

# The Cayman Islands ML/TF NRA

CARA/CILPA Session  
Walkers (190 Elgin Avenue)  
26<sup>th</sup> June 2019

# AML/CFT Risk Framework

- ❧ IO.1 - ML/TF risks are understood and actions taken to combat ML, TF and PF
- ❧ Core Issue 3.2 - How well do the supervisors identify and maintain an understanding of the ML/TF risks in the financial and other sectors as a whole, between different sectors and types of institution, and of individual institutions?
- ❧ Core Issue 4.1 -How well do financial institutions and DNFBPs understand their ML/TF risks and AML/CFT obligations?
- ❧ Core Issue 4.2 How well do financial institutions and DNFBPs apply mitigating measures commensurate with their risks?

# AML/CFT Risk Framework

⌘ Core Issue 5.2 – How well do the relevant competent authorities identify, assess and understand the vulnerabilities, and the extent to which legal persons created in the country can be, or are being misused for ML/TF?

# AMLR 8 - Institutional Risks

8. (1) A person carrying out relevant financial business shall take steps appropriate to the nature and size of the business to identify, assess, and understand its money laundering and terrorist financing risks in relation to -
- a) a customer of the person;
  - b) the country or geographic area in which the customer under paragraph (a) resides or operates;
  - c) the products, services and transactions of the person; and
  - d) the delivery channels of the person.

# AMLR 9 (New Technologies Risks)

- ⌘ A person carrying out relevant financial business in respect of new products and business practices, new delivery mechanisms and new or developing technologies shall –
- a) undertake assessment of risk prior to the launch or use of the new products and business practices, new delivery mechanisms and new or developing technologies; and
  - b) take appropriate measures to manage and mitigate risks.

# NRA 2015

- ❧ Commissioned by CIG, through the Attorney General's Chambers, and with the collaboration of the Ministry for Financial Services and CIMA.
- ❧ World Bank provided technical assistance (and template) in conducting this very first NRA.
- ❧ Coordinated by the Anti-Money Laundering Unit (AMLU).
- ❧ Eight working groups, with sectoral vulnerabilities groups that included representatives from industry.
  - National Threats, National Vulnerabilities, Banking Sector, Securities Sector, Insurance Sector, Other Financial, DNFBPs, Technical Compliance & Effectiveness
- ❧ Period of review: 2012 to 2015

# National Threats

⌘ Domestic: theft, corruption and drug trafficking.

⌘ Foreign:

- Fraud
- Tax evasion
- Drug trafficking

# National Vulnerabilities

- ✧ Less than fulsome implementation of the risk-based approach to AML/CFT regulation.
- ✧ Shortcomings in domestic cooperation among government agencies at the operational level, notwithstanding strong inter-agency cooperation at the policy level.
- ✧ Lack of supervision of relevant DNFBPs
- ✧ Sanctions and enforcement in need of enhancements
  - Inadequate investigative resources.
  - Lack of administrative fines.
  - Tax crimes not criminalised (at the time).



# Financial Sector Vulnerabilities

Thematic Area	Vulnerability Score (0.00 to 1.00) (Low to High)	Vulnerability Level
Insurance	0.54	Medium
Banking	0.61	Medium High
Securities	0.73	Medium High
Other Financial Institutions	0.57	Medium

# Securities Sector Vulnerabilities (0.73)

- ✂ Limited supervision of some categories of SIBL EPs
- ✂ Mutual fund activities take place outside the jurisdiction.
- ✂ Unregulated entities: exempt funds, private equity, SPVs and structured finance products.
- ✂ High use of intermediaries, some of which are unregulated.

# Banking Sector Vulnerabilities (0.61)

- ⌘ Fifth largest banking centre in the world, and inter-connectivity with the global economy.
- ⌘ Vital role banks play in cross-border transfer of funds (wire transfers).
- ⌘ Banks with no physical presence in the Cayman Islands.

# DNFBP Sector Vulnerabilities

Thematic Area	Vulnerability Score	Vulnerability Level
Lawyers	0.56	Medium
Accountants	0.28	Medium Low
Real Estate	0.41	Medium
Dealers of Precious Metals and Precious Stones	0.41	Medium
Trust and Corporate Service Providers	0.57	Medium

# Trust & Corporate Service Providers Vulnerabilities (0.57)

- ⌘ Sophisticated transaction structures (multiple jurisdictions).
- ⌘ Misuse of corporate vehicles.
- ⌘ Beneficial ownership.
- ⌘ Reliance on third parties for CDD.

# Lawyers' Vulnerabilities (0.56)

- ⌘ Lawyers not supervised for AML/CFT purposes (outside of TCSP activities).
- ⌘ Segments of “relevant financial business” conducted by lawyers are not subject to AML/CFT supervision.

# MER Recommended Actions for IO.1

- ⌘ Update the NRA and strengthen analysis:
  - Subsectors subject to limited supervision (e.g. SIBL EPs) or no supervision
  - Legal persons or arrangements that can be created in the Cayman Islands
  - Cayman as an international financial centre
  - Terrorist Financing
- ⌘ Initiate a comprehensive analysis and assessment of those sectors subject to limited supervision (e.g., SIBL EPs) as well as legal persons and arrangements.
- ⌘ Provide detailed and effective communication of the risks and vulnerabilities existing in the jurisdiction, such as those identified in the NRA, to the private sector and the wider public. Provide greater outreach and guidance to the private sector.
- ⌘ Greater resources for CIMA, FRA and FCU.
- ⌘ The membership of AMLSG and the IACC should be strengthened, by including the ACC.
- ⌘ Review and prioritise the objectives of the National AML/CFT Strategy, and develop a prioritised action plan that includes (but not limited to) the risk-based allocation of resources.

## 10.4 (Preventative Measures)

### Recommended Actions

- ❧ All FIs and TCSPs (and DNFBPs) should ensure that their institutional ML/TF risk assessments are adequately documented and updated on a periodic basis. AML/CFT policies and procedures should be updated in accordance with required periodic institutional risk assessments.
- ❧ FIs and TCSPs (and DNFBPs) should implement adequate ongoing monitoring systems which can specifically identify trends that are synonymous with the misuse of legal persons and arrangements.
- ❧ Lawyers, in particular, those that do not have any affiliation with licensed TCSPs, should be supervised for AML/CFT compliance



# The End

☞ Any questions?