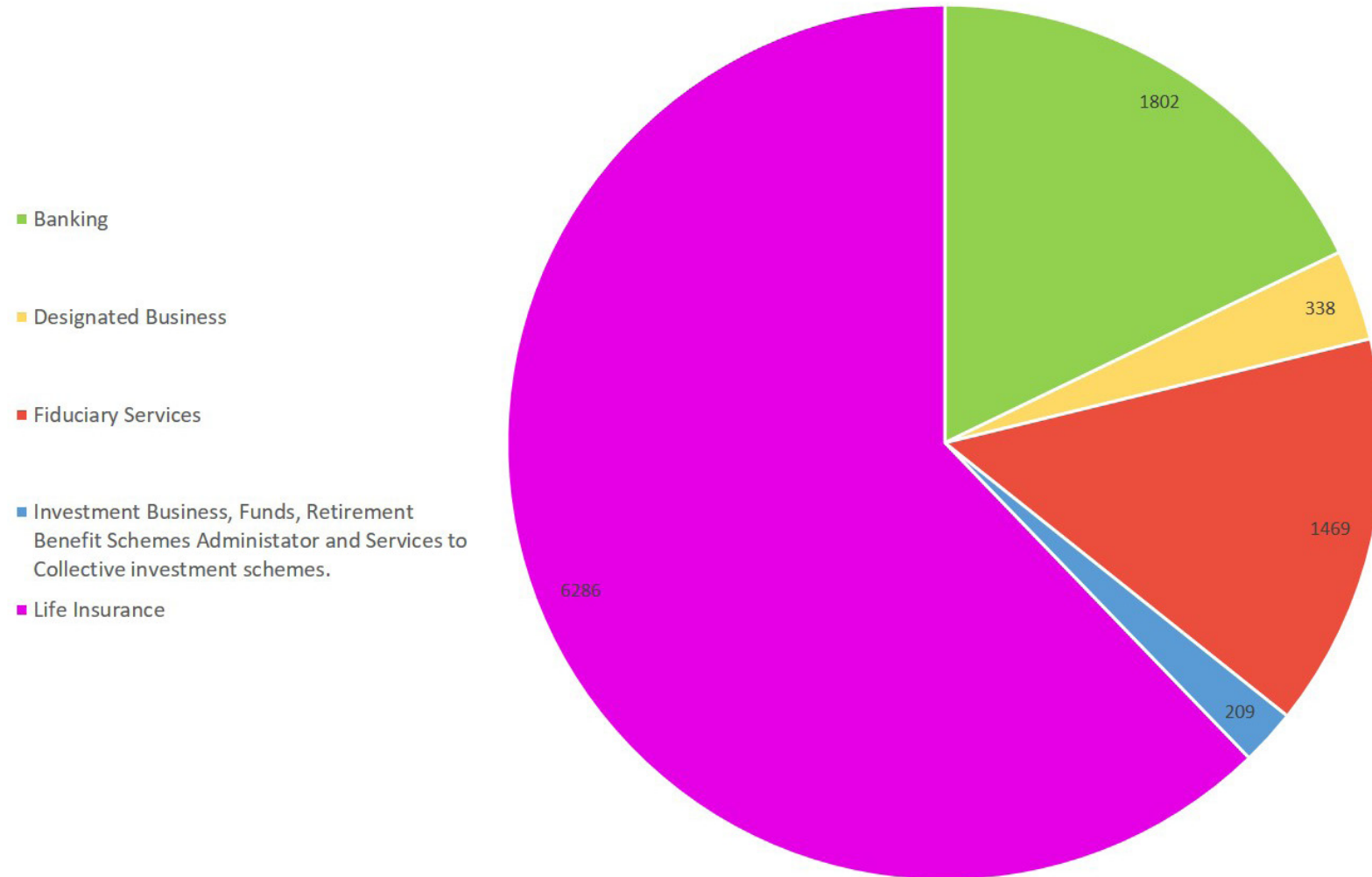
62%  
Life

18%  
Banks

15%  
TCSP



# What we found out – Phase 1



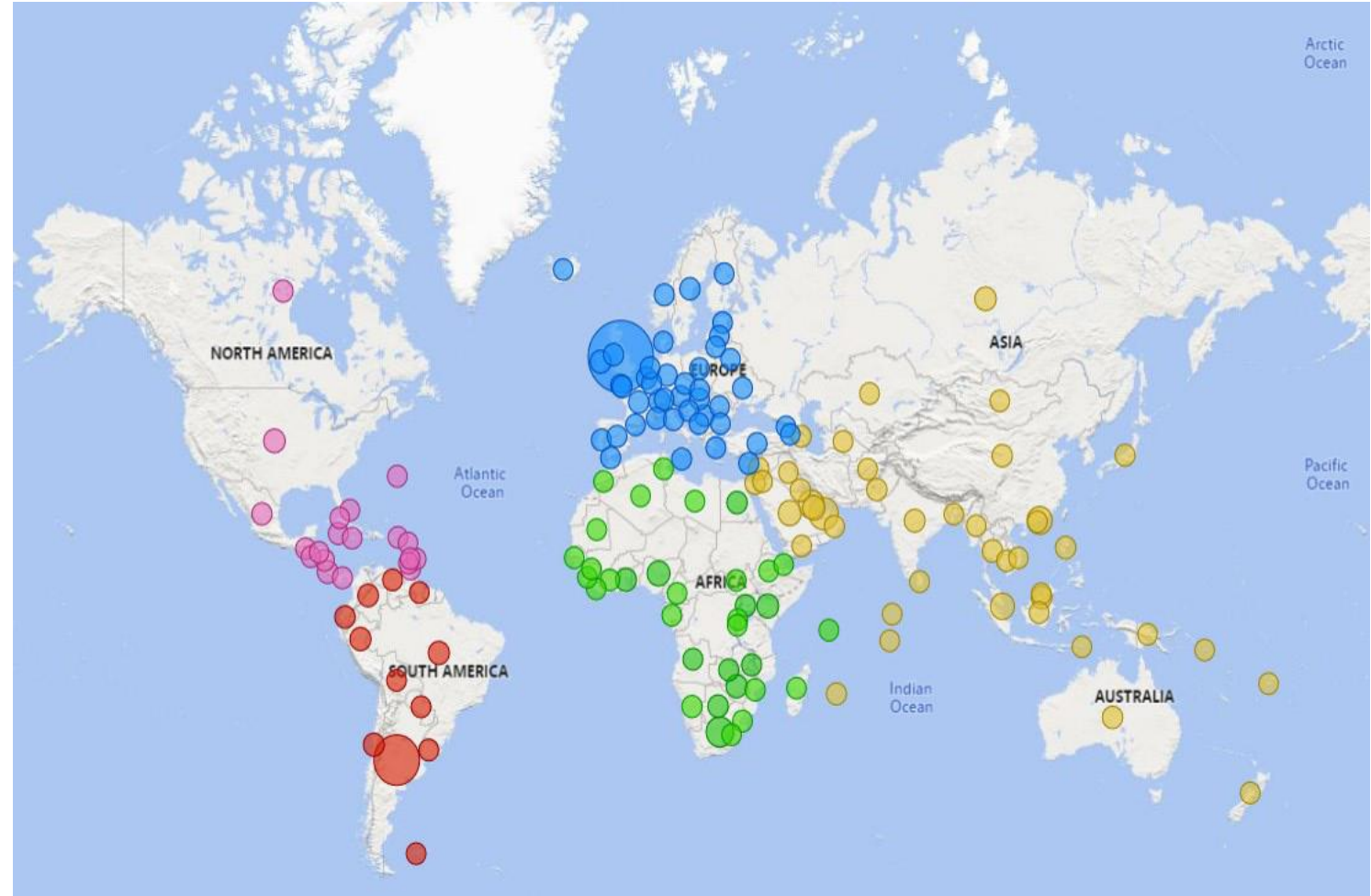
Most common role held: Senior member of an administrative, management or supervisory body of a state owned enterprise

# What we found out – Phase 1

- 10,000 FPEPs approx. and only 44 external SARs in previous 2 years
- 33% didn't ask upfront if customer was a PEP
- 65% didn't state in TOB customers to advise if they become a PEP during the relationship
- Note that 5% don't use third-party screening system
- Only 6% have made external disclosures
- 71 relationships declined from PEP customer population of 10,000 (0.71%)
- 100% maintain a PEP register

# What we found out – Phase 1

Country of PEP Residence	No. of FPEPs
United Kingdom	2713
Argentina	1545
United Arab Emirates	574
South Africa	457
Bahrain	364
Hong Kong	331
Singapore	261
Saudi Arabia	204
Nigeria	192
Qatar	158
Kenya	133
United States of America	119
Russia	117
Zimbabwe	97
Brazil	93



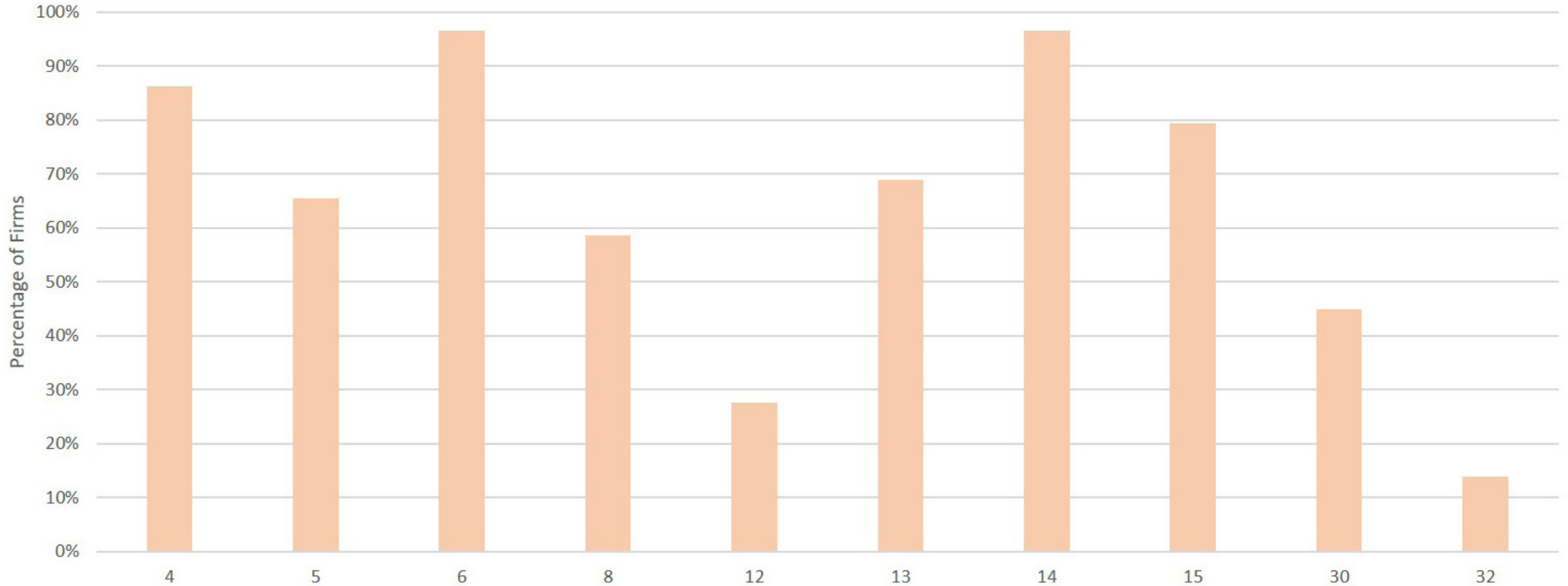
# How we selected – Phase 2

- Analysis of the Phase 1 questionnaires, with a number of key risk indicators being considered, including:
  - Number of unique foreign PEPs
  - Number of PEP accounts vs unique foreign PEPs
  - Number of PEPs identified via onboarding vs post establishment
  - Risk rating of foreign PEP relationships
  - Declined and terminated foreign PEP relationships
  - Disclosures related to foreign PEPs
  - Country of residence of the PEPs
  - 29 firms progressed to Phase 2 of the foreign PEP Thematic

# What we looked at – Phase 2 (2022)

BRA	<i>(para 5)</i>
CRA	<i>(para 6)</i>
New business relationships, inc. SOF, CDD and ECDD	<i>(paras 8, 12, 15)</i>
PEP requirements, inc. SOW	<i>(para 14)</i>
Ongoing monitoring, scrutiny of transactions and SOF	<i>(para 13)</i>
Assurance reporting and testing	<i>(para 30)</i>
Staff training	<i>(para 32)</i>

# What we found out – Phase 2



# What we found out – Phase 2

## ○ BRA

- Not considering risks posed by FPEPs
- Not referring to the CRAs undertaken (e.g. how many customers come out as high risk and what % that is)

## ○ CRA

- Tick-box and no narrative – not always including requirements from Code
- No procedures / guidance for staff



# What we found out – Phase 2

- **SOF**
  - Not covering both aspects of SOF – bank account information AND activity
  - Confusing SOF and SOW
- **PEP requirements**
  - No evidence of senior management approval
  - Not determining PEP status when should have
  - Not undertaking enhanced monitoring (i.e. same as all customers)





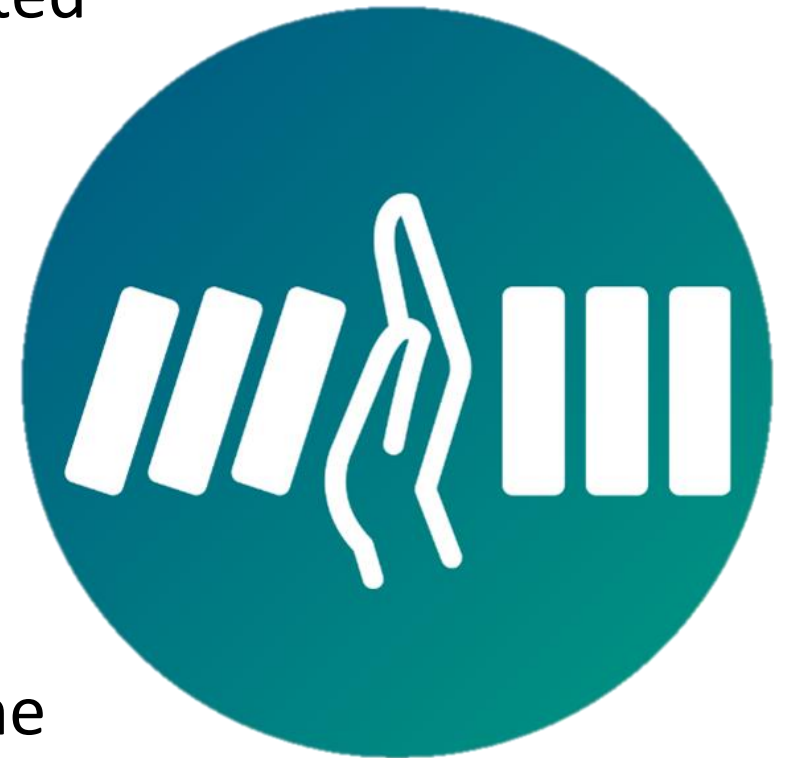
# What we found out – Phase 2

## ○ **CDD**

- Not documenting why docs have been accepted when they differ to procedures and controls
- Not taking reasonable measures to verify or detailing the RBA taken

## ○ **ECDD / SOW**

- Not taking reasonable measures to establish SOW of FPEPs
- ‘Deferring’ or putting off ECDD / SOW until the next ‘trigger event’



# What we found out – Phase 2

- **Ongoing monitoring**
  - Not sticking to review periods set out in procedures and controls – and not highlighting backlogs
  - Not scrutinising transactions or being able to evidence scrutiny
- **Assurance Reporting & Testing**
  - Ineffective monitoring in some cases
- **Staff training**
  - Not many have done PEP-specific training
  - No major findings



# A summary of good practice

- Ensure you have the right calibre of staff with appropriate skills
- Documented procedures/controls – version history & signed off
- Ensure BRA/TRA/CRA are in a continuous feedback loop
- All risk assessment must have a commentary & assessment of risk
- Include explicit details of customer base in BRA
- Ask the customer if they are a PEP
- Have robust screening measures in place
- Maintain an up to date PEP register
- Understand the full business relationship
- Clearly differentiate between SOF and SOW
- Conduct enhanced monitoring



# Next steps

- **PEP thematic exercise**
  - Consideration of any further action;
  - Work with firms on remediation;
- **Supervisory methodology**
  - Transition to new Methodology
  - Statistical Returns & Data Automation
- **Continuation of AML/CFT inspections**
  - BRA thematic – TCSP sector;
  - Risk based inspection scheduling;
  - AML/CFT Return.



# Questions



Email your questions to [aml@iomfsa.im](mailto:aml@iomfsa.im)



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# Feedback / Questions

[aml@iomfsa.im](mailto:aml@iomfsa.im)

## Published report

<https://www.iomfsa.im/media/3147/aml-pep-thematic-report-05-05-2023.pdf>