13 March 2020

NOTICE

RE: Combined Sectoral Risk Ratings

Sector Specific Risk Assessments

1. In 2019, the Cayman Islands Monetary Authority ("Authority" or "CIMA")) conducted a risk assessment of the risks of money laundering ("ML") and terrorist financing ("TF") in the various financial sectors under the supervision of the Authority. The Authority devised a list of inherent risk indicators for each sector and surveyed its licensees and registrants (i.e., previously defined Excluded Persons under the Securities and Investment Business Law "SIBL EPs") to obtain data in order to assess the inherent risks of ML and TF in each sector, that is, the risks before the application of any controls, mitigants or oversight. This memorandum presents the results of the sector risk assessment.

2. Each sector was rated on a scale of Low, Medium Low, Medium High and High against the 5 inherent risk areas recommended in the FATF 40 Recommendations, namely:

   - Nature, size and complexity of business
   - Transactions, Products and Services
   - Delivery Channels
   - Customer types
   - Geographic risks

3. The table below summarizes the ratings assigned on each risk factor in each sector assessed. The rest of this memorandum provides the rationale for the risk ratings assigned. These assessments inform CIMA's risk-based approach to Anti-Money Laundering and Counter Terrorist Financing ("AML/CTF") supervision with greater resources applied to the sectors and entities that pose the largest risk. AML/CTF sectoral risk will be mitigated by entities fully adhering to regulation and CIMA's close supervision and enforcement of compliance.

Table 1 – Overview of Risk Ratings

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	Banking Category A	Banking Category B	MSB	Trust Service Providers	Corporate Service Providers	Insurance	Mutual Fund Administrators	Securities Licensees	SIBL (EPs)
Structural									H
Nature, size, complexity	L	MH	MH	MH	MH	L	MH	MH	
Transactions, products and services	ML	MH	H	H	MH	ML	MH	H	MH
Delivery channels	ML	ML	ML	MH	ML	MH	MH	MH	MH
Customer types	ML	H	MH	MH	ML	ML	ML	MH	MH
Geographic risks				ML	ML	L	ML	MH	ML
Overall Risk	**ML**	**MH**	**MH**	**MH**	**MH**	**ML**	**MH**	**MH**	**MH**
				MH					

Banks

Survey Overview

Number of entities in the sector	132
Total Assets	US$626 billion
Number of Customers	152,000
PEP customers	1692
Customer nationalities	Customers are spread across 194 countries in total
Rating Assigned for Sector	Medium-High (Cat A: Medium-Low Cat B: Medium-High)

Overview of Sector

4. The Cayman Islands is the eleventh largest financial centre in terms of international assets and liabilities. While the banking sector is not complex, and business is largely conducted with other banks in well-regulated jurisdictions, the size and nature of an international financial centre carries potentially high inherent risks.

5. Most of the sector is comprised of Category B international banks conducting treasury services for group branches in the Americas with very few engaged in trade finance. The domestic market is serviced by 6 retail banks that combined represent less than 15% of total sector assets.

6. Given the greater number and treasury focus of Category B international banks, higher risk customer types are low across the sector in terms of population and assets. However, Category B banks customer risk was assessed as high due to the international customer base, and the large percentage of high net worth individuals ("HNWIs"), Politically Exposed Persons

("PEPs"), foreign beneficial owners and corporate customers. Category A banks' customer risk was assessed medium low due to the client profile of their customers: most customers are natural and local persons and there is limited exposure to high risk customer types, such as foreign PEPs, HNWIs, trusts, etc.

7. Customer acceptance and due diligence are carried out predominantly face-to-face or by a designated group entity. The reliance on a third party for an AML/CFT related function is rare.

Inherent Risk Summary

Risk factor	Risk increasing aspects	Risk decreasing aspects
Nature and size of the sector	• International business • No physical presence • Parent company in high-risk jurisdiction • High volumes of transactions	• Domestic Business • Strong and long-standing physical presence • Low volumes of transactions
Types of Customers	• Trusts • Companies with complex structures • High net worth individuals • Politically Exposed Persons (PEPs) • Non-profit organizations (NPOs) • Customers based in/controlled or owned by persons based in high-risk jurisdictions • Large overseas customer base	• Predominantly domestic natural person customer base • Stable well-known customer base • Simple customer type (mainly individuals) • Government entities in non-high-risk countries • Customers based in countries with robust AML/CFT systems • Regulated intragroup customers
Transactions, products and services	• High complexity products • High value products • High volumes of transactions • Private banking • Trade finance • Cash • Acceptance of crypto currencies • Transactions coming from or going to high-risk	• Low volume of transactions • Simple domestic business • Intragroup transactions • Low complexity products • Transactions carried out in and/or with countries with robust AML/CFT systems

	jurisdictions	
Delivery channels	• No face-to-face onboarding • No direct customer interaction • Customer Due Diligence carried out by other institutions • Use of intermediaries and introducers	• Face-to-face onboarding

Nature, Size & Complexity of Business

8. The Cayman Islands is a developed and sophisticated international financial centre. As at the end of September 2019, there were 132 banks comprised of 10 Category 'A' Banks (6 retail and 4 non-retail) and 122 Category 'B' Banks, the latter of which are restricted from engaging in banking business with residents. Collectively, the banks represent approximately 45 countries across the globe.

9. Most of the 122 Category B banks are branches or subsidiaries of established international financial institutions. Only few Category B banks are structurally tied to high risk jurisdictions by way of their ownership or corporate set-up, 6 of the 122 Category B banks have a parent company or shareholder from a regional high-risk jurisdiction and 17 out of the 122 Category B banks indicated that they would maintain a branch, subsidiary, affiliate or sales office in a high-risk country. Both statements concern predominantly regional high-risk countries.

10. Thirty-three (33) of the Category B banks have a local presence in the Cayman Islands. The remaining 89 Category B banks do not have a local presence but are part of globally regulated financial groups. 45 of the 122 Category B banks provide exclusively intra-institutional business and are thus considered to have a lower inherent risk as they are not conducting business or transactions "for or on behalf of a customer" as required under the FATF definition of "financial institution". This translates into 37% of Category B banks being assessed as low risk. As of September 2019, USD 216 billion or about 35% of the total amount of assets held by Cayman Islands licensed banks related to Category B Banks conducting exclusively intra-institutional business.

11. While the number of Category B banks has declined significantly in recent years, a medium-high risk remains for this sub-sector due to the international nature of the business catered to, the complexity of many Category B group bank structures, the significant number of licensees without a physical presence, and the international control and ownership structure as outlined above. Based on the above outlined factors related to nature and size of Category A, Category A banks display a low risk in this category.

Risk rating: Category A: Low   Category B: Medium-High

Transactions, Products & Services

12. Cayman Islands banks transact with most countries in the world. From the data analyzed the transaction risk is higher in Category B Banks than in Category A Banks as the former process almost 100% of all cross-border transactions. With regards to transactions through Category B banks, the Cayman Islands places some reliance on the fact that the main

originating/recipient countries of cross-border funds flows are the US, Canada, and the UK, all of which were positively assessed by the FATF.

13. While both Category A and Category B banks have correspondent relationships with non-group entities, and offer products and services that would generally considered to have higher risk, Category B banks have a higher volume of high-risk products and services as compared to Category A banks as outlined in the previous paragraphs. The low numbers of trade finance transactions decrease this vulnerability for ML/TF somewhat. For transactions, products and services, the assessment results in a medium-high risk rating for Category B banks and a medium-low risk rating for Category A banks.

Risk rating: Category A: Medium-Low Category B: Medium-High

Delivery Channels

14. Category B banks are more exposed to delivery channel risks than Category A banks. 8 Category B banks offer onboarding services via online platforms predominantly to customers in the Cayman Islands, the United States, Brazil and Indonesia. However, the total number of such customers onboarded online amounted to 4,200 or about 3% of the entire banking sector, of which 77% of those customers were reported by one Brazilian bank, whilst the Indonesian banks reported 13 customers only. Therefore, the risks associated with the use of online platforms by Category B banks is low. The majority of the Category B banks reported that most of their customers were onboarded directly by the banks.

15. Online onboarding and reliance on non-group introducers is limited. Introduction within the group is very common. This ML/TF risk therefore depends on the level of compliance by the group entities. This risk is partially mitigated by the fact that group entities that provide introducing services are in countries with well-established regulatory regimes/non-high-risk countries. As such, the risk for delivery channels has been rated medium-low for both Category A and Category B banks.

Risk rating: Category A: Medium-Low Category B: Medium-Low

Customer Types

16. Category A Banks have most bank customers in terms of absolute numbers. Approximately 113,000 customers or 74% of the total customer base of the Cayman Islands' banking sector is serviced by Category A banks. 90,900 or 80% of these are natural persons/individuals, the vast majority (80%) from the Cayman Islands and accounting for approximately 80% of the assets held by the subsector. The remaining 20% of natural person customers come from 160 different countries, with approximately 1,000 customers (less than 1% of the total customer base of the subsector) from a high-risk country, accounting for 1.2% of the total assets held by the subsector.

17. The natural person customer base of Category A banks includes 1,161 high-net worth individuals. 60% of them are from the Cayman Islands, accounting for 85% of the assets held by high-net worth individuals, and 2% from a high-risk country. Category A banks have approximately 1,100 PEPs customers and beneficial owners. 70% of them are from the Cayman Islands and 0.7% are from a high-risk country.

18. The remaining 22,150 customers of Category A banks comprise governments and various types of legal entities and legal arrangements, including about 800 trusts of which less than 4% are from a high risk country; and 954 NPOs, only 8 of which are from outside the Cayman Islands and none from a high-risk country. Customers further include a total of 7,431 financial institutions and non-financial institutions. Of the remaining customers, about 1,747 or about

1.5% of all Category A bank customers are legal entities involved in higher risk, such as Special Purpose Vehicles, companies involved in the defense industry, the oil and gas industry, the mining industry, the shipping industry or the construction and development industry.

19. Category B banks have a much smaller share of the banking sector's customers in terms of absolute numbers. Compared to Category A banks, however, Category B banks have a large share of the international, high-net worth, and corporate customer base. The subsector services approximately 39,000 customers or 26% of the total customer base of the Cayman Islands' banking sector, with a mix of about 4,000 Cayman Islands customers and the 35,000 customers located in 130 different countries. Of the 39,000 customers, 43% are natural persons. The remaining customer base comprises legal entities and legal arrangements.

20. Category A banks have a medium-low customer risk exposure due to the client profile of their customers: most customers are natural and local persons and there is limited exposure to high risk customer types, such as foreign PEPs, HNWIs, trusts, etc. Customers of Category A banks have a lower geographic location risk exposure, with only few customers being from a high-risk country. After consideration of all types of customers of Category A banks, the assessment concludes that Category A banks have a medium-low risk exposure in the category of customers.

21. The assessment for Category B banks results in the rating of high regarding customer risk exposure. The risk drivers are the almost exclusively international customer base, and the large percentage of high net worth individuals, PEPs, foreign beneficial owners and corporate customers. While there are a large number of Category B banks that focus on foreign institutional group or non-group customers, and as such pose lower risk due to being licensed, regulated and supervised abroad, a small institutional client base that stems from predominantly regional high-risk countries increase the risk in this category. The customer assessment has also considered high net worth individuals that do form a significant share of Category B banks' customer base. From a geographic perspective, the exposure of Category B banks to high risk countries is limited, with customers coming mostly from non-high-risk jurisdictions or, to a limited extent, from high risk jurisdictions in the region.

Risk rating: Category A: Medium-Low   Category B: High

The overall ML/TF risk for the banking sector is assessed as Medium-High

Money Services Business

Survey Overview

Number of entities in the sector	3
Outward remittances (July 2018- June 2019)	US$255 million
Main remittance countries	Jamaica, Philippines, Honduras
Rating Assigned for Sector	Medium-High

Overview of Sector

22. All MSBs in the Cayman Islands are licensed and regulated by CIMA in accordance with the Money Services Law (the "MSL"). The MSL defines a money services business as (a) the business of providing in or from within the Islands any of the following services; money transmission, cheque cashing, currency exchange, the issuance, sale or redemption of money

orders or traveler's cheques and such other services as the Governor in Cabinet may specify by notice in the Gazette or (b) the business of operating as an agent or franchise holder of a business mentioned in (a).

23. As of September 2019, the Cayman Islands had a total of five (5) licensed MSBs, of which only three (3) were active in the provision of money services business. The MSBs cater primarily to the resident domestic market.

Risk factor	Risk increasing aspects	Risk decreasing aspects
Nature, scale, diversity and complexity of the sector	• Nature, size and complexity of the MSBs sector. • High volume of transactions within the sector.	• Size of the MSBs sector is small relative to the financial services industry. • Volume of transactions by the sector is low.
Types of Customers	• Counterparties sanctioned by a competent authority for non-compliance with AML/CFT regimes. • Politically Exposed Persons (PEPs). • Non face-to-face customers. • Customers that use agents with no information to identify the beneficial owner of the funds. • Customers sending/receiving money to countries they do not have apparent ties. • Customers from countries: ‣ known to fund/support for terrorist activities or have terrorist organisations operating within them. ‣ with significant levels of organized crime, corruption, or other criminal activities. ‣ subject to sanctions, embargoes or similar measures issued by international organisations. ‣ with weak governance, law enforcement, and regulatory regimes	• Low risk counterparties regulated by competent authorities. • Face-to-face customers. • Customers with readily available PAYEE/PAYER address, contact information etc. • Customers not subject to law enforcement sanctions. • Customers sending/receiving money from family members in their home countries. • Customers from low risk countries
Transactions, products and services	• Products or services that permit the exchange of cash for a negotiable instrument, such as a stored value card or a money	• Less complex products or services offered. • Products or services that do

	order. • Products or services that may inherently favour anonymity. • Products that can readily cross international borders, such as cash, online money transfers, international transfers by mobile phone. • The global reach of the product or service offered. • The complexity of the product or service offered.	not permit the exchange of cash for a negotiable instrument, such as a stored value card or a money order. • Low transaction limits.
Delivery channels/ agent risk	• Agents representing multiple MSBs. • Agents in higher-risk jurisdiction or serving high-risk. • Agents with PEP status. • Agents subject to negative attention or law enforcement sanctions. • Agents with weak compliance functions.	• Limited use of agents as a business model. • Agents representing only one MSB. • Agents in low risk countries. • Agents' transaction volumes are consistent with their typical past volume.

Nature, Size & Complexity of Business

24. The three licensed MSBs utilize a number of agents. Money services business generally involves 'one off transactions' but they also have a number of regular/repeat customers.

25. During the period July 2018 - June 2019 the data indicates that the MSBs processed about US$255 million in remittances, comprising of US$247 million of outgoing remittances and US$8 million of incoming remittances. MSBs play a vital role to the expatriate community through the provision of a platform for the remittance of financial support to their families especially to those countries where the population of the unbanked is still high. However, the MSBs sector is by far smaller than the banking sector as far as the volume of transactions, complexity of operations, global interconnectedness and the number of licensed operators is concerned. The small number of the MSBs operating in the Cayman Islands with a narrow array of products and services coupled with the simple business models reduce vulnerabilities in this category from a generic high risk to medium-high risk.

Risk Rating: Medium-High

Transactions, Products & Services

26. The Cayman Islands MSBs transact with residents from a number of countries in the world who live and work in the jurisdiction. This leaves the MSBs sector at risk of being misused for ML/TF. The fact that the largest volume of funds come from or are sent to Jamaica, Philippines, Honduras and the United States, countries which are well represented in the

expatriate community, does not necessarily imply that there is no risk in these transactions. However, the Cayman Islands places reliance on the fact that these countries were positively assessed by the FATF, with the only concern being the Philippines which appears on top 20 Global Terrorism Index. The positive correlation between the geographic distribution of the customers' nationalities and the remittances by country decrease this vulnerability for ML/TF to an extent, as the foreign residents of the Cayman Islands generally maintain close family ties with their countries of origin. While transactions have been rated medium-high risk, the overall risk rating for transactions, products and services has been determined as high risk due to the cash intensive nature of the products.

Risk rating: High

Delivery Channel for Products & Services

27. All the transactions undertaken are face-to-face, but agents are utilized and automated software is used for transaction monitoring.

28. In total, the three (3) MSB licensees operate their businesses through twelve (12) domestic agents, with seven (7) domestic branches.

29. The total number of outsourced functions is four (4), namely: compliance, anti-money laundering reporting officer, transaction monitoring and accounting. All services other than transaction monitoring are outsourced in the Cayman Islands. Transaction monitoring is only outsourced by one of the primary MSBs to a third party which is based in the United States and utilized by other members of its group.

30. Online onboarding was not reported by the sector. The use of agents is very minimal considering the number of customers reportedly being served by the three (3) active MSBs. Furthermore, there is no use of group entities in the delivery of services due to the nature of the MSB sector whereby customers are normally face-to-face. The subsidiaries, affiliates and or branches are mostly located in low risk countries. As such, the risk for delivery channels has been rated medium-low.

Risk rating: Medium-Low

Customer Types

31. The MSBs sector has a medium-low customer risk exposure due to the profile of their customers as all customers are natural and local persons. There is very limited exposure to high risk customer types, such as foreign PEPs. However, there is a considerable number of customers with a geographic location risk exposure as 6,381 or 9% are from a high-risk country that elevates the risk. Following the consideration of the various types of clients of MSBs, the assessment concludes that there is medium-high risk exposure for types of customers.

Risk rating: Medium-High

The overall ML/TF risk for the MSB sector is assessed as Medium-High

Trusts and Corporate Services Providers

Survey Overview

Number of entities in the sector	466

Number of Customers	177,000
Value of Assets Managed	$668 Billion
PEP customers	1,559
Clients introduced by introducers	33,400
% on-boarded face to face	23% for TSP and 38% for CSP
Rating Assigned for Sector	Medium-High

Overview of Sector

32. TCSPs facilitate financial and commercial activity by providing a variety of corporate services, including the formation and operation of companies and trusts in compliance with statutory obligations. As a result, TCSPs can impact transactional flows through the financial system.

33. TCSPs are known to support and facilitate a variety of functions, such as tax planning and other means of wealth management. However, they are vulnerable to being misused, in particular for concealing the ultimate beneficial owner of funds or other assets. Misuse of TCSPs can result in the integration or layering of criminal proceeds within the financial system through various forms of investments.

34. TCSPs in the Cayman Islands are licensed and regulated by CIMA in accordance with the Companies Management Law (CML) and the Banks and Trust Companies Law (BTCL). There are two types of CSP licenses and three types of TSP licenses, with the primary distinction being the types of services that may be provided under each license

Inherent Risk Summary

	Factors increasing risk	Factors Decreasing Risk
Nature and size, of the sector	• No physical presence • Complexity of group structure • Parent in high-risk jurisdiction • Non-Cayman presence • Non-regulated businesses	• Only Cayman originating business (local) • Only regulated business • Low percentage of acceptance of physical cash
Transactions, products and services	• Trusteeships • Provision of registered offices only • Investment manager • Allowing nominee companies to settle trusts • Allowing clients to control accounts	• Directorships • Investment advice • Discretionary trust • Facilitate regulated financial activity

	• Nondiscretionary trust • Facilitate non-regulated financial activity	
Delivery channels	• Non-face to face business • Eligible introducers • Online platforms	• Only dealing with own group
Customer types	• PEPs • NGOs, charities • High risk industries • High Net Worth individuals • Complex corporate structures • Hedge funds, SPVS, etc. • Customers based in/controlled or owned by persons based in high-risk jurisdictions • Large overseas customer base	• Government clients • Single customer • Customers originate from regulated groups • Majority of clients from low risk countries
Geographic risk	• Owners, controllers or customers based in countries with no equivalent AML/CFT legislation or in countries with political turmoil or high levels of corruption. • Services carried out in or from high-risk countries • Services outsourced to countries where the AML/CFT systems are not robust.	• Owners, controllers and customers based in countries with robust anti-money laundering and counter financing of terrorism systems. • Services carried out in or from countries with sound AML/CFT systems.

Nature, size and complexity of business

35. The TCSP sector provides trust and corporate service support to cross sectoral sophisticated international financing transactions, commercial investment products (such as corporate and

unit trust mutual funds) and wealth management structures in which the TSPs provide services in support of its discretionary trust product services.

36. Although the number of licensees is relatively small in Cayman (477), they are utilized in the shared management of approximately 694 billion USD across multiple sectors, making their size at medium-high risk to money laundering.

37. TSPs include Trust Licences (unrestricted) (57), Restricted Trust Licences (58) Nominee Trust Licences (29), registered Private Trust Companies (131) and registered Controlled Subsidiaries (47). CSPs comprise companies that hold Companies Management Licences and companies that hold licences to act as corporate services providers. CSPs are authorised to carry out the activities as set out in Section 3(1) of the Companies Management Law.

38. TCSPs typically maintain a physical presence in Cayman, and Nominee Trust Licensees and Controlled Subsidiaries carry the same risk as the parent that holds the Trust Licence, supervised by CIMA.

39. Where TSPs provide registered office only services, this poses a high risk to ML. However, the core activities of TCSPs involve discretionary services meaning that assets are being managed within a regulated framework in Cayman, even if the assets are located out of the jurisdiction.

40. The risk ratings for nature, size and complexity therefore are:

Risk Rating: TSP: Medium-High CSP: Medium-High

Products and Services Offered

41. The primary services offered by the TCSP sector consist of Administrator, Enforcer, Executor, Protector, Trustee, Director and Registered Office services.

42. TSPs include Trust Licences (57), Restricted Trust Licensees (58) Nominee (Trust) Licences (29), Private Trust Companies (131) and Controlled Subsidiaries (47). From an AML/CFT perspective, it is important to note the difference in the risk associated with Nominee (Trust) Licences and Restricted Trust Licences. Restricted Trust Licences are typically granted in respect of a single family or a small group of families for private wealth management purposes. A Nominee (Trust) Licence is a subsidiary of an entity that holds a Trust Licence and it provides nominee services to its parent.

43. The risks associated with the products and services offered by TCSPs are impacted by the potential for opacity. TCSPs are used in sophisticated cross-border commercial transactions such as tax, financing and private asset structures that are established for purposes of preserving and managing private wealth.

44. The provision of trust services by TCSPs can vary from low risk to high risk, depending on the nature of the trust. Certain trusts may be considered lower risk trusts, such as those established by parents for the benefit of children or vulnerable individuals, to more complex structures, where the source of trust funds is unclear.

45. Providing registered office or business address facilities is considered higher risk where the TCSP is not providing other TCSP services to a client (i.e. no other business relationship). This service allows the entity to maintain a physical footprint in the country but can distance the entity from other assets and activities controlled by the beneficial owner.

46. The bulk of registered office services are offered through TSPs. The risks posed by TSPs are higher than CSPs because TSPs are offering trust services, which are inherently more vulnerable for money laundering as they can help obscure beneficial ownership. CSPs, by

contrast, offer corporate administrative services. Of the 152 licensed TCSPs providing registered office services, 34 CSPs and 16 TSPs offer registered office services only.

47. For both sub-sectors, the risk is mitigated to some extent when service providers offer additional discretionary services because TCSPs necessarily have a better understanding of their clients' business models and and source of funds in the course of conducting their activities.

Risk Rating: TSPs: High CSPs: Medium-High

Delivery Channels

48. The delivery channels for the TCSP sector encompass face to face, non-face to face, foreign and local introducers, and a small number of online platforms.

49. There is a large dependency on non-face to face delivery channels for services of registered entities, with 77% of TSP activity being non face to face while 62% of CSP is non face to face. However, there is limited exposure to online platforms which goes some way to reduce this risk. Introduction within the group is common, in particular in the TSP subsector. This ML/TF risk therefore partly depends on the level of compliance by the group entities.

50. Delivery channel risk could be heightened if group entities provide introducing services are based in high risk jurisdictions, but services of introducers are infrequently used outside of the group. A number of TCSPs outsource various activities, although a somewhat mitigating factor is the fact that these actives are not outsourced to high risk jurisdictions.

Rating: TSP: Medium-High CSP: Medium-Low

Customer Types

51. TCSPs serve a total of approximately 142,290 customers, 121,333 (87%) of which are serviced by TSPs and the remaining 20,957 by the CSP sector (noting that these figures may be inflated as Trust Licenses, Nominee Trust Licenses and Controlled Subsidiaries could have reported the same customers). Of the total customers, approximately 48% are natural persons, the remaining 52% are companies.

52. In the TSP sector 49% of customers are natural persons from: Japan (20%), Taiwan (province of china) (19%), Brazil (12%) China (7%) and Mexico (4%). Of the fifty-one (51) % that are legal persons, the majority are from: Cayman Islands (90%) and USA (5%).

53. Only 0.05% of all TSP customers come from high risk jurisdictions (7965). The number of customers translates into approximately 24,300 beneficial owners. Approximately 3,700 beneficial owners (15%) come from a high-risk jurisdiction.

54. The customer base of TSPs includes 1,559 PEP customers or beneficial owners, a small number (47) of whom come from a high-risk jurisdiction. Approximately 46,000 TSP customers, which accounts for about 32% of the total customer base of TSPs, are high net worth individuals.

55. CSPs have a much lower customer base which totals approximately 20,957 customers. Thirty-nine percent (39%) of CSP customers are natural persons. The majority are from: Taiwan (province of China) (55%) China (17%) Cayman (10%), USA (4%) and Hong Kong (2%). Sixty-one percent (61%) of CSP customers are companies. The majority are from: Cayman Islands (86%), BVI (3%) and USA (3%). About 1,700 or around 7% of all CSP customers are from a high-risk jurisdiction.

56. The customer base of CSPs includes a small number of PEP customers (57) or beneficial owners, 2 of which come from a high-risk jurisdiction. 51 CSP customers, which accounts for approximately 0.02% of the total customer base of CSPs, are high net worth individuals.

57. Both TSPs and CSPs have a low proportion of PEPs and high net worth individuals in high risk jurisdictions. However, TSPs have a higher proportion of natural persons as customers and are more likely to be used in complex financing, wealth and tax planning structures.

Risk Rating: TSPs: Medium-High CSPs: Medium-Low

Geographic risk

58. Six (6) out of 135 TSPs and four (4) out of 155 CSPs have parent companies in high risk jurisdictions. 5% of owners of trust companies are in high risk countries and the remaining 95% are located in other countries that are not considered high risk. 2% of countries of owners of corporate service providers are in high risk countries and the remaining 98% are located in other countries that are not considered high risk.

59. Only 4 CSPs and 1 TSP have subsidiaries and/or branches in high risk jurisdictions. No TCSP authorised under the BTCL or the CML to operate within the Cayman Islands may establish a subsidiary or a branch in any other jurisdiction without the prior approval of CIMA. CIMA assesses the risks associated with any proposed change in parent or establishment of branch or subsidiary for all authorised TCSPs prior to CIMA determining whether to give its assent.

60. The vast majority of TSPs and CSPs, and their parents, subsidiaries and customers, are based in low risk jurisdictions.

Risk rating: TSPs: Medium-Low CSPs: Medium-Low

The overall ML/TF risk for the TCSP sector is assessed as Medium-High.

Insurance Industry

Survey Overview

In December 2019, a self-assessment survey questionnaire was sent to all class ‘A’, ‘B’, ‘C’ and ‘D’ insurers, Insurance Brokers and Insurance Managers by the Authority to gather information to gauge their exposure to specific ML/TF risks. The data that was considered for the survey was for the period between 1 October 2018 and 20 September 2019. Response rates for the survey were as follows:

Licence Category	Number of licensees at 31 December 2019	Survey submissions (%)
Class ‘A’ insurer	26	14 (54 %)
Class ’B’ insurer	618	577 (93%)
Class ‘C’ insurer	23	21 (91%)

Class 'D' insurer	5	2 (40%)
Insurance Broker	23	16 (70%)
Insurance Manager	24	19 (79%)
Total	**719**	**649 (90%)**

Overview of the Sector

61. The Cayman Islands insurance sector has two distinct parts – domestic insurance sector and international insurance sector. The domestic insurance sector comprises of 26 insurance companies offering life, general and health insurance to Cayman residents and businesses (categorized as class A insurers). This sector is supported by 23 licensed Insurance Brokers, ranging from brokers offering products to retail customers to those offering risk management and insurance solutions to large and sophisticated clients. In addition, 44 licensed Insurance Agents solicit insurance products in the domestic market. Out of the 26 insurers, 21 companies actively engaged in insurance business and 5 companies running off their liabilities with no new business written. 9 of the 26 insurers were incorporated in the Cayman Islands while 17 were registered as branches of foreign insurers regulated by their home supervisor.

62. The international insurance sector consists of 646 insurance companies and 24 licensed Insurance Managers. Insurance companies in this sector is made-up of approx. 475 captive insurers (categorized as class B(i) and B(ii) insurers) providing coverage to its shareholders' and affiliates' risks, approx. 143 insurers (categorized as class B(iii) insurers) providing coverage to non-affiliated insureds, 23 reinsurers engaged in insurance linked securities (ILS) business, largely catastrophe bonds (categorized as class C insurers), and 5 reinsurers engaged in open-market reinsurance business with a class D insurer licence.

63. Insurance management companies are those incorporated and physically based in the Cayman Islands providing management services to international insurers with no physical presence. Over 95% of the international sector insurers are managed by an Insurance Manager. Management services include providing administrative support and advice on areas such as financial reporting, risk management, compliance etc. together with being the front facing representative between the insurance company and the Authority.

Inherent risk summary

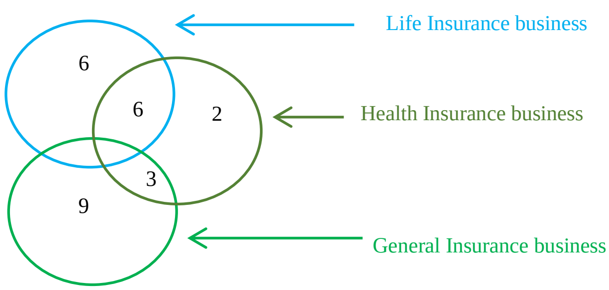
Variable	Factors increasing risk ⬆	Factors decreasing risk ⬇
Nature, size and complexity of business - "Low"	• **[I]** Overreliance on outsourced functions performed by third parties • **[I]** Complex ownership structures involving hedge/private equity funds and the multitude of unknown individual investors • **[D]** Stiff competition amongst insurers and intermediaries	• **[D]** Domestic customer base • **[D]** Unsophisticated insurance products • **[I]** Third-party service providers are licensed or approved • **[I]** Relatively small life insurance sector with large majority providing liability or property coverage •
Products and services offered	• **[D/I]** Life products with investment component and single premium policies with high	• **[D/I]** Large single premium payments accepted only from funds in the financial system

- "Medium Low"	cash/surrender value • **[D]** Premium payments made in cash • [I] Misuse of pure captives by manipulating funding and reserves	• **[I]** Vast majority of international insurers offering liability insurance coverage
Delivery channels for products and services - "Medium High"	• **[I]** Non face-to-face business, eligible introducers, unlicensed intermediaries, online platforms, independent distributors • **[I]** Underlying policies issued by unrelated fronting carriers or brokers	• **[D]** face to face business, business via licensed brokers/agents • **[I]** involvement of licensed insurance managers
Customer types - "Medium Low"	• **[I]** PEPs, cash intensive, charitable trusts as beneficiaries, high risk industries • **[I]** Customers breaching international sanctions	• **[I]** Largely dealing with institutional clients (pure captives and Cat bonds) or own group (group captives)
Geographical risk - "Low"	• **[I]** Many or high $ volume customers in high risk jurisdictions • **[I]** Shareholders, subsidiaries, beneficial owners, trust beneficiaries and settlors in high risk jurisdictions	• **[I]** Largely dealing with 'low' risk jurisdictions • **[D]** Largely a domestic customer base

[D] – Mostly applicable to the Domestic insurance sector
[I] Mostly applicable to the International insurance sector

Products

64. The chart below depicts the classes of insurance business that the 26 domestic insurance companies are licensed to carry on.



65. Cayman's domestic insurance market reported total premium income of US$900 million as at 31 December 2018. In addition, one class A insurer engaged in reinsurance business reported reinsurance assumed premium of approx. US$220 million.

66. General and health insurance products offered in the Cayman Islands are standard and less sophisticated in nature and are considered 'low' for money laundering and terrorist financing exposures. Life insurance products included mortgage protection, credit life and life insurance policies with investment features. Life insurance products with investment features are considered 'high' for money laundering and terrorist financing exposures, but most products had high initial sales commissions and expenses loadings and low surrender/cash value as a result in the early years making them less attractive for money launderers.

67. Due to the nature of the class of business and insurance products, only 5% of the 646 insurers (Life – direct and Marine & Aviation insurers) are considered 'high' for money laundering and terrorist financing exposures. In terms of total premium, this segment accounts for 4.2% of the total premium of US$17.963 billion.

68. In summary, there are varying levels of inherent ML/TF risks present among the 646 international licensees. This is split as follows:

High ML/TF Risk: All long-term insurers writing risks on a direct basis (i.e. not via reinsurance)

Medium ML/TF Risk: All long-term insurers writing risks on an indirect basis (i.e. reinsurance) and all domestic general insurers writing risks on a direct basis

Low ML/TF Risk: All international general insurers whether writing risks on a direct or indirect basis

69. Survey results on specific inherent risks are as follows:

Inherent Risks	State of the Sector
Nature, size and complexity of business	• 11% of the sector provides carry on long-term insurance business either as a direct writer or a reinsurer. • 71% of the international insurers operate as captive insurance companies providing property and casualty coverage to their parent companies and affiliates. • Over 95% of the international sector insurers are managed by an Insurance Manager. All domestic sector insurers have either a physical presence or engage an Insurance Broker to provide a physical presence. • Of the international commercial insurance sector, direct insurers and reinsurers, 73% of the licensees utilized regulated entities or entities supervised by one or more other regulators.
Geographical reach	• 29% of the Domestic Sector's immediate and UBO's are in the Cayman Islands, 16% in the Bahamas, 16% in the United States, 16% in Bermuda and the remaining 23% located in other Caribbean territories and the United Kingdom. 81% of the International sector's immediate and ultimate UBO's are in the United States, 11% are in the Cayman Islands and the remaining 8% were located globally. • Less than 3% of Licensees have engaged in business transactions with countries subject to sanctions.
Products and Services	5% of insurance sector engaged in life and other investment-related insurance business as direct insurers. • Approx. 6% of the sector provides reinsurance coverage to life insurers domiciled outside the Cayman Islands

	• No use of virtual assets to date.
Types of Customers	• 86% of the domestic sector provides insurance coverage or services to natural and or legal persons. • 23% of the domestic sector provides insurance coverage or services to PEPs and/or high net worth individuals • 18% of the domestic sector provides insurance coverage of services to Trusts or similar types of legal arrangements. • 86% of the international insurers offer (re)insurance coverage to their corporate shareholders and affiliates (pure captives). • 13% of the international sector provides insurance coverage or services to PEPs and/or high net worth individuals (including UBO's and affiliated persons). • 1% of the international sector provides insurance coverage of services to Trusts or similar types of legal arrangements. • Less than 3% of Licensees have engaged in business transactions with countries subject to sanctions.
Distribution Channels	• Only 7% of the domestic sector has sales channels that are not face-to-face. • 23% of the domestic sector utilizes an online platform for soliciting business and marketing. Only 2% of the international sector has sales channels that are not face-to-face, including through an intermediary or online platform.
Methods of Payment	• Less than 1% of the international sector have written policies which have an additional top-up feature. • Only 8% of the domestic sector have written policies which have an additional top-up feature. • 40% of the domestic and international sectors have accepted premium payments by cash. The remaining 60% have accepted premium payments by other means including wire transfer, cheque and direct debit transactions.

70. When breaking down the Insurance sectoral risk allocation into nature, size and complexity of business, geographical reach, products and services, types of customers, distribution channels and methods of payments, the following inherent risk ratings are assigned:

Nature, size and complexity of business	Low
Product/Service Risks	Medium-Low
Delivery Channel Risks	Medium-High
Customer Types	Medium-Low
Geographical risk	Low

Overall	**Medium-Low**

Red flags

71. The following are some of the warning signs or "red flags" to which insurance related licensees should be alert:

- Requests for a return of premium to be remitted to persons other than the policy holder
- Change/increase of the premium payment (for instance, which appear unusual in the light of the policyholder's income or where there are several overpayments of policy premiums)
- Claims payments paid to persons other than policyholders and beneficiaries
- Frequent change of address and/or place of residence of the policyholder
- Requests for multiple policies to be taken out for premiums slightly below any publicised limits for performing checks, such as checks on the source of wealth or cash payments
- Unusually complex holding company or trust ownership structure for international insurers
- Dividend paid to or loans granted to persons other than shareholders and affiliates
- Incomplete application details and lack of willingness to provide evidence to answers required
- Unexplained changes in investment pattern; investment taken against advice or not appropriate to insurer's real needs
- Sudden changes in intermediaries and service providers
- Unexplained receipt of bulk premiums from intermediary accounts
- Multiple sources of payment or cross jurisdiction funding for payment
- Transactions with obscure or unregulated organisations
- Unnecessarily complex transactions or intentions
- Premium and loss reserves are set solely by directors with no technical input from unrelated actuaries, attorneys, third-party administrators, fronting companies etc.
- Withdrawal requests shortly after execution of the policy

Mutual Fund Administrators

Survey Overview

Number of entities in the sector	80
Value of all transactions	USD $ 2.157 trillion
Number of Investors	169,000
Main Investor types	Corporate, nominee shareholders, politically exposed persons (PEPs), and high net worth individuals
Main investor countries	United States, Cayman Islands, UK and Switzerland
Rating Assigned for Sector	Medium- High

Overview of the sector

72. The Cayman Islands' investments sector is a part of the securities sector and is comprised of regulated, unregulated or exempted institutions and instruments. The focus of this sector risk assessment is on the regulated institutions, specifically regulated fund administrators and regulated funds, as there is currently insufficient information available at present to assess the AML risk for unregulated or exempted institutions and instruments present within the investment sector. CIMA conducted a survey in December 2019 to enhance its assessment of the ML/TF exposure by the mutual fund administrators in the Cayman Islands and 81% of mutual fund administrators licensed with CIMA provided a response to the data request. The

analysis conducted of the ML/TF risks for the mutual fund administrators as a sub-sector of the securities sector, results in an overall assessment of a medium-high risk rating for the sub-sector.

a. **Regulated Mutual Funds**

A Mutual fund, as defined by the Mutual Funds Law (as revised) (the "MFL"), is any company, trust or partnership either incorporated or established in the Cayman Islands, or if outside the Cayman Islands, managed from the Cayman Islands, which issues equity interests redeemable or re-purchasable at the option of the investor, the purpose of which is the pooling of investors' funds with the aim of spreading investment risk and enabling investors to receive profits or gains from investments.

b. **Regulated Mutual Fund Administrators**

A Mutual Fund Administrator is a legal person who conducts mutual fund administration as defined in the MFL; that is: a person managing (including controlling all or substantially all of its assets) or administering a Mutual Fund; a person providing the Principal Office of a Mutual Fund in the Cayman Islands; or providing an operator to the Mutual Fund as defined in section 2 of the Law (a trustee of a unit trust, a general partner of a partnership or a director of a company).

Red Flags

73. Red flags are a means of triggering investigations by financial institutions into unusual customer activities or due to a heightened risk profile. These include, but are not limited to:
    - An investor being more concerned with the subscription and redemption terms of the Mutual Fund than with other information related to the investment strategy, service providers, performance history of the investment manager;
    - An investor is not concern with losses or (large) fees or offering to pay extraordinary fees for early redemption;
    - Sudden and unexplained subscriptions and redemptions;
    - Quick purchase and redemption of units despite penalties;
    - Requests to pay redemptions proceeds to a third (unrelated) party;
    - A fund, or principals of a fund exhibits unusual concern with compliance with AML/CFT reporting requirements or other (AML/CFT) policies and procedures; and
    - A promoter/manager attempts to launch a new Mutual Fund with large amounts of seed capital from one source, either from an internal or external source, and he source of funds are not properly verified.

Inherent Risk Summary

Risk Factor	Factors increasing risk	Factors decreasing risk
Nature, size, complexity of business	• High volume transactions • Ownership structures, private vs public • Funds with complex structures • High value of assets under administration	• Simple transactions • Low value transactions
Products and Services offered	• Highly liquid assets • High volume of subscriptions and	• Low complexity – NAV calculation services,

	redemptions • Unregulated instruments • RTA	and directorships.
Delivery channels	• Non-face to face contacts through referral or introducers	• High level of face to face contacts • Introducers are from countries with equivalent AML equivalent AML/CFT framework.
Customer types	• Corporate clients • High net worth individuals • Nominee shareholders • Non-bank financial institutions	• Customers that are regulated FIs • Customers listed on stock exchanges
Geographic risk	• Services outsourced to jurisdictions where fund administration is not a regulated activity for the purposes of AML/CFT, or the AML/CFT systems are not robust. • Customers based in jurisdictions with no equivalent AML CFT legislation, countries in political turmoil or high levels of corruption.	• Customer based in jurisdictions with robust anti-money laundering and counter financing of terrorism • Transactions carried out in countries with sound AML/CFT systems

Nature, Size and Complexity of Business

Nature

74. Fund administrators are responsible for servicing and managing funds: processing subscriptions and redemptions, undertaking client due diligence and ensuring compliance with anti-money laundering procedures, processing dividend payments and reconciling and reporting fund transactions.

Size

75. Fund administrators includes small single offices as well as global operations where for example registrar and transfer services (RTA) are provided in house and net asset value calculation services (NAV) are outsourced to subsidiaries across the world and in some cases, there are several levels of outsourcing. While some firms have maintained the traditional services of RTA and NAV, others have expanded to include FATCA/CRS services, depository lite and directorship to funds and in recent years acting as AML Officers (MLRO, Deputy MLRO and/or AMLCO) to funds.

76. The mutual fund administrators surveyed reported total assets under administration (AUA) of US$2.157 trillion. Total number of funds under administration was 16k. Mutual fund administration services is provided to both regulated and unregulated funds, of which 62% are unregulated. However, by providing fund administration services to unregulated funds, Mutual

Fund Administrators deploy the full scope of AML/CFT controls to these funds and their underlying investors, and this mitigates the risk of unregulated funds being misused for ML/TF purposes. The total number of investors reported was 169k.

77. In respect of the ownership and control structure for mutual fund administrators, 29% have parent companies located in the Cayman Islands, 16% are in the United States, 9% are in the UK and Ireland, 6% in Japan, 4% in Canada and 4% in Luxembourg. While 3% of the parent companies are in high risk countries, the remaining 29%, representing less than 2% are in other countries that are not considered high risk countries.

78. The ownership structure of mutual fund administrators also indicated that 15% of their subsidiaries and affiliates are in Ireland, UK and the United States, 15% in Hong Kong, Jersey, Luxembourg and Singapore, 18% are in Guernsey, Bermuda, BVI, Bahamas, Canada and Switzerland and 8% in the Cayman Islands. While 15% of the subsidiaries and affiliates are in high risk countries, the remaining 25%, representing less than 2% are in other countries that are not considered high risk countries.

79. Shareholders are located, 24% in the Cayman Islands, 14% in the UK and Ireland, 12% in the United States, 5% in Switzerland and Canada respectively, 4% in Japan and Guernsey respectively, and 5% in Bahamas, France, and Australia collectively with a further 19% in other non-high-risk countries with the remaining 8% in high risk countries.

Complexity

80. The high value of assets under administration, as well as the provision of services to unregulated funds and to investors associated with these unregulated funds contribute to an increased risk of money laundering in this sub sector. However, the provision of the fund administration services to unregulated funds is a mitigating factor in that this allows the full scope of the AML/CFT controls to be deployed to these funds and their underlying investors. In addition, from a control and ownership perspective, 85% of the parent companies, their subsidiaries and affiliates for the majority of the mutual fund administrators are in countries with equivalent AML/CFT frameworks. Based on these factors, the overall risk in this category is assessed as Medium High.

Risk rating: Medium-High

Transactions, Products and Services

81. The services that are provided in this sector include registrar and transfer agent services, net asset value calculation, directorship services, tax reporting (FATCA/CRS), registered office and principal office. The predominant services are registrar and transfer agent services, exposes the sector to the risk of money laundering. The data indicates that 74% and 71% of the mutual fund administrators provide RTA and NAV services respectively and 30% directorships. 73% provide a combination of RTA and NAV services, while 79% of the mutual fund administrators surveyed provide Other Services in addition to the two core services.

82. For the reporting period covered by the survey 1 July 2018 to 30 June 2019, data from the mutual fund administrators indicated $350 billion in subscriptions, $328 billion in redemptions and $63 billion in transfers. About $9 billion (3%) of subscriptions and $42 billion in redemptions (13%) are with PEPs. Most of these transactions originate with Cayman, the United States and Japan.

83. About 55% of respondents the CIMA survey indicated that they provide AMLCO services to funds. Of the total funds to which these services are provided, 56% are unregulated. This is a positive signal towards reducing the risks of money laundering and terrorist financing.

84. The RTA services are the front offices services for vetting investors into and out the funds, which is critical to managing the ML/FT risks. The data shows that RTA services are a significant portion of the mutual fund administrators service offerings. NAV, which is a middle office service, deals mainly with the calculation of the value of the assets and reporting functions and as such has lower ML/CFT risks. Based on the analysis above, it is likely for the risk of money laundering and terrorist financing to occur, and as such the risks assessed for Transactions, Products and Services are deemed Medium- High.

Risk rating: Medium-High

Delivery Channels

85. Delivery channels generally include face to face and non face-to-face. Non face-to-face includes the use of agents, intermediaries, introducers, or offering the products online. New delivery channels include products or services offering virtual currencies.

86. A number of administrators on-board their investors via face-to-face, through direct/nominee investors, or via referrals/introducers. According to the survey data, 24% of the mutual fund administrators use face-to-face customer onboarding, while 49% use non face-to-face. 28% of the mutual fund administrators did not indicate which method. About 19% of the mutual fund administrators also use eligible introducers. Investors introduced through these eligible introducers located and regulated in the Unites States accounted for 10% of non-face-to-face customer onboarding. This customer delivery channel was below 10% for all other countries. Information was also requested in relation to country of the investor(s); however, 75% of the respondents did not identify the country of the investors, which is therefore an unquantified risk and thus an increased risk to this sub-sector.

Risk rating: Medium-High

Geographic Risk

87. Although the data shows that the mutual funds administrators provide services to a high percentage of unregulated funds, a significant portion of these unregulated funds are incorporated either in the Cayman Islands or in a country with an equivalent AML/CFT framework. This is the same for the investors. While majority of the core services of NAV, RTA and AML/CFT compliance services are also outsourced, it is mainly outsourced to countries with equivalent AML/CFT framework. There is however 12-17% of the services that are outsourced to high risk countries making it possible for the risk of money laundering and terrorist financing to materialize, and as such the overall risk is assessed as Medium-Low.

Risk rating: Medium-Low

Types of Customers

88. The majority of funds, assets and investors are located in low risk jurisdictions, predominantly the Cayman Islands or the United States. 29% of the investors were body corporates, 22% are individuals other than high net worth individuals (HNWIs) and politically exposed persons (PEPs), 12% are HNWIs, 0.4% are PEPs (of which 91% are associated with low risk countries), 9% nominee shareholders and 9% trusts.

89. Considering the above factors, the customers of MFAs were assessed as Medium-Low risk.

Risk rating: Medium-Low

Securities Investment Businesses

Survey Overview

Number of entities in the sector	29 (out of 35 active SIB Licensees)
Value of all assets under management (AUM)	$16,934,545,342
Number of Customers	42,331
Main customer types	Individuals, High Net Worth (HNW) individuals, HNW corporates and corporate customers
% respondent using introducers	10%
Number of transactions	6,228,244
Main customer countries	China (69%), Japan (7%), Cayman Islands (3%) and Venezuela (2%).
Rating Assigned for Sector	Medium-High

90. The SIB Licensees Sectoral Risk Assessment is predominantly based on CIMA having conducted a comprehensive data collection exercise from 83% of SIB Licensees during 2019, to cover the period from 1 July 2018 to 30 June 2019, in order to gather data on customers, products/services, geographic exposure and delivery channels to assess the risk in these five categories, resulting in a comprehensive representation of the sector.

Overview of the sector

91. Securities investment business as defined under Schedule 1 of the Securities Investment Business Law (2020 Revision) (SIBL) includes:
    - shares and stock of any kind in the share capital of a company;
    - debentures, debenture stock, loan stock, bonds, certificates of deposit and any other instruments that create or acknowledge debt (excluding various banking and monetary instruments e.g. cheques, mortgage instruments and land charges);
    - warrants and other instruments which confer contractual or property rights;
    - options on any security and on any currency, precious metal or an option on an option;
    - futures; and
    - rights under contracts for differences (e.g. cash-settled derivatives such as interest rate and stock index futures, forward rate agreements and swaps).

92. Any persons carrying on securities investment business, including the regulated activities of market makers, broker-dealers, securities arrangers, securities advisors and securities managers, in or from the Cayman Islands, falls under the regulation of the SIBL. An exemption from the requirement to be licensed exists for persons being classified as an Excluded Person pursuant to the provisions set out in Schedule 4 of the SIBL. However, these persons are required to be registered.

93. Securities arranging and advising may be deemed less risky than broker dealers, market makers and securities managers as a securities advisor may not directly be involved with the exchange of funds from their clients.

Red flags

94. Red flags are a means of triggering investigations by financial institutions into unusual customer activities and/or profiles that require heightened scrutiny which include but are not limited to:

- Counterparty default risks not considered
- Outsourced activities not adequately monitored
- Entities with complex structures
- Unregistered or unregulated investment vehicles that do not require full due diligence (i.e. bearer share instruments/OTCs etc.)
- Introducing brokers not thoroughly and routinely assessed to ensure that adequate due diligence is obtained (i.e. such brokers may have a master account to trade on their clients behalf but licensees are not apprised of true underlying parties wanting to partake in the trade – omnibus/correspondent account set up)
- Complexity, liquidity, and volume of products purchased or sold
- Politically Exposed Persons (PEPs)
- Large volume of clients as high net worth individuals
- Clients located in and conducting transaction from multiple jurisdictions, where the risk of money laundering and terrorist financing is high
- Investors domicile in countries that are from non-schedule 3 countries
- Transactions that are not face-to-face or accessed remotely
- Institutions with insufficient staff to monitor AML risks
- Market manipulation

Inherent risk summary

Variable	Factors increasing risk	Factors decreasing risk
Nature, size, complexity of business	• High volume transactions • Online based trading • Foreign owned subsidiaries/affiliates	• Low value of transactions. • Low volume of transactions. • No assets under management. • No clients (i.e. have not commenced business yet).
Transaction, Products and services offered	• High complexity, high liquidity and/or volatile products such as shares, options, futures, contracts for differences. • Broker-dealers • Maker makers • Securities managers • Forms of payment such as the acceptance of physical cash, travellers' cheques, bearer shares, prepaid cards, virtual currencies or third-party payments. • Acceptance of clients via the use of online platforms.	• Low complexity securities such as instruments creating or acknowledging indebtedness, instruments giving entitlements to securities and certificates representing certain securities. • Advisory services solely. • Arranger services solely. • Client base that consists of funds licensed or registered in the Cayman Islands
Delivery channels	• Non face to face contacts • Third party agents/introducers	• Face-to-face contact not from high-risk countries • Intragroup referrals.
Customer types	• Trusts.	• Governments/public

	• High net worth persons with KYD$4 million. • Sophisticated. • Politically Exposed Person. • Non-profit organizations. • Corporates/financial institutions in higher risk jurisdictions. • Nominees. • Special purpose vehicles.	sector not from high-risk countries. • Financial institutions not from high-risk countries. • Non-financial institutions not from high-risk countries.
Geographic risk	• Customers from high risk jurisdictions where the AML/CFT systems are not robust. • Non-resident customers • Services outsourced to jurisdictions where the AML/CFT systems are not robust.	• Customers based in countries with robust AML/CFT systems. • Transactions carried out in and/or with countries with robust AML/CFT systems.

Nature, size, complexity of business

95. There were 35 SIB Licensees (34 Full and one Restricted) as at December 2019, which provide a range of licensable activities conducted in or from within the Cayman Islands. SIBL Licensees range from small owner managed operations to large global organizations. The majority, 76%, of these SIB Licensees maintain a principal place of business where business is performed or outsourced in the Cayman Islands and provide more than one licensable activity, of which 69% have an entity within its group (parent, affiliate and/or subsidiary) structure that is based outside of the Cayman Islands across 57 jurisdictions, but primarily in the British Virgin Islands, Bahamas and Canada.

96. Assets under Management: As of June 2019, a total of US$16.9 billion in assets were under management by the 29 reporting SIB Licensees. 31% of SIB Licensees reported that they have assets under management for 74% of the total population of customers reported. However, this is largely attributed to the assets being managed via online trading platforms by the customer directly as opposed to discretionary trading by the SIB Licensees on behalf of the customers. Based on these statistics, it is also noted that SIB Licensees that are securities advisors and securities arrangers and/or those that have confirmed that they do not receive customer funds contribute to these percentages. The average portfolio size reported by SIB Licensees was - under US$5 million for 17% of customers, under US$50 million for 2% of customers and over US$50 million for 7% of customers. The reporting of assets under administration indicates that 26% of the SIB Licensees manage approximately all such assets and as such these SIB Licensees would qualify as high risk, compared to the rest of the population, based on the overall value of their assets under management.

97. In respect of fund flows, SIB Licensees reported that the main destinations for customer funds were to the Cayman Islands, followed by Canada, the United Kingdom and the United States. About 17% of respondents reported fund flows to high-risk jurisdiction such as Angola, Botswana, Iran, Kenya, Libya, Pakistan, Paraguay, Saudi Arabia, Sudan, Vietnam and Zimbabwe. For customer funds transferred out, the main jurisdictions of origin were again identified as being the Cayman Islands, the United Kingdom and United States, followed by

Canada. Of all respondents, 10% reported a high-risk jurisdiction to be the originator of customer funds.

98. In total 14% of the SIB Licensees that responded to the AML/CFT survey only arrange deals in securities and advise on securities and pose lower risk than those dealing in securities which also include market makers without exercising discretion over the investment activity. A higher risk is posed by SIB Licensees dealing in securities with the ability to exercise discretion over the investment activities and by SIB Licensees managing securities; which comprises the remaining 86% of the SIB Licensees.

99. Although the data shows that SIB Licensees have an international customer base predominantly outside of the Cayman Islands, a significant number, 98%, of these clients are domiciled in countries with an equivalent AML/CFT framework.

100. While 10% of the SIB Licensee respondents account for 79% of assets under management, they account for only 0.3% of the total reported transactions.

101. SIB Licensees that engage in securities arranging and advising are deemed to be less risky than broker dealers, market makers and securities managers. This is because a securities advisor may not be directly involved with the exchange of funds from their customers. However, given that the SIB Licensees engaged in these activities account for 86% of the total population, this risk is categorized as medium high.

Risk: Medium-High

Transactions, Products and services

102. Transactions: For the reporting period, 1 July 2018 to 30 June 2019, SIB Licensees reported a total of 6,228,244 transactions; which were predominantly, 90%, transacted by individual customers of 3 SIB Licensees. These individuals are domiciled across 95 jurisdictions, and 13% are from a high-risk jurisdiction.

103. Products: Trading in shares, options, futures and contracts for differences pose a high risk because of their greater level of volatility, trading volume, and market leveraging implication. Instruments creating or acknowledging indebtedness or giving entitlements to securities and certificates representing certain securities pose a medium-high risk. Of all respondents, 100% indicated that their product offering includes at least one of the higher-risk instruments, namely shares which are utilized by 59% SIB Licensees, followed by instruments creating or acknowledging indebtedness which are utilized by 38% SIB Licensees and contracts for differences which are utilized by 28% SIB Licensees.

104. Services: 14% of SIB Licensees that engage in securities arranging and advising are deemed to be less risky than broker dealers, market makers and securities managers. This is because a securities advisor may not be directly involved with the exchange of funds from their customers. However, 86% of SIB Licensees engage in higher risk activities.

105. All SIB Licensees that responded to the AML/CFT survey advised that they do not engage in ad hoc/unregulated activities (i.e. no Fintech, Cryptocurrencies, Initial Coin Offerings, Crowdfunding) activities.

106. SIB Licensees reported the outsourcing of their compliance function with 10% outsourcing their compliance functions to Jamaica, Portugal or the United States. It is further noted that 38% of SIB Licensees outsource the facilitating of trades to trading and liquidity platforms, albeit none of which are in higher risk jurisdictions, but 10% engaged a trading or liquidity platform that is not regulated by a third party or other overseas regulator so it increases the risk of services provided.

Risk rating: High

Delivery Channels

107. Delivery channels generally include face to face and non face-to-face. Non face-to-face includes the use of intermediaries, introducers, or offering the products online. New delivery channels include products or services offering virtual currencies.

108. According to the data, 17% of SIB Licensees advised that they accept customers via online platforms. These SIB Licensees are mainly broker dealers or market makers and 11% of the customers are from jurisdictions that are higher risk. These SIB Licensees reported that 57% of customers were onboarded directly by the SIB Licensee. In addition, 89% of the total direct customers onboarded by the SIB Licensees via online platforms were by non-face-to-face interaction, which is deemed to be higher risk, 41% of customers were introduced by way of an eligible introducer. The remaining 2% of customers were onboarded by way of an intra-group referral.

109. In relation to the type of payments accepted within the sector, the main payment channel used by the SIB Licensees reporting are international wire transfers. All SIB Licensees that responded to the AML/CFT survey advised that they do not accept physical cash, travellers' cheques, bearer shares or virtual currencies (crypto or other). However, 10% of SIB Licensees of the respondents advised that they accept prepaid cards and 14% advised that they accept third-party payments, which are higher risk payment channels.

Risk rating: Medium-High

Types of Customers

110. SIB Licensees responding to the survey reported a total of 42,331 customers, 81% of which predominantly originate from four jurisdictions, namely China (69%), Japan (7%), Cayman Islands (3%) and Venezuela (2%). Less than 1% of all customers are from higher risk jurisdictions. Five SIB Licensees reported that they do not currently service customers, which means that they either are a family office, have not yet commenced operations, or is in the process of cancelling an existing SIB licence.

111. Of the customers reported, approximately 5% fall within the following higher risk categories: namely, non-profit organizations, corporates, trusts, nominees, special purpose vehicles, HNW individuals, HNW corporates, sophisticated persons and politically exposed persons. Adding a geographic component to this analysis, approximately 2%, of all customers are high risk type customers that originate from a higher risk jurisdiction, namely Angola, Botswana, Cambodia, Iceland, Iran, Kenya, Lebanon, Libya, Mongolia, Myanmar, Nigeria, Pakistan, Panama, Paraguay, Saudi Arabia, Sierra Leone, Somalia, South Africa, Sudan, Tanzania, Vietnam and Zimbabwe. Approximately 2% of the customer base falls within any of the following low risk categories: namely governments or public authorities; financial institutions, or non-financial institutions. The remaining 93% of customers, which are predominantly individuals, carry a medium inherent risk due to having a combination of higher and lower risk factors as outlined in paragraph 99 above.

112. Approximately 2%, were reported to have a net worth of CI$800,000 or net assets in excess of CI$4 million. An additional 3% of customers were reported to qualify as sophisticated persons as defined in the SIBL. Responses indicated that 28% of SIB Licensees have a total of 45 customers with a Political Exposed Persons ("PEP") status, 57% of which are domiciled in the Cayman Islands and 27% Jamaica. No one other jurisdiction has more than 1% of the total reported PEP population of customers.

Risk Rating: Medium-High

Geographic Risk

113. Shareholder and management aspects: From an ownership and control perspective, 69% of SIB Licensees are owned by persons across 18 jurisdictions, mainly Hong Kong, United Kingdom and Switzerland. A total of 10% of the SIB Licensees' senior officers or shareholders were identified as being PEPs.

114. Funds flow aspects: In addition, SIB Licensees main destinations for customer funds were reported to be the Cayman Islands, followed by Canada, the United Kingdom and the United States. About 17% of respondents reported a high-risk jurisdiction, such as Angola, Botswana, Cambodia, Central African Republic, Ghana, Iceland, Iran, Kenya, Libya, Myanmar, Pakistan, Paraguay, Saudi Arabia, Sudan, Vietnam and Zimbabwe to constitute the destination jurisdiction of customer funds. For customer funds transferred out, the jurisdictions of origin were again identified as the Cayman Islands, the United Kingdom and United States followed by Canada. Of all respondents, 10% reported a high-risk jurisdiction to be the originator of customer funds.

115. The customer base for SIB Licensees is global - span across 160 jurisdictions, with 2% of such customers coming from higher risk jurisdictions such as Angola, Botswana, Cambodia, Iceland, Iran, Kenya, Lebanon, Libya, Mongolia, Myanmar, Nigeria, Pakistan, Panama, Paraguay, Saudi Arabia, Sierra Leone, Somalia, South Africa, Sudan, Tanzania, Vietnam and Zimbabwe.

116. SIB Licensees, 69%, that have multi-jurisdiction ownership structures pose a higher risk as such structures can be used to obfuscate the true ownership and/or control of a SIB Licensee.

117. The majority of customers are in non-high-risk jurisdictions, but with the wide geographic dispersion of such customers – covering more than 160 jurisdictions, 22 of which are higher risk – this poses an increased risk from a ML/TF perspective in respect of cross-border transactions and the need for SIB Licensees to be well versed in adherence to the AML/CFT requirements of multiple jurisdictions.

Risk Rating: Medium-High

SIBL (EXCLUDED PERSONS)

Survey overview

Number of registered entities	2,372
Value of all assets under management (AUM)	US$1.266 trillion
Number of Customers	22,801
Main customer types	Natural persons, corporate entities, trusts, nominees, special purpose vehicles, and NPOs.
Main customer countries	Cayman Islands (27%), Brazil (21%), USA (12%), China and Peru (5% each). <1% of all customers are from higher risk jurisdictions (other than China).
Rating Assigned for Sector	Medium-High

Survey Overview

118. In preparation for the risk assessment, CIMA conducted a comprehensive data collection exercise for all SIBL-EPs during 2019 in order to gather data on customers, products/services, geographic exposure and delivery channels to assess the risk in these four categories. In May 2019, a comprehensive AML/CFT questionnaire was sent to all SIBL-Eps and of the 2,372 SIBL-EPs registered with CIMA, 94% provided a response to the data request, resulting in a comprehensive representation of the sub-sector.

119. At the time of the NRA and prior to June 2019, there were 6 categories under Schedule 4. Three categories were excluded and were required to register with the Authority as SIBL-EP and three categories were exempt and were never required to be registered with the Authority.

120. In June 2019, the Cayman Islands amended the SIBL to bring SIBL-EPs under the authorisation and supervisory regime of CIMA. The revised SIBL now makes a clear distinction so that the exempt persons now fall under the three categories pursuant to schedule 2(A) as non-registrable persons pursuant to the SIBL, while Schedule 4 of the SIBL captures persons required to be registered as opposed to being licensed under the SIBL.

121. The sub-sector was assessed against these factors alongside factors that increase or decrease risks, as follows:

Risk Factor	Higher Risk	Lower Risk
The nature and size of the sector	• High value of assets under management coupled with high volumes of transactions executed. • International transactions. • Number of clients. • No physical presence. • Parent company, affiliate or subsidiary in higher risk jurisdictions. • Principal place of business in higher risk jurisdictions.	• Low value of transactions. • Low volume of transactions. • No assets under management. • No clients (i.e. have not commenced business yet).
Customer types	• Trusts. • High net worth persons with KYD$4 million. • Sophisticated. • Politically Exposed Person. • Non-profit organizations. • Corporates/financial institutions in higher risk jurisdictions. • Nominees. • Special purpose vehicles.	• Governments/public sector not from high-risk countries. • Financial institutions not from high-risk countries. • Non-financial institutions not from high-risk countries.
Transactions, products and services	• High complexity, high liquidity and/or volatile products such as shares, options, futures, contracts for differences. • Broker-dealers	• Low complexity securities such as instruments creating or acknowledging indebtedness, instruments giving entitlements to securities and certificates representing certain securities.

	• Maker makers • Securities managers • Forms of payment such as the acceptance of physical cash, travellers' cheques, bearer shares, prepaid cards, virtual currencies or third-party payments. • Acceptance of clients via the use of online platforms.	• Advisory services solely. • Arranger services solely. • Client base that consists of funds licensed or registered in the Cayman Islands.
Distribution/delivery channel	• Non face-to-face / no direct customer interaction • Use of intermediaries and eligible and non-eligible introducers / reliance on a third party.	• Face-to-face contact not from high-risk countries. • Intragroup referrals.
Country risk	• Customers based in/controlled or owned by persons based in high-risk jurisdictions. • Transactions coming from or going to high-risk jurisdictions. • Large overseas customer base.	Customers based in countries with robust AML/CFT systems. • Transactions carried out in and/or with countries with robust AML/CFT systems.

122. When breaking down the sub-sectorial risk allocation into structural, customer, product/service, delivery channel and geographic risks, the following inherent risk ratings are assigned:

Structural Risks

123. Schedule 4 of the SIBL captures persons conducting activities under any of the following circumstances who are required to be registered under the SIBL as follows:

a. A company within a group of companies carrying out securities investment business exclusively for one or more companies within the same group (45 SIBL-EPs solely fall in this category);
b. A person carrying on securities investment business exclusively for: (1) a sophisticated person, (2) a high net worth person, or (3) a company, partnership or trust, whether or not regulated as a mutual fund, of which the shareholders, unit holders or limited partners are one or more such sophisticated person or high net worth person. Where circumstance (3) applies, the SIBL EP must have a registered office in the Cayman Islands for which services are provided by a person or entity licensed to provide such services (2213 SIBL-EPs solely fall under this category); and
c. A person who is regulated in respect of securities investment business by a recognised overseas regulatory authority in the country or territory (other than the Islands) in which the securities investment business is being conducted (49 SIBL-EPs solely fall under this category).

124. SIBL-EPs at the focus of this risk assessment are those 93% excluded from the licensing obligation based on category (b) as these are exposed to a high inherent risk based on the purpose for which they were set-up. Given the large percentage of SIBL-EPs falling in the

high-risk category of (b), the sub-sector displays a higher level of inherent structural risk exposure.

Risk Rating: High

Customer Risks

125. Geographic aspects: SIBL-EPs reported a total of 22,801 customers, 70% of which predominantly originate from five countries, namely the Cayman Islands (27%), Brazil (21%), USA (12%), China and Peru (5% each). Less than 1% of all customers are from higher risk jurisdictions (other than China). Thirty-seven SIBL-EPs reported that they do not service customers, which could mean they either have not yet commenced operations or they are a family office.

126. Customer-categories: Of all 22,801 customers reported, 890, or about 4%, were reported to have a net worth in excess of KYD $4M, with 141 of these high net worth individuals originating from high-risk jurisdictions, 340 customers have PEP status, 9 of which are from a high-risk jurisdiction, an additional 3,180 customers were reported to qualify as sophisticated persons under SIBL despite not being considered as high net worth individuals, with 169 of the sophisticated persons originating from a high-risk jurisdiction. All PEPs, high net worth individuals and qualified investors that originate from a high-risk jurisdiction are higher risk, resulting in a total of 1,390 high-risk customers based on this category.

127. Approximately 63% of customers are considered to fall within the following medium-high risk categories: natural persons (9,665), corporate entities (3,012), trusts (237), nominees (12), special purpose vehicles (1,429), and NPOs (83). Approximately 1,413, or 6%, of all customers are medium-high risk type customers that originate from a high-risk jurisdiction, whereby China by far outnumbers other high-risk jurisdictions. Therefore, 6% of all customers are classified as high-risk customers. The remaining 13,025, or 57%, of all customers falling in the above cited categories are medium-high risk. Approximately 23% of the customer base falls within any of the following low risk categories: governments or public authorities (87); financial institutions (4,234), or non-financial institutions (1,019). A remaining 148 customers are in a high-risk jurisdiction and therefore carry a medium-high inherent risk despite their status as financial institution, designated non-financial business, profession, or government. It should be noted that the responses from the SIBL-EPs did not include a detailed breakdown for 14% of all customers.

128. The data shows that the sub-sector displays a medium-high inherent customer risk exposure.

Risk rating: Medium-High

Product and Service Risks

129. As of September 2019, a total of $1.266 trillion in assets were under management by SIBL-EPs. Almost half of SIBL-EPs responding to the data request reported approximately 100 million USD under management. Of all respondents, 6% indicated that they would manage between 500 million and one billion USD in assets, and 7% reported to have more than 1 billion USD under management. Therefore, based on the responses received from the sub-sector, 13% of SIBL-EPs hold approximately 14% of all assets under management and as such would qualify as high risk compared to the rest of the population based on the overall value of assets under management.

130. Of the various types of activities SIBL-EPs indicated to be engaged in, CIMA considers that the services of broker/dealer (1% of SIBL-EP population), market maker (0.6% of SIBL-EP

population) and securities manager activities (57% of the SIBL-EP population) constitute a high risk as these type of service providers have the greatest level of discretion coupled with funds management authority.

131. From a product perspective, trading in shares, options, futures and contracts for differences pose a high risk because of their greater level of volatility, trading volume, and market leveraging implication. Instruments creating or acknowledging indebtedness or giving entitlements to securities and certificates representing certain securities pose a medium-high risk. Of all respondents, 55% indicated that the services they provide relate to at least one of the high-risk instruments, namely shares. All other instruments seem to be utilized by about 25% of the sub-sector.

132. Based on these classifications, 57% of SIBL-EPs fall in high-risk service categories, and 55% in the high-risk product category. In summary, the data shows that the sub-sector thus displays a medium-high inherent product/service risk exposure.

Risk rating: Medium-High

Delivery Channel Risks

133. SIBL-EPs reported that about 50% of customers were onboarded directly by the SIBL-EP, of which 90% by way of face-to-face interaction deemed to be lower-risk. An additional 3% were onboarded by way of an intra-group referral, which is a lower risk method when assuming a greater level of group-oversight and control over the customer and business relationship. Based on data provided, of all clients onboarded by way of a low risk methods, face-to-face or intra-group methods, 1,244 or 5% stem from a high-risk jurisdiction and would thus constitute high risk despite the lower-risk onboarding channel being used.

134. About 1,300 customers were onboarded directly through a medium-risk direct, non-face-to-face contact. An additional 1,228 SIBL-EP customers were onboarded using an eligible introducer. Of all customers onboarded through an eligible introducer, 591 or 2% originate from a high-risk jurisdiction and would thus constitute higher risk despite the medium-risk onboarding channel used.

135. Approximately 1% of customers were onboarded by way of a non-eligible introducer, which constitutes a high-risk onboarding method. Furthermore, 1% of SIBL-EPs indicated that they would utilize high-risk online platforms to onboard customers and the geographic region of these clients was predominantly China.

136. The main payment channel used by SIBL-EPs are international wire transfers. In terms of both value and volume of transactions this method poses a medium-high inherent risk. Some respondents advised, by way of ranking, that they would accept physical cash (0.6%) third-party payments (0.5%), virtual currencies (0.2%), travellers’ cheques (0.2%), pre-paid cards (0.2%) and bearer shares (0.2%), all of which would constitute a high payment channel risk.

137. The sub-sector displays a medium-high inherent risk based on the delivery channel category, with approximately 10% of all customers qualifying as high-risk, and the majority of SIBL-EPs falling in the medium-high risk category based on payment channel risk factors.

Risk rating: Medium-High

Geographic Risks

138. From an ownership and controls perspective, the sub-sector seems to be heavily utilised by persons from the far-East, followed by the USA and UK, and in the context of domestic business, the Cayman Islands. SIBL-EPs reported a total of 2,557 shareholders, predominantly located in the Cayman Islands (18%), followed by Hong Kong (15%), the British Virgin Islands

(11%), China (9%), the USA (7%) and the UK (7%). A total of 1.6% of shareholders were reported to be nationals of high-risk jurisdictions (other than China).

139. The control structure of SIBL-EPs closely mirrors that of the ownership, with a total of 2,390 controllers also originating from Hong Kong (21%), followed by the Cayman Islands (13%), China (11%), USA (8%), the UK (7%), and the British Virgin Islands (5%). A total of 1.5% of customers were reported to be in a high-risk jurisdiction (other than China). Of the SIBL-EPs that provided responses to the data request, 82% indicated ties with associated entities (parent company, affiliate or subsidiary) located in the Cayman Islands (27%), followed by Hong Kong (14%), the US Virgin Islands (9%), the USA, the UK and China (6% each). About 1.7% of associated entities are in high-risk jurisdictions other than China.

140. The main destinations for client funds were reported to be the Cayman Islands, followed by Hong Kong, the USA and Singapore. About 20% of respondents reported a high-risk jurisdiction to constitute the destination jurisdiction of client funds', with China featuring most prominently. For client funds transferred out, the jurisdictions of origin were identified as the Cayman Islands, followed by Hong Kong, USA, UK, Singapore and Switzerland. Of all respondents, 4% reported a high-risk jurisdiction to be the originator of client funds, again with China being on top of the list.

141. All SIBL-EPs with direct ties to a high-risk jurisdiction are high-risk from a geographic perspective and will be the focus of CIMA's supervisory engagement. From purely a funds flow perspective, the sub-sector displays a medium-low inherent geographic risk.

Risk rating: Medium-Low