**Cayman Islands Banking Sector Risk Assessment**

**October 2019**

## **Introduction**

## The purpose of this Banking Sector Risk Assessment conducted by the Cayman Islands Monetary Authority (CIMA) is to identify and assess the Money Laundering/ Terrorist Financing (“ML/TF”) risks faced by the banking sector in the Cayman Islands. Identifying the risks in the sector is the first step in the development and application of a risk-based approach to compliance and thus towards combating ML/TF.

## Under the Cayman Islands Anti-Money Laundering Regulations, banks are required to take steps to identify, assess, and understand their ML/TF risks in relation to customers, geographic areas, products, services and transactions, and delivery channels; and to align all aspects of their internal controls and procedures with their understanding of risk, including customer due diligence procedures, transaction monitoring systems, and the independent audit function. This sectorial risk assessment will inform guidance that will be issued to licensees to aid in their efforts to augment their business wide risk assessment and their risk-based approach to compliance with the Anti-Money Laundering Regulations.

## Assessing the risks within each supervised sector also enables CIMA to efficiently allocate its resources. On a national level, the Banking Sector Risk Assessment will further enhance the Cayman Islands´ understanding of risk and inform and assist policy making and supervision in the area of Anti-Money Laundering/Counter-Financing of Terrorism (“AML/CFT”).

## In addition to the data sources utilized for the 2017 Risk Assessment, a number of key data points have been added, and taken into account to further strengthen the quantitative elements of this Banking Sector Risk Assessment:

## The National Risk Assessment;

## International guidance documents;

## Annual AML/CFT reporting data from banks (more granular submissions);

## SWIFT data on trade financing activities by Cayman Islands banks;

## Cross border cash flows data for the years 2018 and 2019 collected by CIMA;

## Supervisory judgment and expertise by CIMA staff;

## Discussions with industry representatives and consultants.

## The process is further directed by various international guidance papers such as the *Guidance for a Risk-Based Approach for the Banking Sector* and the *National Money Laundering and Terrorist Financing Risk Assessment*[[1]](#footnote-2) and takes into account both the supervisory judgment and expertise of CIMA staff and CIMA issued guidance.[[2]](#footnote-3)

## The Banking Sector Risk Assessment is not intended to cover risks that may be specific to the circumstances of individual banks but evaluates risks from a sectoral perspective. The Banking Sector Risk Assessment also does not assess any types of risks other than those relating to ML or TF.

## **Risk Assessment Methodology**

## The Banking Sector Risk Assessment examines the inherent ML/TF risks that the Cayman Islands’ banking sector faces. Inherent risk is the risk that a particular product/service, customer, delivery channel or activity poses, regardless of the bank that offers it and any risk mitigating controls that may be in place. This approach allows for the creation of peer groups and for the benchmarking of expected controls. The actual controls in place will vary significantly from bank to bank and are expected to be commensurate with the inherent risk that each bank faces.

## Risk factors in the following categories are considered for purposes of this ML/TF risk assessment:

## Nature and size of the sector

## Types of customers

## Transactions, products and services

## Delivery channels

## For each of the listed risk categories, risk increasing and decreasing factors are listed in the table below and help guide the assessment of inherent ML/TF risks.

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

## Geographical risk factors are considered in the context of each of the above categories as geography is an overarching dimension of each risk category. To allow for a structured analysis of available data according to geographic exposure, it was necessary to define the term “high risk jurisdiction.” Countries with weak or insufficient AML/CFT measures present a higher ML/TF risk as do countries associated with high degrees of bribery and corruption, tax evasion, terrorism, conflict zones and organized crime. Countries focused on for purposes of this analysis were therefore those against which the United Nations imposed sanctions[[3]](#footnote-4), and the first 20 countries on the Basel AML Index issued by the Basel Institute on Governance[[4]](#footnote-5).

## Per the abovementioned risk factors, each subsector of the banking sector has been given one of the four risk ratings ***low, medium-low, medium-high, high***. This approach is in line with the CIMA 2017 AML/CFT Sector Specific Risk Assessments. The rating scale used to determine inherent risks for the purpose of this exercise is based on professional judgement and experience and is shown below:

|  |
| --- |
| low |
| medium-low |
| medium-high |
| high |

## **Description of the Banking Sector**

## All banks in the Cayman Islands are licensed and regulated by CIMA in accordance with the Banks and Trust Companies Law (BTCL) and are authorized to provide the full range of banking products and services. There are three types of banking licenses, with the primary distinction that Category A banks may provide services to both the domestic and international markets whereas Category B banks are only authorized to provide services outside of the Cayman Islands:

## Category A banks: Most banks with a Category A license offer retail and commercial banking services to local residents in the Cayman Islands.

## Category B banks: Category B Banks are restricted from engaging in banking business with residents and thus cater mostly to customers outside the Cayman Islands. Category B banks perform a number of activities, such as private banking, treasury management, trade finance, and wealth management.

## Restricted Category B banks: This restricted form of Category B banking license limits business to named customers outside the Cayman Islands which usually having some connection with each other (i.e. companies within a group).

## A total of 132 licensed banks exist in the Cayman Islands comprising 10 Category A banks and 122 Category B banks.[[5]](#footnote-6) Of the Category A banks, 6 are retail and 4 are non-retail banks. Of all banks combined, 81 are branches and 36 are subsidiaries of established international financial institutions. The remaining 15 are affiliates of international financial institutions or private banks as outlined in the below table:

## 

## Global changes in laws and regulations have had an impact on the number of banks licensed in the Cayman Islands. Over the last two decades, banks have continued to consolidate and restructure in pursuit of optimal cost, risk management and governance structures. This has resulted in the steady decline in the number of banks licensed in the Cayman Islands, in particular of Category B license holders. The repeal of Regulation Q in the United States of America in July 2011 was a main driving factor in this regard. Regulation Q prohibited the payment of interest on demand deposits by institutions that are members banks of the Federal Reserve System and created a demand by US banks for Cayman Islands Category B licenses. Since 2001, the banking population has dropped from 426 banks to 132 in 2019, and from 400 to 122 Category B banks.

## The still significant number of foreign and domestic banks licensed in the Cayman Islands coupled with a wide array of products and services offered, the high value of cross-border transactions, the value of domestic assets and liabilities in foreign currency, and the truly international customer base however still put the banking sector at the forefront of the Cayman Islands’ fight against ML and TF. The complexity of business models, banking products, transactions and the global interconnectedness of the sector further contribute to the existing risk environment.

## Looking at the various sub-sectors of the banking sector, the analysis conducted in the Banking Risk Assessment results in an allocation of a medium-low risk rating for Category A banks and a medium-high risk rating for the Category B banks. The comparatively lower risk rating for the Category A banks reflects the subsector’s focus on the domestic market, with a predominantly domestic natural person customer base, a lower volume and simpler, oftentimes domestic transactions, and the involvement of comparatively less risky products and services.

|  |  |
| --- | --- |
| Category A Banks | Category B Banks |
| Nature and Size: low | Nature and Size: medium-high |
| Customers: medium-low | Customers: high |
| Transactions, products and service: medium – low | Transactions, products and services: medium-high |
| Delivery channel: medium-low | Delivery channel: medium-low |
| **Overall: medium-low** | **Overall: medium-high** |

## **Risk Category - Nature and Size of the Sector**

## Banks in the Cayman Islands vary greatly in size from small entities to those with a large global footprint. The majority of the sector is comprised of Category B banks conducting treasury services for group branches in the Americas, with very few engaging in trade finance. The domestic market is serviced by 6 retail banks that, combined, represent less than 15% of total sector assets. As of September 2019, the assets of all Cayman Islands licensed banks totaled USD 626 billion.

## From a geographic perspective, most of the banks licensed in the Cayman Islands are branches or subsidiaries of established international financial institutions conducting business in international markets. About 45 countries from across the globe are represented, with an almost equal distribution across the Americas, Europe, Africa and Asia/Australia.



## **Category A Banks**

## The 10 banks operating on the basis of a Category A license are all well-established institutions with a strong local presence and catering predominantly to the domestic or immediate regional economy. Structurally, Category A banks have limited ties to high risk jurisdictions. Three banks indicated that the parent company (or one of the parent companies) is located in a high-risk jurisdiction in the CFATF region. One Category A bank maintains a subsidiary or branch in a neighboring high-risk jurisdiction and 7 indicated that they maintain an affiliate in a regional high-risk jurisdiction.

## **Category B Banks**

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

## 33 of the Category B banks have a local presence in the Cayman Islands. The remaining 89 Category B banks do not have a local presence but are part of globally regulated financial groups. 45 of the 122 Category B banks provide exclusively intra-institutional business and are thus considered to have a lower inherent risk as they are not conducting business or transactions “for or on behalf of a customer” as required under the FATF definition of “financial institution”. This translates into 34% 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.

## **Conclusion for Risk Category Nature and Size of the Sector**

## The Cayman Islands is a developed and sophisticated international financial center, 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 above. Based on the above outlined factors related to nature and size of Category A, Category A banks display a low risk in this category.

|  |  |
| --- | --- |
| Category A Banks | Category B Banks |
| Nature and Size: low | Nature and Size: medium-high |

## **Risk Category – Types of Customers**

## Cayman Islands banks serve a broad range of customers, including high net worth individuals, PEPs, trusts, NPOs, and various types of legal entities with a total of approximately 152,000 bank customers, of which about 70% are natural persons.

## **Category A Banks**

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

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

## The remaining 22,150 customers of Category A banks comprise governments and various types of legal entities and legal arrangements, including about 800 trusts of which less than 4% are from a high risk country; and 954 NPOs, only 8 of which are from outside the Cayman Islands and none from a high-risk country. Customers further include a total of 7,431 financial institutions and non-financial institutions. Of the remaining customers, about 1,747 or about 1.5% of all Category A bank customers are legal entities involved in higher risk, such as Special Purpose Vehicles, companies involved in the defense industry, the oil and gas industry, the mining industry, the shipping industry or the construction and development industry.

## Beneficial owners of Category A banking relationships are also predominantly domestic in nature, with about 56% of the total number of beneficial owners coming from Cayman Islands and the remaining 44% coming from a wide range of countries. Only 191 beneficial owners or 2% of all beneficial owners of Category A banks come from a high-risk country.

## **Category B Banks**

## Category B banks have a much smaller share of the banking sector’s customers in terms of absolute numbers. Compared to Category A banks, however, Category B banks have a large share of the international, high-net worth, and corporate customer base. The subsector services approximately 39,000 customers or 26% of the total customer base of the Cayman Islands’ banking sector, with a mix of about 4,000 Cayman Islands customers and the 35,000 customers located in 130 different countries. Of the 39.000 customers, 43% are natural persons. The remaining customer base comprises legal entities and legal arrangements.

## Of the 16,952 natural person customers of Category B banks, only 21 are from the Cayman Islands, the rest are foreigners, with 981 or 5% of all Category B bank customers coming from a high-risk country, accounting for 3.5% of the total assets held by individuals. 9,407 or 55% of natural person customers are high-net worth individuals, the majority of them foreigners and 153 of them from a high-risk jurisdiction, accounting for 4.5% of the assets of all high-net worth individuals banking with Category B banks. 592 customers and beneficial owners of Category B banks are PEPs, 26 from a high-risk jurisdiction.

## Of the remaining customer base, 10,877 or 27% of the total customer population of Category B banks are group-entities or non-group banks or other financial institutions located abroad, which are generally considered to be lower risk given that they are licensed, regulated and supervised abroad. The 578 institutional customers from predominantly regional high-risk countries can be seen as an exception to this statement, and as such, those relationships pose a higher customer risk. In addition, 1,550 legal entities that are customers of Category B bank customers are involved in higher risk such as Special Purpose Vehicles, companies involved in the defense industry, the oil and gas industry, the mining industry, the shipping industry or the construction and development industry. Very few of these relationships are however with entities from a high-risk country.

## There are about 1,100 relationships with trusts, of which 0.7% come from high-risk countries. Category B banks have 144 relationships with NPOs, none of which are from a high-risk country. Relationships with professionals such as TCSP, lawyers, notaries, real estate agents, and DPMS are very limited. The number of relationships in total for these professions amounts to approximately 1,600.

## As in the case of customers, also the beneficial owners of Category B banking relationships are predominantly international in nature, with only about 2% of the total number of beneficial owners coming from Cayman Islands and the remaining 98% coming from a wide range of countries. 311 beneficial owners or 2% of all beneficial owners of Category B banks come from a high-risk country.

## The restricted Category B banks have 19 customers from 12 countries of which three customers are in two high risk countries. They have no relationships with natural persons, high net worth individuals, PEPs etcetera and in all cases CIMA has to approve the counterparties before any transaction can be conducted by a restricted Category B bank.

## **Conclusion for Risk Category Customers**

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

## The assessment for Category B banks results in the rating of high in regard 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.

|  |  |
| --- | --- |
| Category A Banks | Category B Banks |
| Customer: medium-low | Customer: high |

## **Risk Category – Transactions, Products and Services**

## **Category A Banks**

## The data from the Annual AML/CFT Report for the period July 2018 - July 2019 show that Category A banks processed close to 42 million transactions with a value of USD 1.1 trillion, corresponding to an average of USD 26,000 per transaction. There were almost 600,000 cash transactions with a total value of USD 1.1 billion, corresponding to an average of less than USD 2,000 per transaction. The currencies of these cash transactions were mostly in KYD. The numbers reflect the cash-based nature of the Cayman Islands’ domestic economy, with local businesses such as supermarkets, gas stations, restaurants, taxis, tour operators, churches etc handling vast number of cash transactions, and a small population of the unbanked residents such as those on temporary work permits who do business mainly in cash. There were no virtual currency transactions.

## PEPs with accounts at Category A Banks conducted 233,000 transactions with a value of USD 3.8 billion, translating into an average of USD 16,000 per transaction. 93% of these transactions were conducted by domestic PEPs, only 300 transactions were conducted by PEPs from a high-risk country. 4,300 of transactions conducted by PEPs were cash deposits.

## **Category B Banks**

## 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 amount 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.

## ***Cross-border transactions***

## Looking at cross-border transactions only, Cayman Islands banks received funds amounting to USD 104,779 trillion and sent USD 99,389 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 104,032 trillion in cross-border inflows and USD 98,761 trillion in cross-border outflows.

## From a geographic aspect, on the incoming side the top countries by value are the United States by a wide margin followed by Canada, the United Kingdom, Ireland and Luxembourg, and Belgium, Germany, and Swede. On the outgoing side, the top countries are the United States, followed by the United Kingdom, Canada, Ireland and Luxembourg, and German, Sweden and Belgium. Looking at high-risk jurisdictions only, Cayman Islands banks sent and received approximately 610 billion each from and to 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 608 billion received and USD 609 billion sent by Category B banks to high-risk jurisdictions.

## ***Trade finance transactions***

## The SWIFT data of 2018 – Q1 2019 show that 123 trade finance transactions were sent by Cayman Islands Category A and B banks, with an average amount of USD 8.7 million, and 411 transactions were received, with an average amount of USD 1.2 million. A total of 22 countries were involved as counterparty country. Only three transactions were connected to two high risk countries.

## ***Products and services***

## Banks in Cayman Islands offer a wide range of products and services, with significant differences between Category A and Category B banks in particular with regards to the focus on treasury management services.

## **Category A Banks**

## Category A Banks operate both in the domestic and international markets and provide a full range of both retail and non-retail banking services to residents and non-residents. Traditional commercial retail and investment banking services are provided by six of the Category A banks, with the others offering a range of institutional investment and international private banking services. In terms of volume, high risk products and services of Category A banks do not feature prominently, with Category A banks not offering omnibus accounts for batch processing, low volumes of trade financing activities and very limited trust and company administration services. The main activity by Category A banks that could pose a somewhat higher risk are foreign currency exchange services, which may be explained by the Cayman Islands’ large tourism industry, its international ties, and its retail lending and general fund management activities. As regards to correspondent services, Category A banks indicated that within the reporting period transactions conducted for non-group respondent institutions involved a total USD 130 billion, only USD 64 billion of which were transferred on behalf of a respondent institution to one high risk country in the region. The exposure of category A banks to risks associate with high risk activities is thus generally very limited.

## **Category B Banks**

## Category B Banks are licensed to conduct a range of international banking business, with limited domestic activity. In practice, the single most important service offered by the subsector is lending to group entities, which is a lower risk activity given that the service/product is not offered to a third party. A high-risk activity, which is the provision of omnibus accounts for batch processing, is the second most relevant service offered in terms of annual gross value, followed by investment management and foreign exchange services. Another high-risk product offered by only category B banks are payables through accounts, although the amounts actually transacted within the reporting period were very limited. Furthermore, Category B banks indicated that they offer loans collateralized by cash and back-to-back loans to non-group customers, both of which are high risk products.

## Unlike Category A banks, Category B banks have a significant number of relationships with respondent institutions, with close to 300 such relationships having been reported. 52% or 272 of those established correspondent relationships are with institutions in 19 countries, two of which are high-risk countries, both in the CFATF region. Category B banks indicated that within the reporting period, transactions conducted for non-group respondent institutions involved a total of USD 7.2 trillion, USD 13 billion of which were transferred on behalf of respondent institutions in two high risk countries in the region. The total volume of transactions processed for respondent institutions was 61,000 transactions with a volume USD 8.3 trillion. Of this, 87% of the volume and 70% of transactions were intragroup transactions.

## **Conclusion for Risk Category Transactions, Products and Services**

## Cayman Islands banks transact with most countries in the world. From the data analyzed it is clear that the transaction risk is higher in Category B Banks than in Category A Banks as the former process almost 100% of all cross-border transactions. With regards to transactions through Category B banks, the Cayman Islands places some reliance on the fact that the main originating/recipient countries of cross-border funds flows are the US, Canada, and the UK, all of which were positively assessed by the FATF.

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

|  |  |
| --- | --- |
| Category A Banks | Category B Banks |
| Transactions: low | Transactions: medium-high |
| Products and Services: medium-high | Product and Services: medium-high |
| Total for Transactions, Products and Services: medium-low | Total for Transactions, Products and Services: medium-high |

## **Risk Category Delivery Channels**

## **Category A Banks**

## Category A banks mostly use traditional face-to-face delivery channels, with just above 64,000 of the existing customers having been onboarded directly by the banks, which accounts for approximately half of all customers of the sub-sector. No Category A bank onboards customers via an online platform. For ongoing business, most of the client contacts are non-face-to-face. One Category A bank places reliance on eligible introducers within the group. Two Category B banks indicate that reliance is place on eligible introducers outside the group, in once case the eligible introducer is located in a high-risk jurisdiction.

## **Category B Banks**

## Category B banks are more exposed to delivery channel risks than Category A banks. 8 Category B banks offer onboarding services via online platforms predominantly to customers in the Cayman Islands, the United States, Brazil and Indonesia. Category B banks reported that most of their customers were onboarded directly by the banks.

## 11 Category B banks reported that they place reliance on introducers within the group and a further 4 Category B banks put reliance on eligible introducers outside the group. Two of the group external introducers are located in a high-risk jurisdiction.

## **Conclusion for Risk Category Delivery Channels**

## 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 Cat A and Cat B banks.

|  |  |
| --- | --- |
| Category A Banks | Category B Banks |
| Delivery channel: medium-low | Delivery channel: medium-low |

## **Mitigating measures**

## The banking sector risk assessment has categorized risks from the “types of customers” for as medium-high for Category A banks and and high for Category B banks. For Category B banks, the “nature and size of the sector” and “transactions, products and services” was also assessed as medium-high. Individual bank risk assessments will consider the risk increasing factors as well as the relevant controls in place in assessing AML/CFT risk, under the risk-based approach. Supervisory plans will be developed accordingly and updated periodically. Banks assessed to have medium-high or high AML/CFT risk will receive a high level of supervision under structured supervisory plans, leading to early intervention to mitigate potential risks. Each bank has a supervisory attention index detailing the frequency of supervisory measures, both onsite and offsite. These measures include, but not limited to onsite inspections, desk-based reviews, prudential meetings and the review of prudential returns. The additional data sources will inform all supervisory engagement and enable timely and focused attention on flags/anomalies.

## Onsite inspections are tailored to ensure that appropriate attention is dedicated to areas of high risk such as high-risk customers, transactions, products and services. This will be achieved through, for instance, the review of files for high risk customers such as PEPs (domestic and foreign), HNWIs, trusts, etc. and the review of wire transfers by high risk customers, wire transfers related to trade finance or those to and from high risk jurisdictions. On-site inspection manual will be updated to include the new AIR and ARC forms as input for sample selection for the file review.

## **Overall Conclusion**

## CIMA has conducted a more through analysis and assessment of the Cayman Islands banking sector to understand its vulnerabilities and how it can be exploited for ML/TF. CIMA concluded that the overall risk rating for the Category A banks is medium-low whilst Category B banks are medium-high. This assessment will enable CIMA, through its risk-based approach, to allocate sufficient resources to adequately perform its AML/CFT supervisory functions by giving due attention to banks that pose the most ML/TF risks for the jurisdiction. In order to keep the assessment up to date, CIMA will continue to analyse information gathered from banks and update its understanding of the likelihood of occurrence of the risks identified as well as the impact on the financial services sector.

1. <http://www.fatf-gafi.org/publications/fatfrecommendations/documents/risk-based-approach-banking-sector.html>

   <http://www.fatf-gafi.org/publications/methodsandtrends/documents/nationalmoneylaunderingandterroristfinancingriskassessment.html> [↑](#footnote-ref-2)
2. <https://www.cima.ky/guidance-notes>. [↑](#footnote-ref-3)
3. <https://www.un.org/securitycouncil/sanctions/information> [↑](#footnote-ref-4)
4. <https://www.baselgovernance.org/basel-aml-index/public-ranking> [↑](#footnote-ref-5)
5. Information as of September 2019. [↑](#footnote-ref-6)