



Guernsey Financial  
Services Commission

# National Risk Assessment

Financial Crime Division

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**Money Laundering Residual Risks** (mitigated by internal systems and controls and supervisory regime). 9 ratings, no sectors rated as Very Much Higher or Much Higher

Risk Rating	Industry Sector
Higher	Private Banking & Trust and Corporate Services
Medium Higher	Retail Banking & Investment Management/Advisory/Execution Only
Medium	Legal & Collective Investment Schemes
Medium Lower	Life Insurance & Pensions; Accountancy E-casinos & NRFSBs
Lower	Captive Insurance; Reinsurance & Insurance Linked Securities Real Estate Agents; Dealers in Precious Metals & Registered NPOs
Much Lower	General Insurance

These are relative between sectors in the jurisdiction rather than absolute.

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**Financing of Terrorism Residual Risks** (internal systems and controls and supervisory regime taken into account). 9 ratings, all sectors considered lower risk than ML

Risk Rating	Industry Sector
Lower (financing foreign terrorist activity)	Private & Retail Banking Insurance (General and Life) Investments (General Securities etc. and Collective Investment Schemes) Trust and Corporate Services Legal & Accountancy Dealers in Precious Metals
Much Lower (financing foreign terrorist activity)	E-casinos Estate Agents Registered NPOs
Very Much Lower	All sectors in respect of domestic terrorism activity

## Private Banking - Higher Residual Risk of ML (inherently much higher but mitigated by robust internal systems and controls and supervisory regime)

### Inherent Money Laundering Risk Indicators

High number of high risk customers (18%) from a broad geographic area

4% of customers are international PEPs

High number of non-face-to-face transactions

Advisory & execution only, increases risks of ML (market abuse)

Speed of transactions across a multitude of markets

### Main Threats

Receiving the proceeds of crime from tax evasion, fraud and bribery & corruption from international customers

## TCSPs - Higher Residual Risk of ML (inherently much higher but mitigated by robust internal systems and controls and supervisory regime)

### Inherent Money Laundering Risk Indicators

Significant volume of high risk customers (27%) from a broad geographic area

7% of customers are international PEPs

Legal Persons/Arrangements could be used to conceal the source of assets & beneficial ownership

Non-face-to-face transactions & use of professional advisers or referrers

Extremely high value of some structures

Structures may involve multiple corporate layers

### Main Threats

Receiving the proceeds of crime from tax evasion, fraud and bribery & corruption from international customers

## Retail Banking – Medium Higher Residual Risk of ML (inherently higher but mitigated by robust internal systems and controls and supervisory regime)

### Inherent Money Laundering Risk Indicators

Much lower proportion of high risk customers & PEPs compared to private banking

Predominantly focussed on local residents and businesses

Speed of transactions across a multitude of markets

### Main Threats

Receiving the proceeds of crime from domestic drug dealing

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## Investment Management, Advisory and Execution Only – Medium Higher Residual Risk of ML (inherently higher but mitigated by robust internal systems and controls and supervisory regime)

### Inherent Money Laundering Risk Indicators

High number of non-face-to-face transactions

Speed of transactions across a multitude of markets

Advisory & execution only, increases risks of ML (market abuse)

### Main Threats

Through advisory and execution only trades on behalf of international customers and to a lesser extent domestic customers the potential to facilitate market abuse

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## Collective Investment Schemes – Medium Residual Risk of ML (inherently medium higher but mitigated by robust internal systems and controls and supervisory regime)

### Inherent Money Laundering Risk Indicators

Very large AUM & a broad geographic reach of its customers

Scheme exposure – risk of being controlled by parties with criminal intent or invested in high risk industries and countries which can create bribery & corruption risks e.g. mining

Investor exposure – investing the proceeds of crime. Open-ended schemes are more vulnerable than closed-ended schemes in this respect

### Main Threats

Facilitating the predicate crimes of fraud, tax evasion, market abuse and bribery and corruption within the scheme itself or receiving the proceeds of crime from international customers for investment purposes



## Legal Sector – Medium Residual Risk of ML (inherently medium higher but mitigated by robust internal systems and controls and supervisory regime)

### Inherent Money Laundering Risk Indicators

Low volume of high risk customers (6%) & 3% are international PEPs

Internationally considered attractive to criminals because of the credibility and respectability it can provide

Key introducer of business to the Bailiwick

Generally does not hold client money other than for conveyancing and probate

TCSP activity separately assessed and does not form part of this risk assessment

### Main Threats

It is key in introducing foreign business to the Bailiwick and therefore exposed to similar criminality to that in the finance sector

**Accountancy Sector – Medium Lower Residual Risk of ML** (inherently medium but mitigated by robust internal systems and controls and supervisory regime)

#### Inherent Money Laundering Risk Indicators

Low volume of high risk customers (6.4%) & 4.5% are international PEPs

Typically only hold or manage client funds when appointed for insolvencies/liquidations

Internationally considered attractive to criminals because of the credibility and respectability it can provide.

Generally not an introducer of business to the Bailiwick

#### Main Threats

Accounts falsified by criminals to disguise predicate crime such as tax evasion and fraud and those accounts are unwittingly approved by auditors

**Pensions & Life – Medium Lower Residual Risk of ML** (inherently medium risk but mitigated by robust internal systems and controls and supervisory regime)

#### Inherent Money Laundering Risk Indicators

Long term nature of products and significant financial disadvantages for early cancellation make these products unattractive for money laundering purposes

Very low number of international PEPs

#### Main Threats

Receiving the proceeds of crime from international customers for savings purposes

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All Sectors – Lower Risk of FT for Foreign Terrorism & Very Much Lower in respect of Domestic Terrorism (mitigated by robust internal systems and controls and supervisory regime)

#### Inherent Financing of Terrorism Risk Indicators

Very Much Lower Risk: Domestic terrorist activity is very unlikely due to Guernsey's demographic, political, geographical and cultural profile

Lower Risk: International Finance Centre (“IFC”) – large flows of monies and assets under management does expose the Bailiwick to FT risk in respect of foreign terrorism

#### Main Threats

- 1) Secondary terrorist financing from criminal proceeds – ML threats are relevant to FT
- 2) Exposure to countries with active terrorism or FT threat (payments & customers)
- 3) Exposure to countries with strong links to those countries with active terrorism or countries with a secondary terrorism or FT threat (payments & customers). Positive feedback received on how helpful the guidance issued via Themis on FT threats is.

# How should firms apply the NRA to their business?

## Legal Requirement

Paragraph 3 of Schedule 3 to the Proceeds of Crime Law requires firms to take into account the NRA in its Business Risk Assessment (“B.R.A.”) and Policies, Procedures and Controls

When? At the next review by the Board of Directors post 31 May 2020

## How? Take into account:

Step 1: The inherent ML and FT risk indicators ascribed to your sector in the NRA

Step 2: The predicate crime and FT threats your sector is most exposed to as detailed in the NRA. Read the sections on ML and FT Modalities and the case studies in the NRA as they provide practical examples of how businesses can be abused

Step 3: The specific ML and FT risks your business is exposed to by its customers, products and services

Step 4: The systems and controls employed by your business to mitigate these ML and TF risks

Step 5: Articulate the ML and FT risks and mitigation employed by your business in your B.R.A. and ensure that the B.R.A. is communicated to all relevant employees

## How will the NRA impact GFSC Supervision?

No additional sectors to supervise. General Insurance is lower risk and therefore will continue to be broadly exempt

Will continue to apply risk based supervision across all sectors, but sectors in higher risk sectors will continue to be focus of supervision

Enhancing our data collection with additional periodic financial flows return and enhancements to the Financial Crime Risk Return to take into account the NRA & Handbook

Will continue to check that Business Risk Assessments takes into account the ML & FT risks of the pertinent sector and the specific risks your firm is exposed to by its customers, products and services & how your firm mitigates these risks

The GFSC will be holding sector specific workshops on 20, 24 & 29 April to provide further guidance on how to incorporate the NRA into your business – invites will be sent shortly

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# Handbook Amendments

New Appendix to be added to assist with identifying high risk countries and territories for both ML and FT purposes (focus countries)

Otherwise no substantive changes required as higher risks with trusts and companies and private banking has been mitigated by implementation of enhanced measures.

Country/territory	FATF - strategic ML/TF deficiencies without agreed action plan in place	FATF/FSRB - strategic ML/TF deficiencies with agreed action plan in place	INCSR (US Department of State) – Major drug producing and transit countries	Human Trafficking – US Department of State	State sponsors of terrorism - US Secretary of State/ Terrorist safe havens – US Department of State	Sanctions measures – Minister for External Relations	Transparency International – Corruptions Perception Index	Transparency International – Bribe Payers Index	Worldwide Governance Indicators project	Fund for Peace/ Foreign Policy magazine – Fragile States Index (Alert level)	OECD – jurisdictions that have yet to implement agreed tax standards	Financial Stability Board – Table 2 and Table 3 jurisdictions
	Source: 1	Source: 2	Source: 3	Source: 4	Source: 5	Source: 6	Source: 7	Source: 8	Source: 9	Source: 10	Source: 11	Source: 12
Afghanistan			✓		✓	✓	✓		✓	✓		
Algeria									✓			
Angola							✓		✓	✓		

Now over to the FIS



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