**Cayman Islands Money Services Business Sector Risk Assessment**

**January 2020**

## **Introduction**

## The purpose of this Money Services Business (“MSB”) 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 MSB sector in the Cayman Islands. Identifying the risks is the first step towards combating ML/TF. This step is integral to putting a risk-based approach in place for both the sector and the MSB licensees. MSBs should review and consider this MSB Sector Risk Assessment when they conductor update their business-wide risk assessments. MSBs should also determine the resources and processes required to maintain an understanding of the ML/TF risks faced by the sector as well as specific to their products and services, customer base and the jurisdictions they operate in.

## Assessing the risks within each supervised sector also enables CIMA to maintain an understanding of the ML/TF risks specific to each sector it supervises, the degree to which measures can be expected to mitigate such risks and to efficiently allocate its resources accordingly. On a national level, the MSB Sector Risk Assessment will further enhance the Cayman Islands´ risk understanding, inform and assist Anti-Money Laundering/Counter-Financing of Terrorism (“AML/CFT”) policy making and supervision.

## The data utilized in this MSB Sector Risk Assessment was collected from the CIMA licensed MSBs as part of the Annual AML/CFT surveys and the quarterly remittances reports submitted by the MSBs to CIMA. Other data sources utilized include:

## The National Risk Assessment;

## International guidance documents such as *FATF Guidance for a Risk-Based Approach; Money or Value Transfer Services*[[1]](#footnote-1);

## Supervisory judgment and expertise by CIMA staff;

## Discussions with industry representatives and consultants; and

* Various guidance documents issued by CIMA[[2]](#footnote-2).

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

## **Risk Assessment Methodology**

## The MSB Sector Risk Assessment examines the inherent ML/TF risks to which the Cayman Islands MSB sector is exposed. Inherent risk is the risk that a particular product/service, customer, delivery channel or activity poses, regardless of the entity that offers it and not considering 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 will vary significantly from MSB to MSB and are expected to be commensurate with the inherent risk that each MSB is exposed to.

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

## Nature, scale, diversity and complexity of the sector and its target markets;

## Types of customers;

## Transactions, products and services; and

## Delivery channels/agent risk.

## Geographical risk factors are considered in the context of each of the above categories as geography is an overarching dimension of all risk categories. For each of the listed risk categories, risk increasing and decreasing factors are listed in the below table and guided the assessment of the inherent ML/TF risks.

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| --- | --- | --- |
| Risk factor | Risk increasing aspects | Risk decreasing aspects |
| Nature, scale, diversity and complexity of the sector | * Nature, size and complexity of the MSBs sector.
* High volume of transactions within the sector.
 | * Size of the MSBs sector is small relative to the financial services industry.
* Volume of transactions by the sector is low.
 |
| Types of Customers  | * Counterparties sanctioned by a competent authority for non-compliance with AML/CFT regimes.
* Politically Exposed Persons (PEPs).
* Non face-to-face customers.
* Customers that use agents with no information to identify the beneficial owner of the funds.
* Customers sending/receiving money to countries they do not have apparent ties.
* Customers from countries:
* known to fund/support for terrorist activities or have terrorist organisations operating within them.
* with significant levels of organized crime, corruption, or other criminal activities.
* subject to sanctions, embargoes or similar measures issued by international organisations.
* with weak governance, law enforcement, and regulatory regimes
 | * Low risk counterparties regulated by competent authorities.
* Face-to-face customers.
* Customers with readily available PAYEE/PAYER address, contact information etc.
* Customers not subject to law enforcement sanctions.
* Customers sending/receiving money from family members in their home countries.
* Customers from low risk countries
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| Transactions, products and services  | * Products or services that permit the exchange of cash for a negotiable instrument, such as a stored value card or a money order.
* Products or services that may inherently favour anonymity.
* Products that can readily cross international borders, such as cash, online money transfers, international transfers by mobile phone.
* The global reach of the product or service offered.
* The complexity of the product or service offered.
 | * Less complex products or services offered.
* Products or services that do not permit the exchange of cash for a negotiable instrument, such as a stored value card or a money order.
* Low transaction limits.
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| Delivery channels/ agent risk  | * Agents representing multiple MSBs.
* Agents in higher-risk jurisdiction or serving high-risk.
* Agents with PEP status.
* Agents subject to negative attention or law enforcement sanctions.
* Agents with weak compliance functions.
 | * Limited use of agents as a business model.
* Agents representing only one MSB.
* Agents in low risk countries.
* Agents’ transaction volumes are consistent with their typical past volume.
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## In accordance with the above risk factors, each subsector of the MSB 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 | unlikely |
| medium-low | possible |
| medium-high | likely |
| high | very likely |

1. To allow for a structured analysis of available data, 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. For the purpose of this analysis, countries focused on were those on the most recent FATF list of high-risk and other monitored jurisdictions;[[3]](#footnote-3) countries on the UK Her Majesty Treasury list[[4]](#footnote-4) updated in 2019, the first 20 countries on the Basel AML Index issued by the Basel Institute on Governance[[5]](#footnote-5) in 2019 and the first 19 countries on the Global Terrorism Index for 2018[[6]](#footnote-6).

## **Description of the MSB Sector**

## All MSBs in the Cayman Islands are licensed and regulated by CIMA in accordance with the Money Services Law (the “MSL”). The MSL defines a money services business as (a) the business of providing in or from within the Islands any of the following services; money transmission, cheque cashing, currency exchange, the issuance, sale or redemption of money orders or traveler’s cheques and such other services as the Governor in Cabinet may specify by notice in the Gazette or (b) the business of operating as an agent or franchise holder of a business mentioned in (a).

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

## The analysis conducted in the MSBs Risk Assessment results in an allocation of a medium-low risk rating for the sector.

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| --- | --- |
| **Risk factors** | **Risk rating**  |
| Nature, scale, diversity and complexity of the sector | Low  |
| Types of Customers | Medium - high |
| Transactions, products and service  | Medium - low  |
| Delivery channel/agent risk | Low  |
| **Overall** | **medium-low** |

## In 2017, CIMA conducted sectorial risk assessments and concluded that the MSBs sector was high risk. The FATF Guidance for a Risk-Based Approach for Money or Value Transfer Services (“MVTS”) clarifies that while the MSB providers may act as a conduit for illegal funds transfers, this should not necessarily result into categorisation of all MSB providers as inherently high ML/TF risk. The same can be said of the sector in general. Per the FATF guidance, “the overall risks and threats are influenced by the extent and quality of regulatory and supervisory framework as well as the implementation of risk-based controls and mitigating measures by each MVTS provider”. The Cayman Islands MSB sector is relatively small compared to the other financial services industry sectors. The sector is composed of very few players that offer products and services that are not considered complex, although cash intensive. Transactions are undertaken face-to-face, although agents are utilized to a lesser extent. Very few customers are PEPs and remittances to high risk countries are not significant. In fact, remittances are predominantly consistent with the countries of origin of the expatriate residents. This assessment will demonstrate how CIMA concluded that the sector’s overall risk is now assessed to be medium-low.

## **Risk Category – Nature, scale, diversity and complexity of the sector**

## The domestic market is presently serviced by only three (3) MSB 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. One of the two (2) licensees with parent companies in Jamaica has an ultimate parent that is incorporated in Trinidad and Tobago, a high-risk jurisdiction per the FATF. All other licensees’ parent companies and their ultimate parent entities’ subsidiaries and or branches are in low risk jurisdictions, mainly in the Caribbean region. In total, the three (3) MSB licensees operate their businesses through twelve (12) domestic agents. The total number of domestic branches is seven (7).

## **Conclusion for Risk Category - Nature, scale, diversity and complexity of the sector**

## The Cayman Islands is a developed and sophisticated international financial center, with several countries being represented in the local populace, as described in more detail under the “Risk Category – Types of Customers” section. MSBs play a vital role to the expatriate community through the provision of a platform for the remittance of financial support to their families especially to those countries where the population of the unbanked is still high. However, the MSBs sector is by far smaller than the banking sector as far as the volume of transactions, complexity of operations, global interconnectedness and the number of licensed operators are concerned. The small number of the MSBs operating in the Cayman Islands with a narrow array of products and services coupled with the simple business models reduces vulnerabilities in the MSBs sector.

## Considering these factors, the risk associated with MSBs is low.

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| --- | --- |
| **Risk factor** | **Risk score** |
| Nature, scale, diversity and complexity of the sector | low |

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

## All MSBs customers are natural persons who reside in the Cayman Islands. Other than the Caymanian populace, the Cayman Islands MSBs mainly serve the expatriate community, which is made up of nationals from other countries, some of which acquire Caymanian status over time via permanent residency. Individuals that acquire Caymanian status generally maintain strong connections with their countries of origin.

## Statistics collected from the MSBs by CIMA show that for the period between July 2018 to June 2019, MSBs served a total of 67,367 customers. Because of the nature of the MSBs industry, customers often use more than one (1) MSB and the total customers population of 67,367 includes duplicates of such customers registered with more than one (1) MSB. However, this is not unusual as customers often seek the most favorable fees or exchange rates. Additionally, the MSB of choice is often based on whether there is an agent in the recipient’s area. The actual number of customers might thus be lower, without the duplicates’ population, especially given that the population of the entire jurisdictions was 65,813 people as of 31 December 2018, according to the Economic and Statistics Office (ESO)[[7]](#footnote-7). Additionally, the ratio of the customers per each of the three (3) MSBs was reportedly 45%: 54%: 1%, further indicating that there is duplication of customers in two (2) of the three (3) active MSBs.

1. Out of the 67,367 customers, 40% are nationalities of Jamaica whist 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. In total, 6,381 or 9% of the customers are from countries that are considered high risk; i.e. those that are on the FATF high risk and monitored jurisdictions, the countries on the UK Her Majesty Treasury list[[8]](#footnote-8) and other applicable lists such as OFAC, the first 20 countries on the Basel AML Index issued by the Basel Institute on Governance[[9]](#footnote-9) and the first 19 countries on the Global Terrorism Index for 2018[[10]](#footnote-10). It is worth mentioning that customers from the Philippines make up 8% of the 9% of the customers from the high-risk countries, with a total of 5,280 customers. India contributes 1%. No customers from Iran and North Korea were reported.
2. Statistics from the ESO indicate that there were 25,655[[11]](#footnote-11)work permits in issue as of 31 December 2018, representing 39% of the total population of the Cayman Islands. The work permits holders are from 68 countries. The ESO further reports that in total, people from 135 countries live in the Cayman Islands. Of the 25,655 work permits, 81% or 20,781 are from 7 countries namely; Jamaica (43%), Philippines (14%), United Kingdom (7%), India (5%), United States (4%), Honduras (4%) and Canada (4%). It is therefore not surprising that 40% of the MSBs customers are from Jamaica whilst the Philippines and Honduras are also in the top 5.
3. As far as PEPs are concerned, the sector reported very few customers that fall in that category. Additionally, the value of remittances by PEP customers reported was minimal.

## **Conclusion for Risk Category- Types of Customers**

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

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| --- | --- |
| **Risk factor** | **Risk rating**  |
| Types of customers | medium-high |

## As a means of reducing risk associated with the types of customers, CIMA has been incorporating some of the procedures below in its inspections, however, CIMA will formalize its onsite inspections procedures specifically for MSBs in its next revision to focus on high risk customers and remittances such as:

## remittances by PEPs and other customers considered high risk by each MSB;

## remittances to and by customers originally from high risk countries;

## customers involved in the transactions that have no apparent ties to the destination country and with no reasonable explanations; and

## any other customers conducting their business relationship or transaction in unusual circumstances as determined by each MSB’s transaction monitoring activities.

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

## ***Transactions***

## The data from the quarterly remittances report submitted by MSBs to CIMA for the period July 2018 - June 2019 illustrate that the MSBs processed about US$255 million in remittances, comprising of US$247 million of outgoing remittances and US$8 million of incoming remittances. 90% or US$222 million were remittances to five (5) 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 make 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 are 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 are consistent with the demographics of the Cayman Islands expatriate community.

## Inflows of remittances from other countries to the Cayman Islands amounted to US$8 million. 76% of the inflows came from five (5) countries namely; 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.

## ***Products and services***

## The principal activity of the three (3) MSB licensees is the remittance of funds on behalf of customers. Two (3) of the three (3) licensees’ other business activities include the purchase and sale of foreign currency bill payments and mobile credit top up. Foreign currency customers mainly exchange the United States dollar for the Cayman Islands dollar or vice versa.

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

## The Cayman Islands MSBs transacts with residents from a number of countries in the world who live and work in the jurisdiction. This leaves the MSBs sector at risk to be misused for ML/TF. The fact that the largest volume of funds come from or are sent to Jamaica, Philippines, Honduras and the United States, countries which are well represented in the expatriate community, does not necessarily imply that there is no risk in these transactions. However, the Cayman Islands places reliance on the fact that these countries were positively assessed by the FATF, with the only concern being the Philippines which appears on top 20 Global Terrorism Index. The positive correlation between the geographic distribution of the customers’ nationalities and the remittances by country decrease this vulnerability for ML/TF to an extent, as the foreign residents of the Cayman Islands generally maintain close family ties with their countries of origin. For transactions, products and services, the assessment results in a medium-high risk rating for the sector.

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| --- | --- |
| **Risk factor** | **Risk rating**  |
| Transactions | Medium-high |
| Products and Services | low |
| Overall for Transactions, Products and Services | Medium -low |

## As a means of reducing risk associated with the customers transactions, CIMA has been incorporating some of the procedures below in its inspections, however, CIMA will formalize its onsite inspections procedures specifically for MSBs in its next revision to focus on high risk transactions such as:

## remittances above the CDD threshold;

## remittances that appear structured in an apparent attempt to break up the amounts to stay under the CDD threshold;

## remittances inconsistent with the financial standing or occupation of the customer;

## remittances to high risk jurisdictions; and

## any other high-risk transactions detected during transactional monitoring by each MSB.

## **Risk Category - Delivery Channels /agent risk**

## No MSB licensee indicated that they onboard clients via an online platform. All customers are interacted with face-to-face.

## In total, the three (3) MSB licensees operate their businesses through twelve (12) domestic agents. The total number of domestic branches is seven (7).

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

## **Conclusion for Risk Category Delivery Channels/agent risk**

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

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| --- | --- |
| **Risk factor** | **Risk rating** |
| Delivery Channels/agent risk | low |

## **Mitigating measures**

# The MLS was amended in 2019 to require MSBs to monitor their agents’ compliance with the AMLRs. CIMA will continue to collect and assess information on the remittances by MSBs as part of its efforts to gather information on the origin and destination of the financial flows by the sector. During onsite inspections, procedures will be performed to scrutinize remittances to high risk countries or those that the Cayman Islands population does not have any connections with. Since MSBs carry on relevant financial business as defined in Proceeds of Crime Law, they are required to comply with the AMLRs. CIMA will thus continue to monitor their compliance with the AMLRs. Each licensee’s risk assessment and supervisory plan will be updated regularly. The analysis of quarterly prudential returns and annual audited financial statements will continue to be performed, supplemented with the prudential meetings. Onsite inspections will continue to be conducted on MSBs in accordance with each licensee’s supervisory plan, which takes into consideration the results of the risk assessments, results of the previous onsite inspections etc.

## **Overall summary and conclusion**

# CIMA has undergone a data analysis for the MSBs sector to conclude on the country’s risk exposure to ML/TF and concludes that there is a medium-low risk of the MSBs sector being misused for ML/TF purposes. While the risks emanating from the nature of the sector, products and services and distribution channels are determined to be low, the risks associated with the types of customers are medium-high, mainly due to the number of the customers originating from high-risk countries. The weighting of the “types of customers” risk factor resulted in a composite ML/TF risk rating of medium-low for the sector.

1. <http://www.fatf-gafi.org/documents/riskbasedapproach/?hf=10&b=0&s=desc(fatf_releasedate)> [↑](#footnote-ref-1)
2. <https://www.cima.ky/guidance-notes> [↑](#footnote-ref-2)
3. <http://www.fatf-gafi.org/countries/#high-risk>. [↑](#footnote-ref-3)
4. <https://data.gov.uk/dataset/a424169b-a2c9-4809-9ccd-a68411e5cf51/consolidated-list-of-financial-sanctions-targets> [↑](#footnote-ref-4)
5. <https://www.baselgovernance.org/basel-aml-index/public-ranking> [↑](#footnote-ref-5)
6. <https://reliefweb.int/sites/reliefweb.int/files/resources/Global-Terrorism-Index-2018-1.pdf> [↑](#footnote-ref-6)
7. <https://www.eso.ky/populationandvitalstatistics.html#4> [↑](#footnote-ref-7)
8. <https://data.gov.uk/dataset/a424169b-a2c9-4809-9ccd-a68411e5cf51/consolidated-list-of-financial-sanctions-targets> [↑](#footnote-ref-8)
9. <https://www.baselgovernance.org/basel-aml-index/public-ranking> [↑](#footnote-ref-9)
10. <https://reliefweb.int/sites/reliefweb.int/files/resources/Global-Terrorism-Index-2018-1.pdf> [↑](#footnote-ref-10)
11. <https://www.eso.ky/UserFiles/right_page_docums/files/uploads/the_cayman_islands_compendium_of_statist-10.pdf> [↑](#footnote-ref-11)