



The International Components of Risk Faced by the Cayman Islands as an International Financial Centre

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Contents

- Chapter 1: Introduction 3
 - Purpose of the Assessment..... 3
 - Scope of the Assessment 3
 - Overall Findings for Sectoral Vulnerabilities..... 3
 - Introduction 4
- Chapter 2: Beneficial Ownership and Tax Transparency 5
- Chapter 3: Foreign Money Laundering Threats 7
 - Fraud 7
 - Bribery and Corruption 10
 - Tax Crimes..... 11
 - Drug Trafficking..... 13
- Chapter 4: Terrorism Financing Threat..... 14
 - Movement Typology A: Terrorism related funds are moving through the Cayman Islands to support terrorism abroad..... 14
 - Movement Typology B: Cayman regulated service providers knowingly or unknowingly provide services to customers involved in terrorism or terrorism financing without the funds actually entering or moving through the Cayman Islands 15
 - Movement Typology C: Cayman Companies are used to channel funds or otherwise facilitate funding of terrorism..... 16
- Chapter 5: National Vulnerabilities..... 17
- Chapter 6: Securities Sector Vulnerabilities..... 18
 - SIBL Licensees 18
 - Securities and Investment Business Exempted Persons (SIBL-EPs) 20
- Chapter 7: Investment Sector Vulnerabilities 22
 - Mutual Fund Administrators..... 22
 - Collective Investment Vehicles 24
- Chapter 8: Banking Sector Vulnerabilities 25
- Chapter 9: Money Services Business Vulnerabilities 28
- Chapter 10: Trust & Corporate Services Providers’ Vulnerabilities 29
- Chapter 11: International Insurance Vulnerabilities..... 32
- Chapter 12: Accountant Sector Vulnerabilities..... 32
- Chapter 13: Legal Sector Vulnerabilities..... 33

Chapter 14: Summary Risks in the Cayman Islands as an International Financial Centre 33

The International Components of Risk Faced by the Cayman Islands as an International Financial Centre

Chapter 1: Introduction

Purpose of the Assessment

1. The purpose of this assessment is to better understand the ML/TF risks faced by the Cayman Islands as an international financial centre.

Scope of the Assessment

2. This assessment was taken at the national level and drew from the 2015 ML/TF NRA, as well as updated sectoral assessments conducted by supervisors in 2019.

Overall Findings for Sectoral Vulnerabilities

3. The 2015 National Risk Assessment assessed the risks of various entities operating in the Cayman Islands international sector. In 2019, sector specific risk assessments examining each type of entity in the international financial services sector were conducted in greater detail, using more data from a wide variety of sources. Some of the results differ from the results of the National Risk Assessment due to more comprehensive and granular data being used, some sectors being disaggregated (e.g. TSPs and CSPs, MFAs from the Securities Sector) and a different methodology being used.
4. Table 1 compares the results of the 2015 and 2019 risk assessments. Table 1 also provides a summary of the inherent risk ratings attributed to each segment of the Cayman Islands international financial services industry
5. In 2019, banks, securities, MSBs, TCSPs, and MFAs all displayed a Medium-High risk; while lawyers displayed a Medium risk; and the insurance sector and accountants displayed a Medium-Low risk.

Table 1 – Summary of Sector Risk Assessments 2015 and 2019		
Sector	2015	2019
Banking	Medium High	Medium High
MSBs	Medium High	Medium High
TCSPs	Medium	Medium High
Securities	Medium High	Medium High
International insurance	Medium (domestic and international combined)	Medium Low
MFAs	(part of securities)	Medium High
Accountants	Medium Low	Medium Low
Lawyers	Medium	Medium

Introduction

6. The Cayman Islands is a British Overseas Territory located in the western Caribbean, roughly 100 miles south of Cuba and 180 miles northwest of Jamaica. The territory covers 102 square miles and is made up of three islands: Grand Cayman, Cayman Brac, and Little Cayman.
7. The Head of State for the Cayman Islands is Her Majesty, Queen Elizabeth II, who is represented by the Governor. The executive branch of government consists of the Governor, the Deputy Governor, the Premier, seven other Ministers, and the Attorney General. The legislative arm of government (The Legislative Assembly) consists of 18 elected members and 2 non-voting *ex-officio* members, namely the Deputy Governor and the Attorney General.
8. The judicial system in the Cayman Islands is based on English common law and locally enacted statutes. Local laws are passed by the Legislative Assembly and assented to by the Governor. Subordinate legislation (regulations, orders, rules) is usually made by the Governor acting on the advice of the Cabinet. As a British Overseas Territory, UK statutes have also been extended to the Cayman Islands by means of Orders-in-Council. Several Orders-in-Council extended to the Cayman Islands are Overseas Territories Orders related to United Nations Security Council Resolutions (UNSCRs). They impose prohibitions on activities relating to certain countries, goods and services, or persons and entities, including targeted financial sanctions related to terrorism financing (TF) and proliferation financing (PF).
9. Justice is administered locally at three levels: the Summary Court, the Grand Court and the Court of Appeal. The court where final appeals are heard is the Judicial Committee of the Privy Council in the United Kingdom.
10. The population of the Cayman Islands as at Spring of 2019, was estimated at 68,076. Roughly 97 percent of the population resides in Grand Cayman, with the population sister islands totalling just over 2,500. Caymanians make up around 56.6 percent of the population and 51.9 percent

of the labour force, with foreign residents emanating mainly from Jamaica, the Philippines, the United Kingdom, Canada and the United States of America.

11. The jurisdiction maintains a fixed official exchange rate of one Cayman Islands Dollar (CI\$1.00) to US\$1.20. According to the ESO, total GDP in 2018 was estimated at \$4.6 billion (US\$5.5 billion), while GDP per capita was estimated at \$70,956 (US\$85,147). Financial services and tourism are the mainstays of the economy. The Cayman Islands welcomed 463,001 stayover visitors in 2018, with roughly 83.2 percent from the United States; and an additional 1,921,057 via cruise ships. Financial services, in conjunction with legal and accounting services, account for roughly half of the Island's GDP.
12. There are no direct taxes in the Cayman Islands. Furthermore, there are no property taxes, and no controls on the foreign ownership of property and land. Government charges 6 to 7.5 percent stamp duty on the value of real estate at sale, with reduced rates for first-time Caymanian home buyers. Around 75 percent of homebuyers along Seven Mile Beach are Americans and Canadians.¹
13. Total revenues collected in 2018 (preliminary and unaudited) amounted to \$835.2 million, while expenditures totalled \$697.1 million. This resulted in a Core Government surplus of \$138.1 million. Major sources of revenue included fees from financial services, import duties, work permits, and stamp duties on property sales.

Chapter 2: Beneficial Ownership and Tax Transparency

14. As of December 2019, there were 138,495² legal entities in the Cayman Islands. A significant proportion of companies and Exempted Limited Partnerships are associated with collective investment vehicles and structured finance/capital markets products, including securitisation and aircraft finance. Not all of the entities are investment funds in and of themselves, as some are vehicles in or through which the investment funds operate. Other entities are engaged in "general corporate" business and include trading companies, joint ventures, holding companies, wholly owned subsidiaries, and captive insurance companies. Resident companies make up roughly five percent of legal entities. Most private equity funds are structured as Exempted Limited Partnerships (ELPs).
15. The Cayman Islands has a reputation for political and economic stability, for being business-friendly, and for a well-established legal infrastructure based on English Common Law. It is also one of the most diversified international financial centres. Tax-neutrality, however, makes the jurisdiction vulnerable to tax evasion. Tax evasion was recognised in the ML/TF National Risk Assessment (NRA) of the Cayman Islands as one of the major foreign threats for the Cayman

¹ <https://www.globalpropertyguide.com/Caribbean/Cayman-Is/Price-History>

² This number includes 28,939 Exempted Limited Partnerships that are classified as legal arrangements in the Cayman Islands.

Islands, along with fraud and drug trafficking. The Cayman Islands has, however, implemented tax transparency measures in recent years as a counterbalance to this vulnerability.

16. The Cayman Islands has implemented several international frameworks for automatic exchange of information for tax purposes. This started in 2013 with Intergovernmental Agreement with the U.S. regarding the U.S. Foreign Account Tax Transparency Act and a similar but separate Intergovernmental Agreement with the United Kingdom. The UK extended the Convention on Mutual Administrative Assistance in Tax Matters to the Cayman Islands in 2014, thereby greatly expanding the potential types of co-operation on tax matters by the Cayman Islands. The Convention was originally created by the member States of the Council of Europe and the member countries of the Organisation for Economic Co-operation and Development (“OECD”). The Convention provides for parties to provide administrative assistance to each other in tax matters, including by means of exchange of information on request, automatic exchange of information, spontaneous exchange of information and simultaneous tax examinations. Later in 2014, as an “early adopter”, the Cayman Islands entered into the Multilateral Competent Authority Agreement regarding the Common Reporting Standard developed by the OECD on the mandate of the G20. In 2017 the Cayman Islands entered into the Multilateral Competent Authority Agreement regarding the Country-by-Country Reporting also developed by the OECD (BEPS Action 13). Each of the mentioned international agreements were followed by corresponding Regulations under the Tax Information Authority Law and has resulted in substantial automatic exchange of information for tax purposes by the Tax Information Authority with other competent authorities under those frameworks.
17. The Cayman Islands, as a member of the OECD Inclusive Framework on Base Erosion and Profit Shifting (“**BEPS**”), has enacted the International Tax Co-operation (Economic Substance) Law, 2018, and issued the Economic Substance Guidance Notes Updated (updated 17 September 2019). The Economic Substance Law implements the substantial activities requirements of BEPs Action 5. These require geographically mobile activities to have substance regardless of whether the activities are conducted in a no or nominal tax jurisdiction or in a preferential tax regime of a jurisdiction that has corporate income tax. In June 2019, the OECD Forum on Harmful Tax Practices (FHTP) reported that the Cayman Islands’ tax-neutral regime was not harmful and met all economic substance requirements. Beyond reducing the inherent vulnerability of the jurisdiction to foreign tax crimes, the Economic Substance Law is providing greater clarity with respect to the activities of legal persons.
18. Transparency of beneficial ownership was enhanced in July 2019 with the passage of the Companies (Amendment) Law, 2019. Important changes included a) enabling the General Registry to provide relevant information to competent authorities responsible for AML/CFT supervision within 48 hours for the discharge of their AML/CFT responsibilities; b) requiring confirmation to be added to the disclosure of shares by each member, indicating whether each relevant category of shares held by the member carries voting rights under the articles of association of the company and if the voting rights are conditional c) requiring that a company’s

list of current directors and alternate directors be made available for public inspection at the Companies Registry; and d) increase in sanctions against trusts and corporate service providers, from \$25,000 to a graduated amount to be ultimately determined by the court, for failure to maintain updated beneficial ownership information. Non-compliance with the beneficial ownership requirements are to be referred to the ODPP by the Registrar of Companies for further action.

Chapter 3: Foreign Money Laundering Threats

19. In the 2015 NRA, the higher levels of foreign threats included fraud, tax evasion, and drug trafficking. Corruption has also emerged as a foreign threat since the 2015 NRA.

Fraud

20. In the past four years to 2019, fraud accounted for around 21.4 percent of Suspicious Activity Reports (SARs) to the FRA; second only to general suspicious activity, which made up 35.9 percent. Investment and securities fraud was identified as a major foreign threat to the jurisdiction. SAR filings to the FRA included incidences where assets owned by individuals or entities had been the subject of adverse reports regarding insider trading and stock manipulation and may be tainted with the proceeds of the illegal scheme.

Fraud Case 1: Penny Stock Scheme A SAR was filed by a Cayman Islands Financial Service Provider as it was unable to confirm via a direct phone call, email instructions received from Mr. A. The following day, an individual visited the FSP claiming to be Mr. B's representative and requested additional fund transfers and to add a new signatory to the account. The FSP reported that Mr. A is the sole director, shareholder and beneficial owner of Company A, domiciled in the Cayman Islands, which maintained accounts with the FSP. Further investigations by the FSP identified that Mr. B along with other individuals had been indicted in an alleged series of securities schemes in Jurisdiction 1. Directions issued by the FRA pursuant to s.4(2)(c) of the PCL helped identify further information about the balances in the accounts, how much funds had been processed in the accounts and the sources of the deposits and beneficiaries of outgoing transfers. This facilitated identifying links to other companies / individuals mentioned in the indictment.

Among the companies identified was another Cayman Islands company that appeared to be engaging in securities investment business without being licensed by or registered with CIMA.

SARs were also received from other FSPs, which helped develop a more comprehensive understanding of Company A's operations, along with other companies affiliated with Mr. A. Disclosures were made to the FCIU, CIMA and the FIU in Jurisdiction 1. Subsequently, the individual pleaded guilty and was convicted for conspiracy, related to securities fraud ("pump and dump"), in the overseas jurisdiction and had his Director's Registration suspended by CIMA.

21. SARs also pointed to financial fraud that included the use of deception such as Ponzi schemes, pyramid schemes, mortgage fraud schemes and advance fee frauds. Other incidences included fraud, or cases involving excessive fees charged by financial service providers, suspicions of breach of some form of deception; including investment guidelines, allegations of misappropriation of funds or suspicions of fraudulent financial reporting.

Fraud Case 2: Crypto Pyramid Scheme

The FRA received several SARs concerning Mark Stanley Scott's connection to several Cayman Islands companies, trusts, and bank accounts maintained at Cayman Islands financial institutions. At least one year prior to Scott's conviction in November 2019 for laundering approximately USD\$400 million connected to the OneCoin pyramid scheme, the FRA had conducted a thorough analysis of SARs and had identified several Cayman Islands bank accounts and vehicles that had been used to launder the proceeds in question. In addition, the FRA also identified a multi-million-dollar yacht that had been registered in the Cayman Islands that was beneficially owned by Scott. In December 2018 and again in May 2019, the FRA disclosed information to CIMA, the Financial Crimes Investigation Unit and two overseas FIUs, details of Scott's criminal activities. The information supplied by the FRA assisted in Scott's prosecution and subsequent conviction in the United States. The FRA also identified co-conspirators who are currently being investigated overseas.

Fraud Case 3: Ponzi Scheme

The Fund Administrator of two Cayman Islands exempted limited partnerships ("the Funds"), both regulated by CIMA, filed a SAR for a number of concerns including:

- The postponement of a number of redemption requests submitted by investors in the Funds by the General Partner for several months.
- Directions from the GP to backdate redemptions, restate the NAV accordingly, and post-date settlement of those transactions.
- The Funds' trading activity had been limited to owning the stock of Company X (domiciled in Jurisdiction 9) and based upon ownership levels, the Funds appear to be significant shareholders of Company X.
- All communication with investors is made through the GP or the Director of Company X.
- There is an unusual consistency in the cash flows of the funds in that previous redemptions have been offset by subscriptions from new investors without requiring any corresponding activity in the investment positions held by the Funds.
- Other service providers to the Funds are different from those named in the offering documents (domiciled in Jurisdiction 9).
- Both the custody statements and the email communicating the statements contain numerous typos.
- The Fund Administrator has not been provided a copy of the signed Investment Management Agreement with the company named as Investment Adviser of

the Funds in their respective PPMs. Neither have they communicated directly with the Investment Adviser.

A direction was issued by the FRA pursuant to s.4(2)(c) of the PCL to obtain further information, including: details of the number of investors for each class of shares for the Funds; NAVs for the Funds, broken down by class of share; and the number of shares of Company X held by the Funds. As there were reasonable grounds to suspect a potential Ponzi scheme operation, disclosures were made to the FCIU, CIMA and the FIU in Jurisdiction 9.

22. Business Email Compromise (BEC) fraud was also identified as a major foreign threat for the Cayman Islands. Based on SARs received in 2018, US\$2.9 million was lost to these schemes and a further US\$3.2 million was prevented from being lost through mitigating procedures.

Fraud Case 4: Business Email Compromise

An FSP reported in a SAR that its client, Company M domiciled in the Cayman Islands and licensed by CIMA, had been a victim of a business email compromise fraud. The FSP had been advised that its client was looking for new investment opportunities and would be liquidating several of its investments that had not performed as expected. Over a short period, the FSP received and processed several instructions to transfer funds to alternative investment accounts. The FSP issued instructions to send wires to companies that maintained accounts in Jurisdictions 12 and 13. The FSP also received a request to confirm balances maintained by Company N (sole shareholder of Company M and domiciled in Jurisdiction 14) in its Cayman Islands bank account and was advised that funds would be transferred from Company N's bank account in Jurisdiction 14 to fund a payment to a company that maintained a bank account in Jurisdiction 15.

The funds were received into Company N's Cayman Islands bank account and instructions were received to send funds to the bank account in Jurisdiction 15. However, the FSP noted a subtle difference in the email domain that was sending the instructions and it was identified that the email of Company N had been compromised. It was also discovered that Company N's bank account in Jurisdiction 14 had been compromised. The payment instructions were not executed.

The Cayman Islands bank was informed of the situation and attempted to recall the previous wire transfers that were sent; however due to the time that lapsed the attempts to recall the funds were unsuccessful.

The FRA's analysis revealed a level of sophistication in the perpetrators of the fraud at times checking with the FSP the amount of funds held at the bank accounts, as well as maintaining the structure of the Cayman Islands bank account as the disbursing account. The identified recipients of the wire transfers also did not stand out as unusual investment positions with the companies being involved in market research or emerging wearable technology.

Disclosures were made to the FCIU, CIMA and the FIUs in Jurisdictions 12 to 15.

Bribery and Corruption

23. Bribery and corruption made up 9.4 percent of SARs reported to the FRA during 2016 to 2019. Most of these entailed foreign corruption, which has emerged as a major money laundering threat to the Cayman Islands. International corruption cases involving the Cayman Islands have included 1 Malaysia Development Fund (1MDB); Odebrecht (Brazil); and Vlad Luca Filat, the son of the former prime minister of Moldova.
24. In the case of 1MDB, involving at least six jurisdictions, Malaysian government officials allegedly siphoned money from the development bank for personal gain. The scheme allegedly misappropriated over \$4.5 billion from 1MDB. The US Department of Justice reached a settlement with 1MDB in October 2019 for the Recovery of US\$700 million from Low Taek Jho, the alleged mastermind behind the scheme. As reported in the Jurist Legal News & Research on 31st October 2019³:
- Under the terms of the settlement, Low, his family members, and FFP, a Cayman Islands entity serving as the trustees overseeing the assets at issues in these forfeiture actions, agreed to forfeit all assets subject to pending forfeiture complaints in which they have a potential interest. The trustees are also required to cooperate and assist the Justice Department in the orderly transfer, management and disposition of the relevant assets. From the assets formerly managed by FFP, the United States will release \$15 million to Low's counsel to pay for legal fees and costs. Under the agreement, none of those fees may be returned to Low or his family members. The assets subject to the settlement agreement include high-end real estate in Beverly Hills, New York and London; a luxury boutique hotel in Beverly Hills; and tens of millions of dollars in business investments that Low allegedly made with funds traceable to misappropriated 1MDB monies.*
25. The FRA made disclosures to FIU Malaysia, both upon request and spontaneously.
26. The UK National Crime Agency's (NCA) investigation found that Vlad Luca Filat's extravagant London lifestyle included a £1,000-per-day Chelsea penthouse and a £200,000 Bentley Bentayga. These were funded through large deposits from overseas companies, including in the Cayman Islands and Turkey. Vlad was ordered to hand over £466,000 to the UK authorities from the three HSBC accounts in the UK, which were frozen in May 2018.
27. In December of 2016, Odebrecht S.A. pled guilty in the Eastern District of New York to conspiring to violate the anti-bribery provisions of the Foreign Corrupt Practices Act (FCPA) in connection with a broader scheme to pay nearly \$800 million in bribes to public officials in twelve countries.

³ <https://www.jurist.org/news/2019/10/us-department-of-justice-reaches-settlement-in-1mdb-fraud-case/>

In October 2019, a Miami-based financial advisor, Frank Roberto Chatburn Ripalda (Chatburn), pleaded guilty to a money laundering conspiracy for his role in using the U.S. financial system to launder money to promote violations of the FCPA and Ecuadorian bribery law violations and to conceal and disguise the true nature of those illegal bribe payments. He admitted to conspiring with another Ecuadorian government official to conceal bribe payments intended for the official from Odebrecht S.A., the Brazilian construction conglomerate. These illicit payments were for the benefit of several then-PetroEcuador officials and were facilitated using companies and bank accounts in the United States, Panama, the Cayman Islands, Curacao and Switzerland.

Corruption Case Study 1: Foreign PEPs

An FSP reported that it held four investment accounts for Companies F, G, H and I on behalf of politically exposed individuals. Company F (domiciled in Jurisdiction 4) received funds from an overseas company (domiciled in Jurisdiction 5) and immediately transferred those funds to investment accounts for companies G, H and I (IM domiciled in Jurisdiction 6). There was also negative media concerning the individuals, and the investment manager managing the accounts. The FSP subsequently reported that the investment manager had requested that the monies held be transferred to Jurisdiction 7, where the individuals already held business relationships.

Directions issued by the FRA pursuant to s.4(2)(c) of the PCL obtained copies due diligence documentation and activity in the relevant accounts. A review of the account activity for Company F revealed substantial incoming wire transfers from a company that had been linked to state level corruption in a foreign jurisdiction; as well as from one of the individuals employed with a state owned corporation that had undergone privatization.

Open source searches also revealed that authorities in Jurisdiction 8 appeared to have an interest in the persons affiliated with the account holders. The FRA formed the view that there were reasonable grounds to suspect that the accounts held proceeds of crime. Disclosures were made to the FCIU, CIMA and the FIUs in Jurisdictions 4 to 8. Subsequent to the initial disclosures, the FRA received additional information indicating that there was an imminent risk that the funds held in the Cayman Islands were going to be transferred to an overseas jurisdiction. Relevant disclosures were made to the FCIU, CIMA and the overseas FIU where the funds were going to be transferred. Further follow up revealed that the persons were successful in moving the funds. Efforts are underway to have those funds restrained by domestic law enforcement.

28. The ODPP has responded to international requests for assistance in 26 corruption cases and 20 bribery cases over the last four years.

Tax Crimes

29. As a tax-neutral international financial centre, the Cayman Islands faces the inherent threat of international tax crimes, such as tax evasion. At the time of the NRA, dual criminality provisions

in the Proceeds of Crime Law inhibited the Cayman Islands from cooperating with other jurisdictions with respect to tax evasion, particularly since there are no direct income or corporate taxes in the Cayman Islands. Despite this, the 2015 NRA acknowledged international tax evasion as a major threat for the jurisdiction as an international financial centre. The dual criminality impediment was removed through an addition of section 247(A) of the Penal Code in 2017, allowing for tax crimes committed overseas to be treated as offences under the Proceeds of Crime Law.

30. Seven percent of SARs filed with the FRA in 2018, and 4.7 percent in 2019, were based on suspected tax evasion. There was one disclosure to the Cayman Islands Department of International Tax Cooperation (DITC). In addition, the FRA made one disclosure to the RCIPS in 2017, and four in 2019.

Tax Evasion Typology 1

(Based on actual information received by the FRA, and sanitised to protect the identities of the individuals or entities concerned)

Mr. and Mrs. S (nationals of Jurisdiction 21) have been customers of an FSP for several years. Their account has a substantial balance, but minimal account activity. The FSP requested that Mr. and Mrs. S update their due diligence information. Shortly thereafter, Mr. S visited the FSP and attempted to withdraw all the funds and close their account. Mr. S was advised that the FSP required the updated due diligence information prior to the withdrawal request and ultimate closure of the account.

Mr. S explained what the money would be used for and that it had to be in cash, as a cheque or bank draft was not acceptable for the proposed purpose. Mr. S further advised the FSP that he would not be providing the requested information, as it could attract attention from the revenue authority in Jurisdiction 21. The FSP placed the account under restriction pending the provision of the required information and filed the SAR. The FSP also confirmed that the customers had been included in the relevant tax filings with the Cayman Islands Department of International Tax Cooperation (DITC).

While there was no adverse information regarding Mr. and Mrs. S, the FRA formed the view that there were reasonable grounds to suspect that they could be concealing taxable assets from the revenue authority in Jurisdiction 21. Disclosures were made to the RCIPS and the FIU in Jurisdiction 21.

31. The ODPP has responded to seven international requests for assistance relating to tax evasion over the last three years.

Drug Trafficking

32. Drug trafficking is a threat to the Cayman Islands. However, it is important for this threat to be placed in context. The jurisdiction is not a major producer of narcotics. Illicit inflows of marijuana via small boats are largely destined for domestic use. From time-to-time, packages of cocaine originating from South America and destined for North America wash ashore in the Cayman Islands. However, the Cayman Islands is not a major trans-shipment hub for cocaine or other illicit drugs.
33. While the Cayman Islands continues to be vigilant and has significantly boosted its resources and capabilities with respect to the cross-border detection of illegal drugs, it has equally been vigilant in raising awareness and taking preventative measures as a major international financial centre in the Americas. The drug trafficking threat is foreign in nature, where illicit funds are laundered at the layering or integration stage. HSBC Mexico highlighted the indirect nature of the drug trafficking threat to the Cayman Islands' financial system. The Cayman Islands branch of HSBC Mexico held over 35,000 US dollar accounts by 2008, of which 2,220 were designated as high risk. HSBC Group's Head of Compliance identified customers to a US company alleged to be involved in the supply of aircraft to drug cartels. However, HSBC Mexico failed to terminate suspicious accounts. CIMA revoked the Category B Banking license of Cayman Islands branch of HSBC Mexico in February of 2013.

Drug Trafficking Case 1: Samark Lopez Bello

Samark Lopez Bello is a Venezuelan businessman and an associate of a current Venezuelan minister. Lopez's designation under the Kingpin Act by United States Office of Foreign Asset Control (OFAC) in February 2017, the FRA received several SARs which identified millions of dollars of assets beneficially owned by Lopez Bello through Cayman Island entities (companies and fund structures). Assets identified included two luxury vessels registered with the Cayman Islands Shipping Registry, as well as over USD\$20 million invested in a Cayman Islands fund. It should be noted that while the Cayman Islands structures had been misused, the assets were held in the United States and had been blocked by the reporting entities pursuant to OFAC requirements. Disclosures were made to the Financial Crimes Investigation Unit and an overseas FIU.

34. The Venezuelan US\$5.0 million gold case, widely reported in the media in 2019⁴, was believed by UK NCA officials to be linked to drug cartels operating out of South America. This case is currently before the court in the Cayman Islands.
35. Local law enforcement agencies are proactively engaging with overseas counterparts in order to investigate the flow of funds related to drug trafficking. In July 2019, the FCIU initiated six (6)

⁴ <https://www.msn.com/en-gb/news/uknews/national-crime-agency-seizes-%C2%A34m-of-gold-bars-at-heathrow-sent-by-south-american-drugs-cartel-from-cayman-islands-on-way-to-switzerland/ar-AAEBRGO>

requests of counterparts in another jurisdiction in relation to a parallel investigation being undertaken following the interdiction of a marijuana consignment with an estimated street value of USD 1 million. The aim is to identify the extent of the criminal network, to assist in identifying and tracing the proceedings of crime and develop financial evidence in support of the drugs trafficking investigation. This drug trafficking investigation is being progressed by the FCIU in coordination with the overseas partner.

Chapter 4: Terrorism Financing Threat

36. The Cayman Islands conducted a comprehensive assessment of TF risks in 2019 and found risk to be MEDIUM, reflecting the threat of terrorist financing stemming from the volume of cross-border business and financial transactions in the Cayman Islands, given the jurisdiction's status as an international financial center. Using a wide array of data sources, the assessment examined the three internationally accepted methods used in TF: collection, movement, and use of funds. The assessment was guided by international papers such as the *FATF Terrorist Financing Risk Assessment Guidance of July 2019* and the *Moneyval Guidance Paper on Assessing TF Risks for International Financial Centers with Low Domestic Terrorism Risk*.
37. The risks associated with the collection and use of funds in the Cayman Islands was assessed to be LOW. However, the movement of funds, given the flow of funds through Cayman Islands' entities and financial institutions was assessed as MEDIUM. TF related flows could take place in the following forms:
- a. **Typology A:** The Cayman Islands is used as a transit country for funds that are intended to be used for terrorism purposes abroad, with funds being sent via the Cayman Islands either through banks, other payment channels such as MSBs, or being physically moved through the Cayman Islands' territory.
 - b. **Typology B:** The Cayman Islands regulated service providers knowingly or unknowingly facilitate the movement of funds for terrorism purposes but without the funds actually entering or moving through the Cayman Islands – for example, Cayman lawyers providing services to customers that support foreign terrorism.
 - c. **Typology C:** Cayman Islands legal entities are abused for terrorism financing purposes.

Movement Typology A: Terrorism related funds are moving through the Cayman Islands to support terrorism abroad

38. Analysis of SWIFT wire transfer data for 2018 shows that the United States, UK, Canada and Brazil were the largest recipients of payments from the Cayman Islands in terms of volume of funds (almost 90% of outgoing funds). On the incoming side, the majority of funds in 2018 were received

from the United States, Brazil, the UK and Mexico (72% of incoming funds). High risk jurisdictions, for purposes of this analysis, were identified based on publicly available information such as the FATF list of high-risk and other monitored jurisdictions⁵ and the Global Terrorism Index 2018 issued by the Institute for Economics and Peace⁶. The working group determined that higher risk jurisdictions would best be broken down into two tiers:

- a. **Tier 1:** Iraq, Afghanistan, Nigeria, Somalia, Syria, Pakistan, India, Yemen, Egypt, the Philippines.
- b. **Tier 2:** Democratic Republic of Congo, Turkey, Libya, South Sudan, Central African Republic, Cameroon, Thailand, Sudan, and Kenya.

39. Between 2014 and 2018, only 0.005% of the total outflows sent from the Cayman Islands were to tier 1 and 2 high risk jurisdictions through SWIFT single customer transfers, 74% of which was to tier 1 high risk countries. Most outflows to tier 1 and 2 jurisdictions went to India, the Philippines and Nigeria, influenced by the make-up of the expatriate workforce.

40. With respect to inflows, only 0.03% of all funds received by the Cayman Islands between 2014 and 2018 came from tier 1 and 2 high risk jurisdictions. On inflows from tier 1 countries, higher volumes were received from India, the Philippines and Pakistan. The majority of tier 2 funds were received from Turkey, Kenya and Thailand.

Movement Typology B: Cayman regulated service providers knowingly or unknowingly provide services to customers involved in terrorism or terrorism financing without the funds actually entering or moving through the Cayman Islands

41. Of the 46 SARs received by the FRA between 2015 and 2018 relating to tier 1 and 2 countries, the vast majority involved movement typology B fact patterns, whereby none of these SARs resulted in a domestic investigation.

42. One case involving a movement typology B discussed in the public domain is FBME bank, a Tanzanian licensed bank for which the holding company was established in the Cayman Islands and serviced by a Cayman TCSP. The bank was allegedly involved and investigated by the US federal police for terrorism financing. The Cayman Islands holding company was struck off the company registry in 2016, after the Cayman Islands TCSP ended its relationship with the company.

⁵ <http://www.fatf-gafi.org/countries/#high-risk>.

⁶ <https://reliefweb.int/sites/reliefweb.int/files/resources/Global-Terrorism-Index-2018-1.pdf>; <http://www.fatf-gafi.org/countries/#high-risk>.

Movement Typology C: Cayman Companies are used to channel funds or otherwise facilitate funding of terrorism

43. At the time of the TF risk assessment, there were no investigations for TF. A review of international TF typologies media reports suggested the movement of Bitcoin donations to terrorist organisations traced from Bitcoin wallets connected with Cayman Cryptocurrency exchanges.
44. Given the amount of funds raised via ICOs in the Cayman Islands, there is a risk of Cayman legal entities being used to facilitate the collection of funds through this mechanism. It is therefore important that these most recent trends are closely monitored and that there be an assessment of such risks in the near future.
45. As a result of heightened awareness with respect to TF, the FCIU is currently investigating three TF-related cases. Two of these from FRA disclosures, and one was the result of publicly available information shared among IACC members.

TF Case 1: Possible TF Links to Exempt Company

A disclosure made to the FCIU from the FRA was received electronically through the CRIMSON system on the 31 December 2019. The matter is in the very early stages of investigation.

The matter concerns the operation of a Cayman Islands Exempt company operating as an investment vehicle for construction projects in specified geographical locations.

The intelligence indicated that the two shareholders, one a natural person and another a legal person which appears to be beneficially owned by the same natural person who is of concern, were suspected of having links to specifically listed terrorist entities.

The scale of the shareholding is very small, but the value of the shareholding is recoded as having a combined value of US\$1.0 million.

The investigation was formally adopted on the 7 January 2020 and feedback provided to the FRA on the 9 January 2020 in compliance with the RCIPS' Disclosure Handling Policy.

This matter is the first TF related disclosure that has been made to the RCIPS since the Disclosure Handling Policy came into force in September 2019.

This case is on-going and will be utilising a range of international engagement protocols to corroborate the intelligence and further develop the investigation.

Chapter 5: National Vulnerabilities

46. The Cayman Islands is less vulnerable to ML/TF in 2020 than it was at the time of its first NRA in 2015. Considerable efforts have been placed in upgrading the legal and regulatory framework. Work continues in developing supervisory legislation for virtual assets, and virtual assets service providers, in line with the most recent changes to the FATF Standards. CIMA will be the designated supervisor under the legislation.
47. Domestic cooperation and coordination have been strengthened with the inclusion of the Anti-Corruption Commission (ACC) in both the AMLSG and the IACC. Additionally, operational sub-groups have been formed under the IAAC to further segment domestic cooperation and coordination. The Financial Crimes Focus Group (“FCFG”) was formally constituted in March 2019 as a sub-group of the IACC, for the purpose of domestic cooperation and coordination at the operational level particularly with respect to intelligence, investigations, prosecutions and confiscations. A Proliferation Financing Interagency Group (PIAG) was established at the AMLSG meeting on 18th April 2019, chaired by the Sanctions Coordinator with a focus on targeted financial sanctions for PF and comprising representatives from CIMA, DPP, AMU, FRA, CBC, FCIU, DCI, ROC, MFS and MACI. A Supervisory Forum has been established to enhance coordination and cooperation between supervisors.
48. All DNFBP sectors in the Cayman Islands are now supervised for AML/CFT purposes⁷. A major supervisory gap has been filled within the financial sector, as the Securities and Investment Business Law – Excluded Person (SIBL-EP) regime has been replaced by the SIBL Registered Person (RP) regime, so that RPs are subject to full scope AML/CFT supervision. Supervisors have undertaken sectoral risk assessments in order to develop a greater understanding of ML/TF risks. Furthermore, supervisors are enhancing their risk-based supervision and have administrative penalties as a tool to address non-compliant behavior. Supervisory resources are being enhanced substantially. CIMA, for example, sought and received Cabinet approval for the recruitment of (but not limited to) 52 AML/CFT related staff for the period of 2019-2021.
49. Outreach at national level is conducted regularly with representatives from financial institutions and DNFBPs on all aspects of ML/TF risks and obligations. This outreach is also provided by supervisors at the sectoral level. The national Inter-Agency Coordination Committee has established an industry outreach subcommittee to ensure that regular outreach on national ML/TF/PF trends, risks and obligations is conducted. The Stakeholders Forum also provides an opportunity for private sector participants to discuss amongst themselves and with law enforcement the latest risks and trends in ML/TF and to discuss practical problems and solutions relating to the application of AML/CFT measures.

⁷ There are no casinos in the Cayman Islands as gambling is prohibited. Notaries public in the Cayman Islands do not conduct relevant activities described in the FATF Methodology.

50. Intelligence capabilities have been boosted. The FRA has increased its complement of analysts from 4 during the CFATF on-site visit in December of 2017 to 9 in February 2020 and is in the process of acquiring new IT systems that will include analytics and electronic filing of SARs.
51. The Cayman Islands Bureau of Financial Investigations was established in March 2020. The Bureau currently has a staff complement of eight, dedicated to the investigation of ML/TF, particularly those of foreign origin and in line with national threats. These include one Detective Chief Inspector, one interim manager, one supervisor, four contracted specialist investigators, and one analyst.
52. Crown Counsel are assigned to work with officers in the Bureau from the time an investigation is launched, to ensure a comprehensive approach to investigation and prosecution. All law enforcement agencies work together, with collaboration enhanced by the FCFG, and all have access to a common intelligence pool. All law enforcement agencies have attended training on asset recovery and a new manual on asset recovery has been introduced. Law enforcement agencies regularly seek from and provide information to their overseas counterparts.

Chapter 6: Securities Sector Vulnerabilities

SIBL Licensees

53. CIMA's analysis of Securities and Investment (SIB) Licensees revealed that the risks emanating from one category, namely transactions, products and services were deemed high. However, as four categories; namely the a) nature, size and complexity of the sector, 2) customers, 3) delivery channel, and 4) geography are deemed medium high risk; the overall weighting of all four factors resulted in a composite ML/TF risk rating of MEDIUM-HIGH for the sub sector.
54. 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. SIB Licensees range from small owner managed operations to large global organizations. The majority, 76%, of these SIB Licensees maintain a principal place of business in the Cayman Islands where business is performed or outsourced 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.
55. As of June 2019, a total of \$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.

56. 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. 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. 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.
57. The SIB Licensees cater to a wide range of customers, most of which are individual, retail customers which are a medium high risk for the sector. 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 office⁸, have not yet commenced operations, or are in the process of cancelling an existing SIB licence.
58. Of the customers reported, approximately 5% fall within the following inherently 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 higher risk jurisdictions.
59. SIB Licensees display a MEDIUM-HIGH risk based on the delivery channel used, due to 94% of their customers being obtained through non face-to-face onboarding processes. 2% of customers are also domiciled in higher risk jurisdictions. This is partially mitigated by the payment methods accepted, as no SIB Licensees accept physical cash, travellers' cheques or bearer shares. However, it is also noted that 14% of SIB Licensees accept third party payments.

⁸ A Family Office may not see family members as customers distinct from itself and therefore only trades on its own behalf.

60. 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. 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 an 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. Based on the analysis above, the overall risk assessment is MEDIUM-HIGH.

Securities and Investment Business Exempted Persons (SIBL-EPs)

61. The results of the risk assessment support the original findings in the NRA 2015 where by the securities sector, of which SIBL EPs was then a subsector carries a MEDIUM-HIGH risk and affirms the decision taken by the Cayman Islands government to bring the sub-sector within CIMA’s authorisation and AML/CFT supervisory framework. When breaking down the sub-sectoral risk allocation into structural, customer, product/service, delivery channel and geographic risks, the following inherent risk ratings are assigned:

Structural Risks	High
Customer Risks	MEDIUM-HIGH
Product/Service Risks	MEDIUM-HIGH
Delivery Channel Risks	MEDIUM-HIGH
Geographic Risks	MEDIUM-LOW
Overall	MEDIUM-HIGH

62. The SIBL is the main law regulating the securities industry in the Cayman Islands and sets out CIMA’s mandate in regard to SIBL licensed entities. Schedule 4 of the SIBL captures persons conducting activities under any of the following circumstances who are required to be registered under the SIBL⁹ 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 a sophisticated person, a high net worth person, or 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. In cases where item (b) applies, the exempted person must have a registered office in the Cayman Islands for

⁹ 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. The revised SIBL, which was gazetted in June 2019, 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 licensed under the SIBL.

which services are provided by a person or entity licensed to provide such services (2,213 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).
63. Of the above listed grounds for exclusion from the licensing obligation under the SIBL, a risk differentiation has to be made between persons excluded from the scope of the SIBL based on items (a) and (c) on the one hand, and item (b) on the other hand. Persons excluded based on the circumstances listed in items (a) pose a low risk of ML due to the fact that the business they conduct is purely intra-group business, in other words that the person conducting the activities does not operate *for or on behalf of a third party customer*. Persons excluded from the scope of the SIBL based on item (c) are considered to have a MEDIUM-LOW risk, as they are licensed or regulated in a foreign, recognized jurisdiction.
64. As many as 12% of the 2,812 customers of SIBL-EPs fall under the high-risk customer category, including the 890 high net worth individuals (HNW) customers, 340 PEPs, 1,413 customers posing a high risk based on the categories they fall under, coupled with their ties to a high-risk jurisdiction, and those 169 qualified investors from a high-risk jurisdiction. Approximately 58% of all customers fall in the MEDIUM-HIGH risk category based on their status as corporate vehicle, individual, trust, nominee, SPV or NPO; or due to their geographic features despite being qualified as falling in a low risk customer category. In summary, the data shows that the sub-sector thus displays a MEDIUM-HIGH inherent customer risk exposure.
65. The SIBL-EPs at the focus of this risk assessment are those 93% excluded from the licensing obligation based on item (b) as those 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 high level of inherent structural risk exposure.
66. Of the various types of activities SIBL-EPs indicated to be engaged in, CIMA considers that from a service perspective, 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 types of service providers have the greatest level of discretion coupled with funds management authority. Providing services in the function of securities advisor (19%) or securities arranger (5%) is considered as MEDIUM-LOW risk as those services, by definition, do not involve any trading activities or cash management.
67. The sub-sector displays a MEDIUM-HIGH inherent risk based on the delivery channel category, with about 10% of all customers qualifying as high-risk, and the vast majority of SIBL-EPs falling in the MEDIUM-HIGH risk category based on payment channel risk factors. SIBL-EPs relying on non-eligible introducers or online platforms or utilising higher risk delivery channels display a high inherent risk.

68. The geographic breakdown reported by the sub-sector illustrates that SIBL-EPs are used by persons and entities all over the world to conduct business but that closer direct ties can be identified with China/Hong Kong, the USA, the UK and the Cayman Islands. Some direct ties with high-risk ML countries other than China exist, but to a lesser extent. All those SIBL-EPs with direct ties to a high-risk jurisdiction – whether by way of the customer, the owner/controller, by way of affiliates/subsidiaries/parent companies, or by way of the products and services they provide, are considered to be carrying a high risk from a geographic perspective. From a purely funds flow perspective, the subsector displays a MEDIUM-LOW inherent geographic risk.
69. In June 2019 the Cayman Islands amended the SIBL to bring SIBL-EPs under the authorisation and supervisory regime of CIMA. From January 2020, SIBL-EPs no longer exist as a sub-sector. Entities that had been operating as SIBL-EPs re-registered with CIMA under the Registered Persons regime and now provide full fit and proper information on their shareholders, directors, managers and any other person that may qualify as beneficial owner. These Registered Persons are subject to the same AML/CFT supervision as any other sub-sector subject to CIMA’s mandate.

Chapter 7: Investment Sector Vulnerabilities

Mutual Fund Administrators

70. CIMA undertook further analysis of the MFA sector in 2019, based on data collected from 81% of licensed mutual fund administrators, in order to assess the country’s risk exposure to ML/TF risks emanating from this sub-sector of the securities sector. The analysis concluded that there is a MEDIUM-HIGH risk of mutual fund administrators being misused for ML/TF purposes. While the risks emanating from the type of customers and geographic area were determined to be MEDIUM-LOW; the nature, size and complexity of the sector, transactions, products and services and distribution channels assessed as MEDIUM-HIGH. The weighting of these risk factor resulted in a composite ML/TF risk rating of MEDIUM-HIGH for the sub sector.
71. As at 30 November 2019, there were a total of 80 regulated mutual fund administrators, categorized into three types of mutual fund administration licences: Mutual Fund administration – Full (69) and Mutual Fund administration – Restricted (10) and Mutual Fund administration – Exempted (1).
72. Mutual fund administrators provide services to investment funds including processing subscriptions and redemptions, undertaking client due diligence and ensuring compliance with Anti-Money Laundering procedures, processing dividend and transfer payments as well as reconciling and reporting fund transactions.

73. Mutual Fund administrators include 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. In some cases, there are several levels of outsourcing. While some mutual fund administrators have maintained the traditional services of RTA, NAV, principal office and registered office services, others have expanded to include Foreign Account Tax Compliance/Common Reporting Standards (FATCA/CRS) services, depositary lite¹⁰, directorship to funds and in recent years acting as AML Officers (MLRO, Deputy MLRO and/or AMLCO) to funds.
74. The mutual fund administrators surveyed reported total asset under administration (AUA) of US\$2.157 trillion. Total number of funds under administration was 16k of which 62% were unregulated at the time of the survey. The total number of investors reported was 169k. 54% of these investors are associated with unregulated funds.
75. 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.
76. 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.
77. A large percentage of mutual fund administrators, 53%, are 100% owned by their direct parent. 28% of the mutual fund administrators that responded indicate that their direct parent owns 20% of the shares of the licensee, 6% are owned by their direct parent at a ownership % between 20 – 50% and 13% are owned by their direct parent between 50 and 100%.
78. 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. 19% are in other non-high-risk countries with the remaining 8% in high risk countries.

¹⁰ Depositary lite, refers to a service provided by UK and EU hedge fund managers that desire to market non-EU offshore hedge funds to EU investors through private placement, as a result of the Alternative Investment Fund Management Directive (“AIFMD”). It requires managers to ensure that one or more firms are appointed to perform the depositary duties of safe keeping of assets, cash flow monitoring and oversight (principally the oversight of the valuation process, subscriptions and redemptions, compliance with laws and regulations, investment restrictions and leverage).

Collective Investment Vehicles

79. Collective investment vehicles are not required to be supervised under the FATF standards, as they are instruments rather than financial institutions or DNFBPs. At the time of the National Risk Assessment, an assessment of the securities sector as a whole was undertaken. This included a qualitative analysis of investment fund characteristics and an assessment of the risks related to securities investment businesses and mutual fund administrators.
80. The entire securities sector was assessed as carrying a medium high risk. In relation to funds, the National Risk Assessment noted:

There are no statistics available to quantify the number of unregulated funds operating within the jurisdiction but the information available suggests that there is a large number of such funds in operation that conduct business in much the same way as regulated funds; marketing to the same groups of individuals/entities; and utilizing the same intermediaries.

81. In 2019, CIMA conducted sectoral risk assessment of service providers to funds, including securities investment businesses and mutual fund administrators. These are discussed in this report.
82. In addition, to supplement the sectoral findings, the Cayman Islands has taken measures to obtain more data about investment funds. Firstly, the Mutual Fund (Annual Return) Regulations are being amended to collect more information from investment funds.
83. Secondly, certain investment funds that were previously not regulated will fall into the scope of supervision by CIMA. As at 7th February 2020, collective investment vehicles as defined under the Mutual Funds Amendment Law and the Private Funds Law are required to register with CIMA by 7th August 2020.
84. The Private Fund Law establishes a framework to monitor closed-ended funds, which are currently beyond the scope of the Mutual Funds Law. All vehicles falling within the scope of the private funds definition and section 3(1) of the Private Fund Law must register with CIMA and once so registered will be subject to regulatory obligations, including annual reporting, auditing, recordkeeping and valuation, and can be the subject of enforcement procedures.
85. The Mutual Funds (Amendment) Law, 2020 brings into scope under that law funds with 15 or fewer investors, which are currently excluded from the regulatory framework. Under the Mutual Funds Law, funds are required to file registration documents with CIMA, including details of their operators and their offering documents and, once registered are subject to regulatory obligations, such as annual reporting and auditing, and can be subject to enforcement procedures.

Chapter 8: Banking Sector Vulnerabilities

86. As at September 2019, there were 132 banks supervised by CIMA. These included six retail and four non-retail Category 'A' banks, and 122 Category 'B' banks. Category 'B' banks conduct business exclusively with non-residents, while Category 'A' banks have the option of conducting business both locally and internationally. This assessment focusses mainly on the Category 'B' banks that conduct international business. The banking sector has been assessed as MEDIUM HIGH. The components of the assessment are summarized below.

Nature and Size of Sector

87. The Cayman Islands is a developed and sophisticated international financial centre, with established international financial institutions dominating the market. While the number of Category 'B' banks has declined significantly in recent years, a MEDIUM-HIGH risk remains for this sub-sector due to 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 below.

88. International banking business accounts for 97.7 percent of total assets, mainly through Category 'B' banks, while banks with no physical presence account for roughly 80.1 percent of total assets. These higher structural elements of ML vulnerability are somewhat mitigated by the fact that intragroup assets account for 59.2 percent of cross-border claims. Thirty-three 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. Forty-five 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 30% of the total amount of assets held by Cayman Islands licensed banks related to Category B Banks conducting exclusively intra-institutional business.

89. Claims on Cayman Islands banks of US\$700.5 billion (US\$680.7 when excluding residents) in March 2019 indicated the following geographic distribution of 95% percent those funds: the United States (US\$415.8 billion), , Brazil (US\$51.8 billion), UK (\$34.0 billion), Australia (US\$27.5 billion), Austria (US\$19.8 billion), Sweden (US\$11.8 billion), Germany (US\$9.5 billion), France (US\$9.3 billion), Luxembourg (US\$7.8 billion), China (US\$7.3 billion), Canada (US\$7.2 billion),Switzerland (US\$7.2 billion), and Mexico (US\$5.4 billion).

90. Banking liabilities in the Cayman Islands totalled US\$701.2 billion (US\$652.7 billion when excluding residents) in March of 2019, compared with US\$1.3 trillion in June 2014. A breakdown by jurisdiction showed that 82% of those liabilities (excluding residents) originated from the following jurisdictions: the United States (US\$261.5 billion), United Kingdom (US\$117.9 billion),

Germany (US\$47.1 billion), Brazil (US\$28.1 billion) Australia (US\$21.3 billion), Luxemburg (US\$19.5 billion) Spain (US\$14.2 billion) Canada (US\$10.7 billion), Switzerland (US\$10.1 billion) and Mexico (US\$7.7 billion)).

Customers

91. The assessment for Category B banks results in the rating of high in relation to 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.
92. From a geographic perspective, on the incoming side the top countries by value are the United States by a wide margin followed by Canada, the United Kingdom, Ireland, Luxembourg, Belgium, Germany, and Sweden. On the outgoing side, the top countries are the United States, followed by the United Kingdom, Canada, Ireland, Luxembourg, Germany, Sweden and Belgium. Looking at high-risk jurisdictions only, Cayman Islands banks sent approximately USD 610 billion to, and received approximately the same amount from high-risk jurisdictions. Of these, Category A banks received USD 3 billion from and sent USD 1 billion to high-risk jurisdictions. This compares to USD 607 billion received and USD 609 billion sent by Category B banks to high-risk jurisdictions.

Transactions, Products, and Services

93. Cayman Islands banks transact with most countries in the world. From the data analysed the transaction risk was Medium-High in Category B banks. This rating includes the fact that transactions of Category B banks, however, flow through correspondent banks in countries of cross-border high quality jurisdictions such as the US, Canada, and the UK, all of which were positively assessed by the FATF.
94. In the period July 2018 - July 2019, 9 million transactions were handled by Category B banks with a value of USD 70 trillion, translating into an average of USD 7.8 million per transaction and reflecting the fact that many transactions are intra-institutional. The volume and average value of the physical cash transactions reported by the Category B banks was minimal. There were no virtual currency transactions. PEPs with accounts at Category B banks conducted 49,000 transactions with a value of USD 25 billion, an average of more than USD 500,000 per transaction. 37.5% of the transactions were conducted by domestic PEPs; and 1,000 transactions involving a total amount of USD 300 million were conducted by PEPs from high risk countries. Domestic PEPs

conducting business with Category B banks are mainly Cayman Islands incorporated companies that are controlled by foreign PEPs and to a lesser extent, foreign companies that have one or more local PEPs as directors.

95. With respect to cross-border flows, Cayman Islands banks received funds amounting to USD 104.8 trillion and sent USD 99.4 trillion abroad for the year 2018 and the first half of 2019. The international funds flows involved almost exclusively Category B banks, with the sub-sector receiving a total of approximately USD 104 trillion in cross-border inflows and USD 98.8 trillion in cross-border outflows.
96. The cross-border threat from the major countries was analysed to be Medium. Portfolio investment trade with the United States is significant in both directions. Cross-border transactions with Canada, the United Kingdom, Ireland, Luxembourg, Belgium, Germany and Sweden are also significant. Sweep accounts¹¹ have represented a significant portion of bank funds flowing between the Cayman Islands and the United States. US Federal Reserve Regulation Q, first enacted in 1933 to prohibit banks from paying interest on demand deposits. It was repealed in the United States in 2011, which partly explained falls in the jurisdictions global position in terms of banking assets/liabilities from 5th/6th in the world in 2014 to 11th/12th in 2019. However, US Federal Reserve Regulation D remained, which limits the number of sweeps to six per month.
97. What makes the Cayman Islands a significant international financial centre is that it primarily services large international financial institutions to make investments or place deposits overseas in a tax-neutral environment. The Cayman Islands is the third largest jurisdiction for portfolio liabilities after the United States and the UK, according to the IMF Coordinated Portfolio Investment Survey. This is in addition to being the 11th/12th largest banking centre in the world. Consequently, financial institutions and DNFBPs should monitor inflows and outflows of funds and consider jurisdictions for which certain predicate offences for money laundering are prevalent.

Delivery Channels

98. 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.

¹¹ Inter-branch overnight transfers between the US banks and their Cayman branches on behalf of depositors (mainly large corporations) to overcome domestic regulatory requirements restricting interest on such short-term deposits.

99. Customers of Cayman Islands banks are mainly international corporations, other financial institutions, and high net worth individuals. Individuals make up an insignificant portion of cross-border liabilities, particularly since intra-group liabilities account for a little under two-thirds of total cross-border liabilities. Nonetheless, private banking forms a small part of the overall banking assets in the Cayman Islands, but represent a higher level of inherent customer risk.

Chapter 9: Money Services Business Vulnerabilities

100. A comprehensive assessment of the Money Services Business (MSB) was conducted in 2019 that found the sector to be of Medium-High vulnerability to ML/TF.
101. The sector is comprised of three (3) CIMA licensees, two (2) of which service 99% of the customers. Two (2) of the licensees have their parent companies located in Jamaica whilst for one (1), the parent company is in the Cayman Islands. The three (3) licensees conduct business domestically through seven (7) branches and twelve (12) agents.
102. MSBs mainly provide remittance services primarily to the expatriate working population. Expatriate workers make up 46.7 percent of the labour force, or around 39% of the population. 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 are concerned. Between July 2018 and June 2019 outward remittances amounted to US\$247 million, while inward remittances totaled US\$8 million. 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 reduces vulnerabilities in the MSBs sector.
103. Out of the 67,367 customers, 40% are nationals of Jamaica whilst 36% are Caymanians. The Philippines, Honduras and Nicaragua contribute 8%, 6% and 2% respectively. Together, these first five (5) countries make up 91% of the total population. Remittances by expatriate workers were in line with the proportion of each of the nationalities. Very few customers were PEPs, and the amounts remitted by PEPs were minimal.
104. The data from the quarterly remittances report submitted by MSBs to CIMA for the period July 2018 - June 2019 revealed that of the US\$247 million of outgoing remittances, 90% or US\$222 million were to six (6) countries namely; Jamaica (57%), Philippines (17%), Honduras (7%), United States (5%) Dominican Republic (2%) and Nicaragua (2%). Out of this subcategory of the top 5 outgoing remittances by country, only the Philippines is considered high-risk per the Global Terrorism Index of 2018. Other countries made up the remaining 10%, five (5) of which are considered high-risk. The five (5) countries received only 1.5% or US\$3.6 million from the Cayman Islands, these countries were India, Kenya, Zimbabwe, China and Trinidad and Tobago. Remittances to these high-risk countries, as well as those in the top 5 outgoing remittances by country, were consistent with the demographics of the Cayman Islands expatriate community.

105. Inflows of remittances from other countries to the Cayman Islands amounted to US\$8 million. 76% of the inflows came from five (5) countries: the United States (48%), Jamaica (13%), Canada (7%), United Kingdom (6%) and the Philippines (2%). The only high-risk country in the top 5 is the Philippines. Of the 24% remainder, only 0.1% came from high-risk countries namely Kenya, China, Zimbabwe and India. Incoming remittances are also consistent with the demographics of the Cayman Islands expatriate community.

Chapter 10: Trust & Corporate Services Providers' Vulnerabilities

106. The overall ML/TF risk for the TCSP sector is assessed as Medium-High. 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.
107. The TCSP sector in Cayman 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 products services. Corporate structures and corporate vehicles may increase the risk of money laundering in more complex structures, or where the TCSP acts or arranges for someone to act as a nominee shareholder, as the beneficial owner and true source of funds is obscured. This could facilitate the introduction of illicit proceeds of crime into the financial system.
108. As of 30 September 2019, the Fiduciary Services Division ('FSD') of CIMA had supervisory responsibility for 144 active trust licences, comprising 57 unrestricted, 58 restricted, and 29 nominee trust licenses; and 144 licenses under the Companies Management Law, comprising 120 Company Managers and 24 Corporate Service Providers. Additionally, as of 30 September 2019, there were 47 Controlled Subsidiaries and 131 Private Trust Companies registered with CIMA.
109. Although the number of licensees is relatively small in Cayman (477), they are utilized in the shared management of approximately US\$694 billion across multiple sectors, creating vulnerabilities to money laundering.
110. TCSPs in the Cayman Islands vary greatly in size from small entities with single customers to larger entities. There is a significant difference between the customer base of TSPs and CSPs. Customers of TSPs account for 87% of the total customer base while customers of CSPs account for 15%. Natural persons make up approximately 49% of the customer base and legal persons make up 51% of the customer base of the TCSP sector.

111. In addition to trust management, TCSPs are engaged in transactions related to direct international investments. Direct investment inflows into the Cayman Islands amounted to US\$620.9 billion in 2017. The top 10 jurisdictions accounting for 93% of those inflows included United States (US\$265.5 billion), Netherlands (US\$64.1 billion), Brazil (US\$61.0 billion), Hong Kong (US\$57.7 billion), Canada (US\$35.7 billion), Japan (US\$30.0 billion), the UK (US\$22.0 billion), Ireland (US\$19.4 billion), Luxembourg (US\$14.2 billion), and South Korea (US\$9.6 billion).
112. Direct investments from the Cayman Islands into other jurisdictions amounted to US\$493.5 billion, with the following top ten destinations accounting for 95% of outflows: Hong Kong (US\$110.6 billion), United States (US\$86.1 billion), Luxembourg (US\$80.1 billion), Mauritius (US\$40.5 billion), Netherlands (US\$38.2 billion), United Kingdom (US\$23.4 billion), Ireland (US\$11.8 billion), Japan (US\$9.6 billion), Israel (US\$7.1 billion), and Chile (US\$6.6 billion).

Nature and Size of Sector

113. Nature and size of sector risk for TSPs was rated MEDIUM-HIGH, and MEDIUM-HIGH for CSPs. TSCPs are utilized in the shared management of approximately 694 billion USD across multiple sectors. 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.
114. TCSPs typically maintain a physical presence in the Cayman Islands, and Nominee Trust Licensees and Controlled Subsidiaries carry the same money laundering risks as the parent that holds the Trust Licence, supervised by CIMA.
115. 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.

Types of Customers

116. Customer risk for TSPs was rated MEDIUM-HIGH, and MEDIUM-LOW for CSPs.
117. Although TSPs account for the vast majority of customers (85%), less than a third (32%) are high net worth individuals, a fraction of whom come from high risk jurisdictions (0.05% of customer base). There is an even smaller number of PEPs and very few are domiciled in high risk jurisdictions (approximately 0.0003% of total customer base). The 49 percent of clients that are natural persons were predominantly from Japan (20%); Taiwan; China (19%); Brazil (12%); China (7%); and Mexico (4%). 32 percent of those clients were HNW customers. Of the 51%

clients that were legal entities 90 percent were from the Cayman Islands, while 5 percent were from the USA.

118. CSPs have the remaining 15% of the customer base. A very small percentage of CSP customers (7%) are from high risk jurisdictions. CSPs also have a small number of PEPs as customers, some of which are also from high risk jurisdictions. The 15% of clients that were natural persons were mostly from Taiwan, China (55%); China (17%); Cayman Islands (10%); USA (4%); and Hong Kong, China (2%). 86 percent of the clients that were legal entities were from the Cayman Islands, with 3 percent each from the BVI and USA.
119. Given the low proportion of PEPs and high net worth individuals in high risk jurisdictions, and the low numbers for CSPs, customer risk is assessed as Medium-High for TSPs and Medium-Low for CSPs.

Products and Services

120. The risk for products and services has been rated HIGH for TSPs and MEDIUM-LOW for CSPs. 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.
121. The provision of trust services for 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.
122. 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. The bulk of registered office services are offered through TSPs. The risks are higher than for 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.
123. For both sub-sectors, the risk is mitigated to some extent when service providers offer additional discretionary services because they necessarily have a better understanding of their clients' business and source of funds in conducting their activities.

Delivery Channels

124. The risk for delivery channels has been rated MEDIUM-HIGH for TSPs and MEDIUM-LOW for CSPs. The delivery channels of the TCSP sector encompass face to face, non-face to face, foreign and local introducers, and a small number of online platforms. 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. 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.

Chapter 11: International Insurance Vulnerabilities

125. The insurance industry in the Cayman Islands is divided into two distinct sectors: domestic and international. There are 26 insurers and 68 intermediaries that service Cayman Islands residents, including 12 insurance companies selling life insurance. The domestic insurance industry is not considered to be part of the Cayman Islands' international financial center.
126. The international sector is composed of 646 insurance companies and 24 insurance managers. Out of the 646 insurance companies, only 24 carry on life and other investment related insurance business and a further 8 carry on marine and aviation insurance. Life, investment linked insurance and marine and aviation insurance are considered high risk for ML/TF/PF. The total combined premiums of these 32 companies represents only 4.2% of the total premium received by international insurers.
127. 91% of the risks insured by international insurers originate in the United States. 91% of the business of international insurers consists of insuring solely their shareholders and affiliates. Only 2% of the business is conducted face-to-face. The nature and small scale of the business in the Cayman Islands international insurance sector, combined with the insurers' geographical exposures and client types results in a MEDIUM LOW risk for these entities for ML/TF.

Chapter 12: Accountant Sector Vulnerabilities

128. There are 19 firms of accountants conducting relevant financial business. Nine of these have five or fewer staff, and four are sole practitioners. One quarter of the firms service only local clients and 40% of firms have a mixture of local and international clients. The higher risk services in this sector are handling money, transactions and accounts. Initiation of transactions is a

common service accountants provide to clients. The accounting profession is rated MEDIUM-LOW for money laundering.

Chapter 13: Legal Sector Vulnerabilities

129. The Cayman Islands regulated legal sector is composed of 63 law practices that conduct relevant financial business. The sector includes sole practitioners, firms with a domestic practice, firms with multi-jurisdictional practices and internationally affiliated firms. The main legal services provided in the jurisdiction include advising on structuring investment funds, banking and finance, insurance, wealth structuring and management, including cross border transactions, capital markets, trusts and corporate services, restructuring, insolvency, dispute resolution, litigation, conveyancing, family law and criminal law.
130. The types of clients and transactional context is diverse and at times, complex. As noted in the 4th Round Mutual Evaluation Report of the Cayman Islands however, lawyers mainly engage in advisory services. Lawyers are not allowed to directly engage in TCSP activities without TCSP licenses and supervision by CIMA is then required.
131. Based on the above, the risk in the legal profession was found to be MEDIUM.

Chapter 14: Summary Risks in the Cayman Islands as an International Financial Centre

Nature, Scale, Complexity

132. The Cayman Islands is a large international financial centre in terms of numbers of entities carrying out relevant financial business across many financial sectors, including banking, securities, trusts and insurance. Entities in the Cayman Islands are often formed to participate in or support large, cross-border, sophisticated operations.
133. Many entities regulated as financial institutions in the Cayman Islands, particularly in the banking and securities (registered persons) sectors, do not have physical presence in the Cayman Islands.
134. Entities without a physical presence are represented in the Islands by an authorized agent or registered office. Almost no international insurer has a physical presence in the Cayman Islands and the business is conducted on their behalf by an insurance manager licensed in the Cayman Islands.

135. Many mutual fund administrators, while physically present in the Cayman Islands, outsource their functions, mainly to entities in Ireland, the UK and the US. For example, 67% of the RTA, NAV and AML compliance services provided by mutual fund administrators are outsourced, and 33% of other administrative services are outsourced. Outsourcing arrangements are made with entities located predominantly in the United States (22%), Ireland and UK (16%), Cayman Islands (12%), Canada (7%), Hong Kong (5%), Singapore (4%), Luxembourg (3%) and 18% are in other non-high risks countries. Of note, 12% are outsourced to high risk countries.
136. Persons from a wide range of countries own financial institutions and TCSPs in the Cayman Islands. The predominant country depends on the sector. For example, over 80% of shareholders of insurance companies are from the United States. The shareholders of mutual fund administrators are predominantly located in the Cayman Islands (24%); thereafter, the UK and Ireland (14%), the United States (12%), Switzerland (5%) and Canada (5%) Japan (4%), Guernsey (4%) Bahamas, France, and Australia (5% collectively). In the banking sector, 24% of banks have a parent in North America (16% USA, 8% Canada), 22.4% in South America (17.6% Brazil, 1.6% Colombia, 0.8% Peru and 2.4% Venezuela), and 20% in the Caribbean, Central America or Mexico (0.8% Bahamas, 0.8% Bermuda, 0.8% British Virgin Islands, 7.2% Cayman Islands, 0.8% Curacao, 0.8% Jamaica, 0.8% Trinidad & Tobago, 0.8% Guatemala, 4.8% Panama and 2.4% Mexico).
137. Two-thirds of securities licensees are owned by persons across 18 jurisdictions, mainly Hong Kong, UK and Switzerland, which multi-jurisdictional ownership is seen as posing higher risks. In contrast, registered persons are owned by persons in the Cayman Islands (18%), Hong Kong (15%), British Virgin Islands (11%), China (9%), US (7%) and UK (7%). The control structure of registered persons closely mirrors that of the ownership, with controllers originating from Hong Kong (21%), Cayman Islands (13%), China (11%), USA (8%), the UK (7%), and the British Virgin Islands (5%).
138. Most trust service providers are located in low-risk jurisdictions: nearly a third are located in the Cayman Islands (30%), followed by the United States (13%), Jersey (6%) and BVI (6%), with the remaining 45% spread over a number of countries with 5% or less. For corporate service providers, the vast majority of owners are located in the Cayman Islands (68%). The second largest country is the United States (4%), with the remaining 28% from a number of countries with 2% or less.
139. The complexity of business models, the wide array and high value of products and services offered, along with diverse ownership resulted in all sectors; except the TSPs (High), International Insurance (Medium-Low), Accounting (Medium-Low), and Legal (Medium) sectors; being rated Medium-High on this risk factor.

Types of Customers

140. The Cayman Islands international financial services industry caters to clients in over 160 countries. Most of the clients in the banking, mutual fund administration and insurance sector are legal persons, while the securities and TCSP sectors are almost evenly divided between corporate and natural customers. Outside of the Cayman Islands, geographical exposures to clients include the United States, China, Switzerland, Canada, Japan, the United Kingdom, Brazil, Ireland, Taiwan (China), Luxembourg, as well as some customers from Peru and China in the securities sector.
141. Customer exposures to high-risk jurisdictions are present to a limited extent. Sectors range from 2% of the customer base (for securities licensees) to 7% (in the case of CSPs). Most subsectors indicated an exposure to politically exposed persons of less than 3% of the total customer base.
142. Customer risk in some sectors is mitigated by the fact that some financial institutions only conduct intra-group business, which reduces the risk posed. Namely, the majority of clients of insurance companies are shareholders of the company and approximately one-third of international banks only conduct business with entities within their group.
143. Customers of law firms and accountants are a mix of local and international clients, natural and corporate persons.
144. Banks and entities in the securities sector reported onboarding their customers primarily face-to-face. Most customers of MFAs and TCSPs are onboarded by non-face-to-face means, including through eligible introducers.

Types of Products and Services

145. The products and services offered by entities in the Cayman Islands that have an international focus are diverse and can be complex. This includes a large number of securities investment businesses, which engage predominantly in investment management activities that involve the exercise of discretion.
146. The Cayman Islands banking sector offers a diverse range of products and services to non-resident clients, particularly lending, omnibus accounts for batch processing, investment management and foreign exchange. Banks also effect a high volume of cross-border wire transfers.
147. Trust services providers act as trustees in trust structures and provide ancillary services such as acting as executors, administrators and protectors in a trust and providing registered office services. Corporate services providers are authorized to provide a wide range of services to clients relating to company management. The majority of corporate services providers report the provision of registered office services and directorship services as their primary business lines.

148. Mutual fund administrators provide mainly registrar and transfer agency, NAV calculation and registered office services to their clients. Registrar and transfer agency services are considered to be front-line AML/CFT gatekeeper services.
149. The international insurance sector in the scope for AML/CFT regulation (e.g. long-term insurance and investment linked insurance) is small in terms of number of entities conducting business and premium volume. This sector is seen as carrying a medium-low level of risk.
150. Wealth management services are offered by four types of entities, namely trust service providers that provide trusteeship services to trusts, investment managers and securities broker-dealers and banks. A limited number of banks include wealth management as a primary or secondary line of business. Approximately half of securities businesses act as a broker/dealer and a majority of securities businesses act as investment manager. Trust service providers are by far the largest category of wealth management providers in terms of number of clients, with trustee services representing the main activity of these entities.
151. While the products and services offered by financial institutions and TCSPs are complex and diverse, the products and services are mainly traditional. Financial institutions and TCSPs demonstrate little interest in engaging in novel products and technologies, including fintech, crypto currencies, crowdfunding etc.

Transmission Channels

152. The Cayman Islands financial services industry is mainly international, resulting in a high volume of cross-border financial transfers. The main cross-border transfers occur with the United States. The United Kingdom and Canada are other common counterpart countries. Depending on the sector, cross-border transactions are also significant with Singapore, Hong Kong, Japan, Switzerland, Ireland, Belgium, Sweden and Luxembourg. The majority of transactions are carried through banks which are regulated and closely monitored for AML/CFT purposes. Further, the majority of the funds are transmitted through USA because of the correspondent relationships. The majority of the ultimate beneficiary countries are not high risk. There are very limited exposures to high-risk jurisdictions. Moreover, there are very limited linkages between regulated non-bank entities and entities in the domestic banking sector, which limits the transmission of risk.

Summary

153. Table 2 provides a snapshot of the aggregated main inherent risk factors for the Cayman Islands as an international financial centre.

Table 2 – Overall Risk for the Cayman Islands as an IFC

Risk Area	Factors Increasing Risk	Factors Decreasing Risk
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Nature and Complexity of RFB sector	The Cayman Islands is a large IFC in terms of number of authorized RFBs. A variety of financial services is offered in the jurisdiction. Entities without physical presence	The key financial sectors are supervised for AML/CFT purposes. Intra-group business
Products and Services	Many products and services offered are complex.	Lower risk products such as treasury and sweep accounts
Transmission channels	Significant cross-border wire transfer activity. Funds under management not held in the jurisdiction.	Limited exposure to high risk jurisdictions. Limited exposure of non-bank to banking sector.
Types of customers	Wide variety in type of customers. Most clients are corporations. Some customers are PEPs. RFBs have exposures to over 160 countries through their customer base. Many clients onboarded via non face-to-face means	In the banking sector, many customers are in the same group as the RFB. Limited exposure to high risk jurisdictions. Institutional investors are lower risk.