



**ISLE OF MAN**  
**FINANCIAL SERVICES AUTHORITY**

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## **Preventing Financial Crime**

**Analysis of firms' data  
(2017 and 2018)**

**INVESTMENT FIRMS**

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## 1. Introduction and Key Findings for Investment Firms

- 1.1 This report is focused on those firms whose primary business is that of being an **Investment Firm**. For this purpose “Investment Firm” includes those firms who primarily undertake investment / asset management (including to collective investment schemes), stockbroking and other investment business activity not solely confined to financial advisory activity. It specifically excludes those firms classified as financial advisors and any banks undertaking investment activity. Reports for other sectors are also produced.
- 1.2 The population of Investment Firms varies in terms of the diversity of their client bases, activity undertaken, and core services provided. Some are focused on institutional business whereas others provide services to retail and general corporate customers.
- 1.3 This report provides an analysis of two years of data and covers areas such as the geographical profile of customers and beneficial owners, Investment Firms’ assessment of customer risk, reporting and monitoring of financial crime and sanctions, and the use of introducers and third parties.
- 1.4 **Table 1** below provides information on the population of **Investment Firms** who were required to submit the annual AML/CFT data return for December 2018 and December 2017.

**Table 1: Population of investment firms for the purpose of this Report**

	December 2018	December 2017
Number of Investment Firms <sup>1</sup>	18	18

- 1.5 Relatively few foreign PEPs were reported by the sector (for example in comparison to banks), and the risk of doing business with sanctioned persons appears to be remote. However, it was evident that the number of foreign PEPs has increased in the period covered by this report, as has the number of higher risk relationships.
- 1.6 The analysis confirms that the client base is relatively diverse, with a geographical spread of customers by type, residency, and beneficial ownership. There is therefore a material cross border aspect to the sector; noting however concentrations domestically, to the UK and South Africa. The data also confirms that a substantial

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<sup>1</sup> The population excludes any banks that also conduct investment business.

portion of business is conducted on a non face to face basis, including through introducers; both aspects that can increase inherent risks.

- 1.7 The above profile, coupled with the nature of products and services offered, results in a medium inherent risk of Investment Firms being exposed to a range of money laundering / terrorist finance threats. The importance of Investment Firms having strong and effective monitoring and control frameworks is therefore paramount.

## 2. Background to the AML/CFT data return

- 2.1 The Isle of Man Financial Services Authority’s (“the Authority”) regulatory objectives<sup>2</sup> include “*the reduction of financial crime*”. In its **2018-2021 Strategic Plan** the Authority sets out its *long term goals* and *strategic objectives* which include:-

Long term goal	Strategic objective
<i>Continue to develop our identity and culture and to operate as a forward looking integrated regulator</i>	<i>Enhance the framework to protect consumers and deter financial crime</i>
<i>Fully implement a risk-based supervisory approach for every entity within our remit, including vulnerability to financial crime</i>	<i>Encourage innovation and continuous improvement in all that we do</i>
<i>Be an International Financial Centre which is recognised as effectively deterring financial crime</i>	

- 2.2 During 2016-2017 the Authority consulted on, and subsequently introduced, a pilot annual AML/CFT data return, designed to obtain information from regulated and registered entities to help the Authority monitor AML/CFT threats and trends in, and across, sectors. The table below shows the scope of returns to date and the planned returns for submission in 2020 and thereafter:

Responders	Annual reporting period	Basis for the information	Submission deadline
All regulated entities <sup>3</sup> Sample of registered entities <sup>4</sup>	31 December 2016	Best endeavours <sup>5</sup>	29 November 2017
All regulated and registered entities (firms)	31 December 2017	Part actual data, part best endeavours	31 December 2018

<sup>2</sup> as set out in the Financial Services Act 2008 (“FSA08”)

<sup>3</sup> Regulated under the FSA08, the Insurance Act 2008 and the Retirement Benefits Schemes Act 2000

<sup>4</sup> Registered under the Designated Businesses (Registration and Oversight) Act 2015.

<sup>5</sup> Refer Annex 1: Data Quality.

All firms	31 December 2018	Part actual data, part best endeavours	31 December 2019
All firms	31 December 2019	Part actual data, part best endeavours	30 September 2020, contingency to 31 December 2020
All firms	31 December 2020 and thereafter	Actual data (unless by exception)	30 June 2021 and 30 June thereafter

2.3 Based on the original pilot exercise (December 2016 data), high level results were presented to industry groups during 2018. The Authority has now also analysed the 2017 and 2018 data and developed, for the first time, a collective industry view across sectors<sup>6</sup>, excluding gambling, that are subject to the Island’s AML/CFT framework. The Authority will use this information to help with its risk assessment of sectors, and individual firms.

### 3. Objectives

3.1 The gathering and analysis of data from all firms about AML/CFT helps the Authority to achieve the regulatory objective of “*the reduction of financial crime*”.

3.2 The data informs the Authority’s understanding of the ***inherent risks*** that firms, and sectors, may pose, and supports the Authority’s AML/CFT supervisory work utilising a risk based approach. Some information provided also relates to a firm’s ***control environment***. The information that must be reported is dependent on the type of activity a firm undertakes, for example a bank must report more information when compared to a financial advisory firm. Key areas of focus include:-

- The jurisdictional risk profile of the customer base and ultimate beneficial owners;
- The extent of non-face to face and introduced business undertaken by firms;
- Identification and reporting of suspicious activity for both money laundering and terrorist financing;
- Monitoring and screening processes adopted, including for sanctions;
- How firms categorise customer risk;
- The level of politically exposed persons in the system, and how these are identified;
- The compliance and internal audit mechanisms;
- Outsourcing of AML/CFT processes;

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<sup>6</sup> The data does not include information from the small number of firms who are regulated only for bureau de change, agency payment services, or cheque cashing. These firms currently submit different AML/CFT statistical data which is analysed separately.

- The payment methods accepted by firms in relation to incoming and outgoing transfers; and
- The types of client or product / services provided.

3.3 The data underpins the Island's understanding of the wider financial crime environment and forms a key part of the National Risk Assessment process, alongside the specific quarterly financial flow data that the Authority receives from the Island's banking sector.

## 4. Customer risk profile – Investment Firms

### A. Geographical profile - residency

4.1 Firms are required to report their customer relationships according to the residency of the customer, based on the ISO country code standard. This information enables the Authority to consider jurisdictional risk, and the extent to which customers are linked to higher-risk jurisdictions, when assessing sectors and firms.

4.2 The total number of customer relationships reported by Investment Firms as at 31 December 2018 was **13,355 (2017: 12,590)**, of which **45.8%** are resident in the Isle of Man (**2017: 42.6%**) and **10.1%** in the UK (**2017: 18.5%**).

At the end of 2018, Investment Firms reported that **57.7%** of customers were natural persons (**2017: 56%**).

Of the natural persons, **34.9%** are resident in the Isle of Man (**2017: 31.6%**) and **11.9%** in the UK (**2017: 22.1%**). There were also **25.6%** resident in South Africa (**2017: 21.6%**). Some of these customers will be customers of more than one firm that reports data. These three countries alone made up over **72%** (**2017: 75%**) of the total residency profile of natural persons for the sector.

Of the non-natural persons, the most common residency (of the legal arrangement) was the Isle of Man at **60.7%** (**2017: 56.7%**). The UK made up a further **7.5%** (**2017: 13.8%**).

The data reported by Investment Firms on the residency of non-natural customers (legal arrangements) is not unexpected with the majority being from countries which have mature company and trust formation sectors, or are offshore finance centres.

Further, Investment Firms reported that **51.5%** of their non-natural customer book were customers introduced, or managed by, Isle of Man regulated trust and company service providers (**2017: 45.1%**).

Tables 2a and 2b below provide a more detailed breakdown.

**Table 2a: Total percentage of relationships based on residency of the customer**

	Customer relationships: natural persons (% of total customers)		Customer relationship: Non-natural persons <sup>7</sup> (% of total customers)		Total customer relationships (% of total)	
	2018	2017	2018	2017	2018	2017
<b>Isle of Man</b>	20.2%	17.7%	25.6%	24.9%	45.8%	42.6%
<b>Channel Islands</b>	0.3%	0.3%	2.9%	2.0%	3.2%	2.3%
<b>UK</b>	6.9%	12.4%	3.2%	6.1%	10.1%	18.5%
<b>EU (excludes EEA and Switzerland)</b>	3.5%	3.4%	4.2%	4.6%	7.7%	8.0%
<b>Other Europe</b>	0.7%	0.6%	2.0%	1.1%	2.7%	1.7%
<b>Africa</b>	15.9%	13.0%	1.6%	2.0%	17.5%	15.0%
<b>Americas</b>	3.3%	2.9%	2.4%	2.7%	5.7%	5.6%
<b>Asia (including Middle East)</b>	6.1%	4.8%	0.2%	0.3%	6.3%	5.1%
<b>Oceania</b>	0.8%	0.9%	0.2%	0.3%	1.0%	1.2%
<b>TOTAL</b>	<b>57.7%</b>	<b>56%</b>	<b>42.3%</b>	<b>44%</b>	<b>100%</b>	<b>100%</b>

**Table 2b: Top 5 countries by residency of the customer**

Country of residence	Natural Persons (% of total natural persons)		Country of residence	Non-natural persons (% of total non-natural)	
	2018	2017		2018	2017
<b>Isle of Man</b>	34.9%	31.6%	<b>Isle of Man</b>	60.7%	56.7%
<b>UK</b>	11.9%	22.1%	<b>UK</b>	7.5%	13.8%
<b>South Africa</b>	25.6%	21.6%	<b>Malta</b>	9.0%	8.4%
<b>United Arab Emirates</b>	5.2%	3.9%	<b>Guernsey</b>	6.1%	3.7%
<b>Brazil</b>	2.7%	2.2%	<b>South Africa (not in top 5 for 2018)</b>	n/a	2.7%
			<b>Gibraltar (new in top 5 for 2018)</b>	4.0%	n/a
<b>TOTAL</b>	<b>80.3%</b>	<b>81.4%</b>		<b>87.3%</b>	<b>85.3%</b>

<sup>7</sup> For a corporate or trust customer the residency will likely be reported as the country of incorporation / establishment of that company or trust (or of the trustee).

The jurisdictional profile of the customer base for Investment Firms does not exhibit material higher risk features although there is a relatively wide geographic spread with some significant exposure to South Africa resident individuals, noting the majority of this is concentrated in two firms.

## B. Geographical profile – residency of ultimate beneficial owners

4.3 Investment Firms can provide services to non-natural customers (“entities”) and must understand who the beneficial owners of such entities are.

Of the non-natural customer book, **56.4%** of beneficial owners are resident in the Isle of Man (**2017: 36.8%**), followed by the UK at **18.4%** (**2017: 22.4%**) and South Africa at **11.1%** (**2017: 17.7%**). These three countries alone made up over **85%** of the total beneficial ownership residency profile for the sector (**2017: 77%**).

*Note: a small number of firms were not able to report complete residency data on beneficial owners of non-natural customers.*

Tables 3a and 3b below provide a more detailed breakdown

**Table 3a: Residency of the beneficial owners of non-natural customers**

	Residency at 31 December 2018		Residency at 31 December 2017	
	Beneficial owners	Entities	Beneficial owners	Entities
Isle of Man	56.4%	60.7%	36.8%	56.7%
Channel Islands	1.5%	6.8%	0.7%	4.6%
UK	18.4%	7.5%	22.4%	13.8%
EU (excludes EEA and Switzerland)	3.5%	10.0%	12.3% <sup>8</sup>	10.4%
Other Europe	1.3%	4.7%	0.8%	2.6%
Africa	12.3%	3.8%	19.3%	4.6%
Americas	3.7%	5.6%	4.0%	6.3%
Asia (including Middle East)	2.1%	0.6%	2.8%	0.6%
Oceania	0.8%	0.3%	0.9%	0.4%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

<sup>8</sup> The figure of 12.3% for 2017 includes 6.9% relating to Malta. One firm incorrectly reported its beneficial ownership information of non-natural customers in 2017 as being the same as the country of residence of the corporate entity.



**Table 3b: Top 5 countries by residency of the beneficial owner (of entities)**

	Country of residence of the beneficial owner (% of total number of beneficial owners)	
	2018	2017
Isle of Man	56.4%	36.8%
UK	18.4%	22.4%
South Africa	11.1%	17.7%
Malta (not in top 5 for 2018)	n/a	6.9%
Belgium	1.3%	1.9%
Brazil (new in top 5 for 2018)	1.1%	n/a
<b>TOTAL</b>	<b>88.3%</b>	<b>85.7%</b>

The jurisdictional profile of the beneficial owners of non-natural customers for **Investment Firms** is relatively wide in its scope, albeit with a particular concentration of UBOs being resident in the Isle of Man, UK and South Africa. This is similar to the profile evident in the residency of natural persons (see 4.2).

### C. Politically exposed persons and other high risk customers

4.4 **Tables 4a and 4b** show customer relationships, as assessed by Investment Firms, deemed to pose a higher risk of money laundering, and the level of politically exposed persons (“PEPs”) among the customer base. PEPs<sup>9</sup> include people with prominent public jobs who may be in a position to abuse their role for private gain.

4.5 At the end of 2018 Investment Firms reported **222 customers who are, or are associated with, a PEP<sup>10</sup> (2017: 166)**, including **141 related to foreign PEPs (2017: 117)**. Firms are required to identify PEPs at the start of a business relationship and, through effective monitoring, if any persons subsequently become PEPs. Firms are required by law to undertake enhanced checks and monitoring of all customers who are, or are associated with, foreign PEPs and any domestic PEPs who the Firm assesses as posing a higher risk.

**Table 4a: PEP relationships**

	Number of PEP relationships (and as a % share of all relationships)	
	31 December 2018	31 December 2017
Customers who are/ are associated with PEPs	222 (1.66%)	166 (1.32%)
<i>Of which are foreign PEPs</i>	141	117
<i>Of which are domestic PEPs</i>	81	49

<sup>9</sup> PEP is defined in the Anti-Money Laundering and Countering the Financing of Terrorism Code 2019.

<sup>10</sup> The actual number of individual (natural) PEPs may be lower than the number of customers reported.

- 4.6 At the end of 2018, **all 18 Investment Firms** confirmed that they screen for PEPs at the start of a business relationship, and screen their customer records on a periodic basis to determine if a customer has become a PEP. For the latter, the frequency of screening varied but was predominantly either annually, half yearly or ad-hoc rather than through automated daily monitoring (**6 of the 18**); however, **all 18** confirmed they always screen their customer records at the occurrence of a trigger event.
- 4.7 At the end of 2018 Investment Firms reported **621 higher risk customers (2017: 364)**; this includes customers who are categorised as being higher risk for reasons other than being a PEP. Where firms identify that customers pose a higher risk, either at the outset of a business relationship, or through an event that occurs during the business relationship, they are legally required to conduct enhanced customer due diligence.

**Table 4b: High-risk customer relationships**

	Number of high risk customer relationships (total and new) (and as a % share of total / new customer relationships)	
	December 2018	December 2017
Total high risk customers (includes any PEPs assessed as higher risk)	621 (4.65%)	364 (2.89%)
New high risk customers on-boarded in the reporting period (includes any PEPs assessed as higher risk)	124 (4.69%)	58 (2.48%)

- 4.8 The proportion of total, and new, high risk customers as a percentage of all customers increased in 2018 compared to 2017 by more than 50%. This was primarily as a result of growth in one firm together with some evidence of re-rating of customers across a smaller number of larger firms.
- 4.9 However, overall, PEPs and other high risk customers represent a **relatively small proportion** of the total customer base of Investment Firms (**less than 5%**). Note that the same individual customers may appear more than once in these figures because individuals and businesses may have multiple financial relationships.
- 4.10 Investment Firms also reported that they review the customer risk assessment and CDD information for all high risk (including higher risk PEPs) relationships at least annually.

## 5. Tackling Financial Crime – Investment Firms

### A. Resourcing the fight against financial crime

5.1 To effectively monitor and address the risk that persons abuse the financial system for money laundering and terrorist financing requires a significant amount of firms' time and resources. As at 31 December 2018 Investment Firms reported that they collectively employ **310 staff<sup>11</sup> in the Isle of Man (2017: 293)**, of which **43 (14%)** were reported as being in compliance and prevention of financial crime roles (**2017: 41 / 14%**).

It should be noted that compliance roles are not solely focused on financial crime, with conduct risk, and protection of clients' assets also being key features of the Investments sector.

5.2 Relevant staff require ongoing training to ensure they have the effective knowledge to help detect and prevent their firm from being misused by criminals. In the year ended 31 December 2018, Investment Firms reported that **297 general refresher or induction / detailed training places were filled (2017: 266)**. This effectively represented **96%** of total staff employed (including directors) (**2017: 91%**).

In addition, Investment Firms reported that **54 staff (17%)** received additional specialist training (**2017: 46 / 16%**).

### B. Outsourcing of processes to group entities or third parties

5.3 Information is obtained on the outsourcing of certain activities or functions to group entities or third parties. Where outsourcing occurs firms should have robust monitoring and control processes in place, as responsibility remains with the firm. Information is requested in respect of the following:-

- Customer on-boarding (including for risk assessments, collection of due diligence, screening, and business acceptance);
- Ongoing monitoring;
- MLRO and Compliance activity (for AML/CFT); and
- Staff screening and take-on.

5.4 It was evident from the reporting by Investment Firms that they do not generally outsource the activity relating to the above. Any outsourcing was limited to either group companies (as part of a service company model) or to third parties who are

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<sup>11</sup> This includes IOM individuals employed through a group company but working for the Investment Firm.

themselves regulated businesses in the Isle of Man providing management services. There was slightly more use of pure third party outsourcing for the screening of staff at take-on. **Table 5** below provides more information (for 2018 only).

**Table 5: Outsourcing of AML/CFT activity**

Description	Undertaken by the Firm	Outsourced to Group <sup>12</sup>	Outsourced to Third Parties <sup>13</sup>
<b>Client on-boarding</b>			
<i>Customer risk assessments</i>	Yes - 14	Yes - 2	Yes - 2
<i>Collection of customer due diligence</i>	Yes – 14	Yes - 2	Yes - 2
<i>Customer screening</i>	Yes – 14	Yes - 2	Yes - 2
<i>Customer acceptance</i>	Yes – 14	Yes - 2	Yes - 2
<b>Ongoing monitoring</b>	Yes - 14	Yes - 2	Yes - 2
<b>MLRO &amp; Compliance activity</b>			
<i>MLRO / DMLRO activity</i>	Yes – 14	Yes - 2	Yes - 2
<i>Compliance activity</i>	Yes – 14	Yes - 2	Yes – 2
<b>Staff screening and take-on</b>	Yes - 12 <sup>14</sup>	Yes - 5	Yes - 4

## C. Monitoring for, and reporting of, financial crime

5.5 The law requires employees of firms to report knowledge or suspicion of money laundering within their firm, to their MLRO. In the year ended 31 December 2018, **15** cases of concern, suspicion or knowledge of money laundering were either identified by staff, generated through automated processes, or identified from other intelligence sources, and reported to the firms’ MLROs (**2017: 13**). In addition, **no** reports were raised which were terrorism related (**2017: zero**).

5.6 MLROs must consider these reports, and decide whether a formal submission to the **Isle of Man Financial Intelligence Unit**<sup>15</sup> (“FIU”) is justified, and must be registered with the FIU’s “Themis” system to be able to make reports. At the end of 2017 and 2018, of the **18** Investment Firms, **16** reported they were registered on “Themis”. The two firms that were not reported as being registered are managed by other firms that are registered on Themis.

<sup>12</sup> This was limited, with the exception of staff screening, to a group service company.

<sup>13</sup> This was limited, with the exception of staff screening, to regulated businesses in the Isle of Man with permission to provide management services.

<sup>14</sup> This includes where a firm reports it undertakes part of the process, but may also outsource elements to others.

<sup>15</sup> See <https://www.fiu.im/>

- 5.7 In 2018, after investigation by MLROs, **10** cases of knowledge or suspicion of money laundering were reported to the FIU (**2017: 9**). **No** reports were made that were terrorism related (**2017: zero**). Further, Investment Firms reported **no** cases to the FIU regarding general intelligence (**2017: zero**).
- 5.8 In 2018 Investment Firms handled **5** requests from law enforcement and other competent authorities (**2017: 6**). Of these, **3** explicitly related to money laundering or terrorism (**2017: 1**).
- 5.9 Engagement between the FIU, other law enforcement agencies and financial firms is a crucial component that supports investigations and prosecutions, not only in the Isle of Man but as part of international cooperation. The generally low levels of reporting for the Investment sector is not unexpected taking into account the nature of the services provided (including close relationship management), and the maturity and size of the sector.

**Table 6: Liaising with the authorities**

Description	Year ended 31 Dec 2018	Year ended 31 Dec 2017
Internal Money Laundering disclosures to the MLRO	15	13
External Money Laundering disclosures to the Financial Intelligence Unit	10	9
Internal Terrorist Financing disclosures to the MLRO	0	0
External Terrorist Financing disclosures to the Financial Intelligence Unit	0	0
Section 24 disclosures to the Financial Intelligence Unit	0	0
<b>Enquiries received from law enforcement authorities</b>	<b>5</b>	<b>6</b>
<i>Of which were Money Laundering related</i>	<i>3</i>	<i>1</i>
<i>Of which were Terrorism related</i>	<i>0</i>	<i>0</i>
<b>Enquiries received from other competent authorities</b>	<b>0</b>	<b>0</b>
<i>Of which were Money Laundering related</i>	<i>0</i>	<i>0</i>
<i>Of which were Terrorism related</i>	<i>0</i>	<i>0</i>

#### **D. Refusing and blocking services because of financial crime risk**

- 5.10 Concerns relating to financial crime may lead to firms turning away a prospective customer. In the year ended 31 December 2018 Investment Firms reported that they **did not decline any** potential new relationships because of financial crime, terrorism or sanctions related concerns (**2017: 4**). In some cases, Investment Firms would not always have knowledge or suspicion of financial crime but customers may have posed an unacceptable risk.

Of the declined cases in 2017, **75%** were non-natural clients.

The total number of **declined cases** equated to **less than 0.2%** of all new customer relationships established in 2017.

- 5.11 Firms are required to monitor ongoing business relationships and may cease to provide services because of their own financial crime risk appetite, or may terminate relationships under certain circumstances, including liaising with the FIU if a matter is subject to “consent”<sup>16</sup>. During the year ended 31 December 2018 Investment Firms **did not terminate** any existing relationships because of financial crime, terrorism or sanctions related concerns (**2017: zero**).
- 5.12 In addition to terminating relationships, firms may be requested by law enforcement agencies to block or freeze accounts, or may themselves put additional controls around accounts if information is required from a customer. As at the end of 2018 there were **3** accounts blocked or frozen for money laundering or terrorism (**2017: zero**).

**Table 7: disrupting provision of services**

Description	Year ended 31 Dec 2018		Year ended 31 Dec 2017	
	Number	Asset Value £'000	Number	Asset Value £'000
Number of potential new customer relationships declined for ML/FT or sanctions purposes	0		4	
Number of customer relationships terminated for ML/FT or sanction purposes	0		0	
Blocked or frozen accounts for AML/CFT purposes – subject to consent including restraint orders etc.	3	8,330	0	0
Blocked or frozen accounts for any other purpose (e.g. gone away)	0	0	5	100

## **E. The Isle of Man banking system as gatekeeper**

- 5.13 When it comes to the material flow of funds into and out of the Island, the banking sector plays an important gatekeeper role. Investment Firms reported the extent to which they use (themselves or for their clients) the Island’s banking system. In addition to using the Island’s banking sector, firms may also hold bank accounts for

<sup>16</sup> Section 154 of the Proceeds of Crime Act provides a reporting mechanism called “an authorised disclosure”, which is a means by which a defence against money laundering can be obtained by a firm. Making an authorised disclosure can be used as the vehicle to seek consent to commit a prohibited act (i.e. possessing, acquiring, moving known or suspected criminal property).

themselves, or their clients, outside the Island. Firms are also requested to explain the types of payment method they accept (for inward and outward remittance, where relevant) and the extent to which they are utilised.

- 5.14 **14** Investment Firms confirmed they only use the Island's banking sector for their own banking relationships. Of the other **4**, the use of banks outside the Isle of Man was predominant (these firms are also part of groups with operations outside the Isle of Man). Where an Investment Firm is permitted to hold or manage clients' funds, **8** reported that they hold funds outside the Isle of Man's banking system, with 4 of those being to a material extent.
- 5.15 The predominant payment method accepted by Investment Firms were bank transfers, with some occasional use of cheques and in specie property transfers. Cash was rarely accepted.
- 5.16 The above shows that Investment Firms bank to a relatively large extent in the Isle of Man and mainly utilise very standard methods of payment, with limited cash activity.
- 5.17 The Island's banks report the value and number of transactions by country (for money flowing in and out of the Island) on a quarterly basis. Further information is contained in the Preventing Financial Crime report for the banking sector.

## **6. Managing and reporting of sanctions – Investment Firms**

- 6.1 It is important that firms have robust controls in place to ensure they comply with local and international sanctions. In order to help achieve this firms must have appropriate monitoring and screening tools to identify whether any of their customers (existing or prospective) are sanctioned individuals or organisations, and also to make sure funds paid / received are not made to / from sanctioned individuals or organisations.
- 6.2 At the end of 2018, **all 18** Investment Firms confirmed that they screen for sanctions at the commencement of a business relationship, and **all 18** screen their customer records on a **periodic basis** to determine if a customer has become subject to sanctions. For the latter, the frequency of screening varied but was predominantly either annually, half yearly or ad-hoc rather than through automated daily monitoring; however, **16 of the 18** confirmed they always screen their customer records at the point where sanctions lists are updated; the outliers conducted very limited activity.

This was consistent with the profile reported for 2017.

- 6.3 There is always potential that firms hold the funds of sanctioned individuals or organisations, mainly because such individuals / organisations will not have been subject to sanctions when they were originally accepted as a customer. In such cases, firms may be required to block or freeze assets for financial sanctions purposes. As at the end of 2018 there were **no** accounts blocked or frozen for financial sanctions purposes (**2017: zero**), with an aggregate value of **£0 million (2017: £zero)**.
- 6.4 The law requires firms to identify and report any suspected breach of sanctions<sup>17</sup> to the **Financial Intelligence Unit**. In practice, these reports will be made by a firm’s MLRO or Deputy MLRO using Themis (with processes in place internally for employees to report to the MLRO / Deputy MLRO). In the year ended 31 December 2018, **no disclosures** were made for suspected breaches of sanctions (**2017: zero**).

**Table 8: managing and reporting sanctions**

Description	Year ended 31 Dec 2018		Year ended 31 Dec 2017	
	Number	Asset Value £'000	Number	Asset Value £'000
Number of disclosures made for suspected breach of sanctions	0		0	
Accounts blocked or frozen in the year for financial sanctions purposes	0	0	0	0
Blocked or frozen accounts for financial sanctions purposes released in the year	0	0	0	0
Number and value of blocked or frozen accounts for financial sanctions purposes as at the year end	0	0	0	0

## **7. Delivery of services: face to face, use of introducers and third parties – Investment Firms**

- 7.1 How a firm delivers its products and services to customers can range from direct relationships with face to face interaction before a business relationship is established, or an occasional transaction conducted, to situations where relationships are established remotely directly by the customer, or through introducers / third parties (and sometimes through more than one layer of introducer / third party).

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<sup>17</sup> With reference to the “Sanctions List”, which means the list of persons who are currently subject to international sanctions which apply in the Isle of Man: this list is maintained by the Customs and Excise Division of the Treasury of the Isle of Man.



- 7.2 In 2018, Investment Firms reported **2,646** new customer relationships (**2017: 2,338**). Of these new customers, **29%** was reported as direct business (including client referrals) (**2017: 36%**), whereas introduced business accounted for **71%** (**2017: 64%**).
- 7.3 In 2018, on a “best endeavours basis”, Investment Firms reported that **13%** of new customers were either met by the firm or a related party to the firm (**2017: 19%**), and **87%** of relationships were established on a non face to face basis (including through introducers) (**2017: 81%**).
- 7.4 For introduced business, the main source of introductions were from Isle of Man Based TCSPs, Isle of Man life insurance firms, or overseas firms. For customers introduced to Investment Firms, the top 5 residency of the introducers (in terms of the number of clients introduced) for both 2018 and 2017 were:-
- South Africa
  - United Arab Emirates
  - Isle of Man
  - United Kingdom
  - Malaysia (2018) / British Virgin Islands (2017)

Even where introducers are utilised, Investment Firms reported that, in many cases, they obtain evidence of verification of identity of the customer from the introducer, rather than utilising the concessions available in law (relying on the introducer to hold that evidence, where an introducer is eligible to do so).

## **Annex 1 – Data Quality**

The following matters should be noted in relation to the data provided in this report:-

- Parts of some firms' data is provided on a "best endeavours basis" and therefore cannot be considered as 100% accurate.
- The figures for customer numbers, including PEPs, is based on a simple sum of individual firms' data. A customer of one firm may also have relationships with another and be counted twice in this data.
- The population of firms (18) includes some firms that also undertake fund management / administration services. Data pertaining to this activity is primarily covered in the "funds business" sector report.