

National Risk Assessment

Banking sector



Jersey Financial
Services Commission

JFSC Official



Agenda

General overview of the sector

Working group approach

Sector threats and vulnerabilities

Next steps: JFSC, Industry and Island



What is risk in a money laundering context?

$$\text{Risk} = \text{Threat} + \text{Vulnerability}$$

Threat

A person or group of people, object or activity with the potential to cause harm to, for example; the state, society, the economy etc.

- e.g. Bank customers and their funds

Vulnerability

Weaknesses or gaps in the defence against ML that can be exploited by the threat or that may support or facilitate its activities

- Characteristics of products and services available in the sector (inherent) e.g. current/deposit accounts for local residents vs those for non-residents, private banking services (however defined), corporate accounts
- Strength of controls applied at national and sector level



World Bank Tool – Vulnerability factors



- Size/value of product type
- Average transaction size
- Client base profile
- Existence of product investment/deposit features
- Level of cash activity
- Frequency of international transactions
- Anonymous/omnibus use
- Existence of ML typologies
- Facilitation of fraud/tax evasion
- Tracing records of transactions
- Availability of non-face to face
- Use of agents
- Availability of product specific AML controls



World Bank Tool – control variables

- Comprehensiveness of framework
- Effectiveness of supervision
- Administrative/criminal sanctions
- Entry controls
- Integrity of staff
- AML knowledge
- Effectiveness of compliance teams
- SAR reporting and monitoring
- Market pressure to meet AML standards
- UBO information
- ID and V measures/information sources



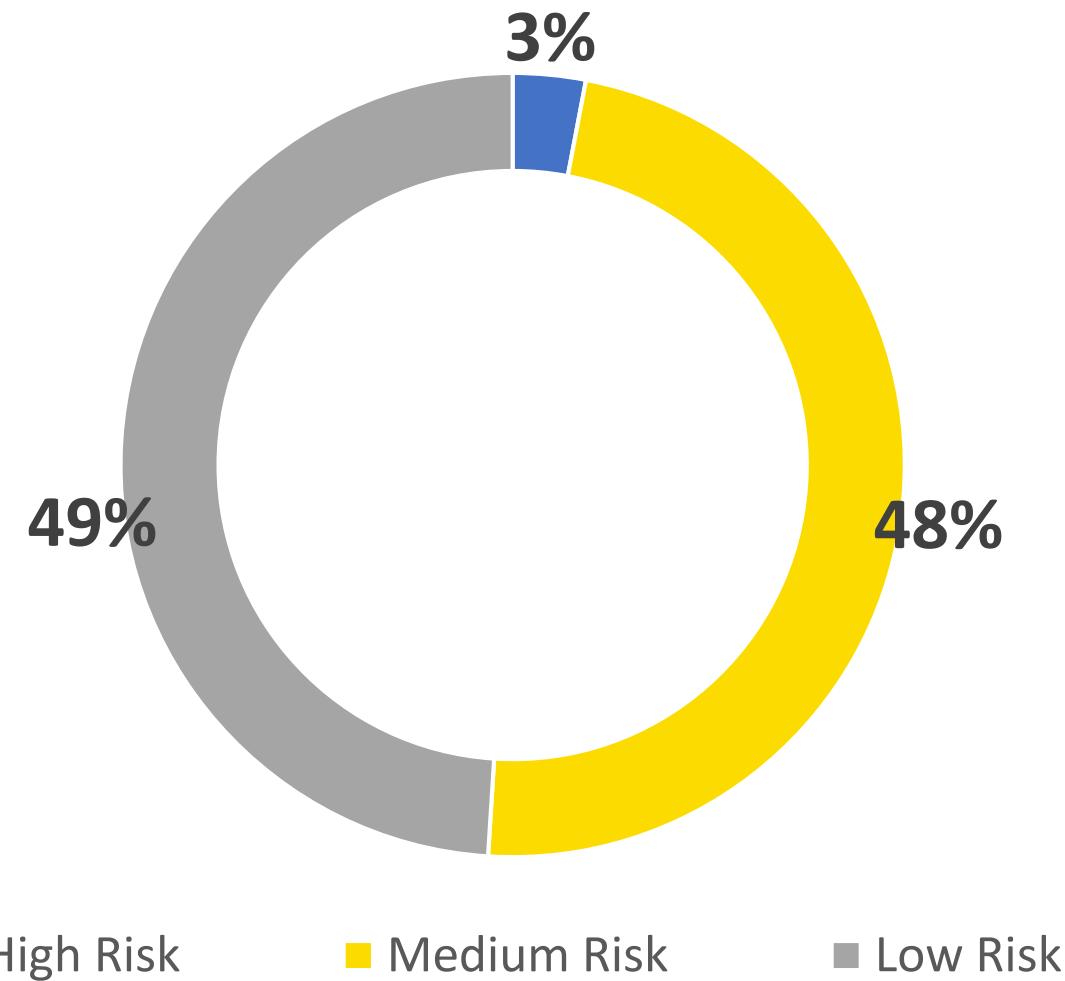
Banking sector

- 25 Deposit-taking licences, subsidiaries and branches of large global parents
- Gross Value Add (GVA) £790m to Jersey economy
- 4,500 employees approx.
- £122bn deposits
- c.650,000 customers



Customer risk profile

7500 SARs



Multi licence complexity

Multiple licenced entities:

- IB (64%)
- FSB (54%)
- MSB (97%)

TCB licence or a standalone trust entity connected to the bank



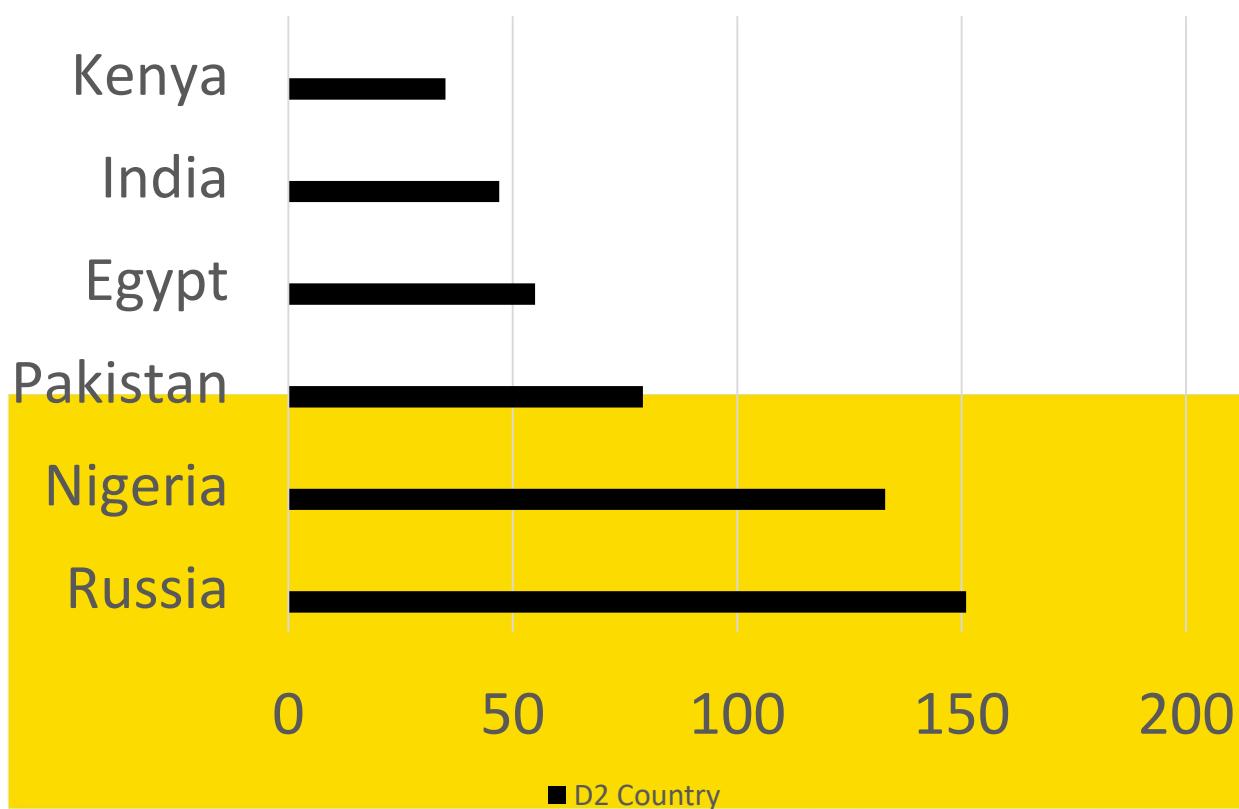
Overseas supervision

- Bermuda
- Canada
- France
- Germany
- Guernsey
- Isle of Man
- South Africa
- UAE
- UK
- USA

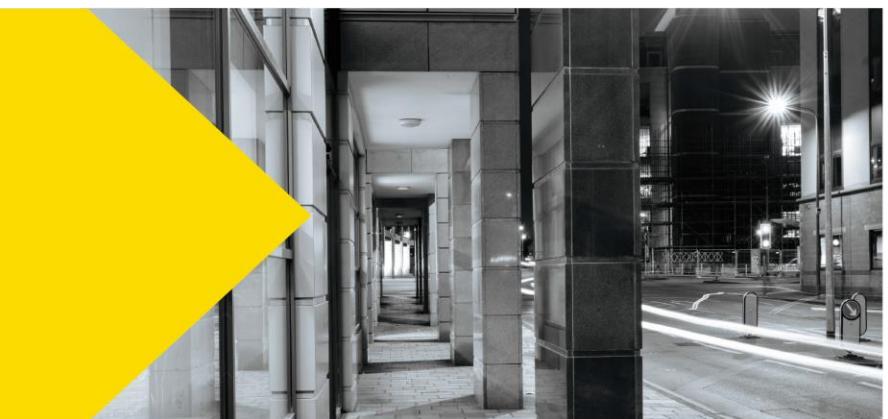


Customer profile – PEPs

D2 - top six jurisdictions



- Total 4061 PEPs of which 45% are from equivalent jurisdictions



NRA working group

- Chaired and supported by two members of the JFSC
- Industry representatives from cross sector of retail and private banks
- Industry body representative
- JFCU representative
- Two Government attendees



Process

- Review of data:
 - NRA survey, (now JFSC Supervisory data)
 - Supervisory view and JFSC data
 - Government Financial Services survey, Consultants survey
 - Government statistical data and
 - Media articles
- Approach
- Chapter review and edit



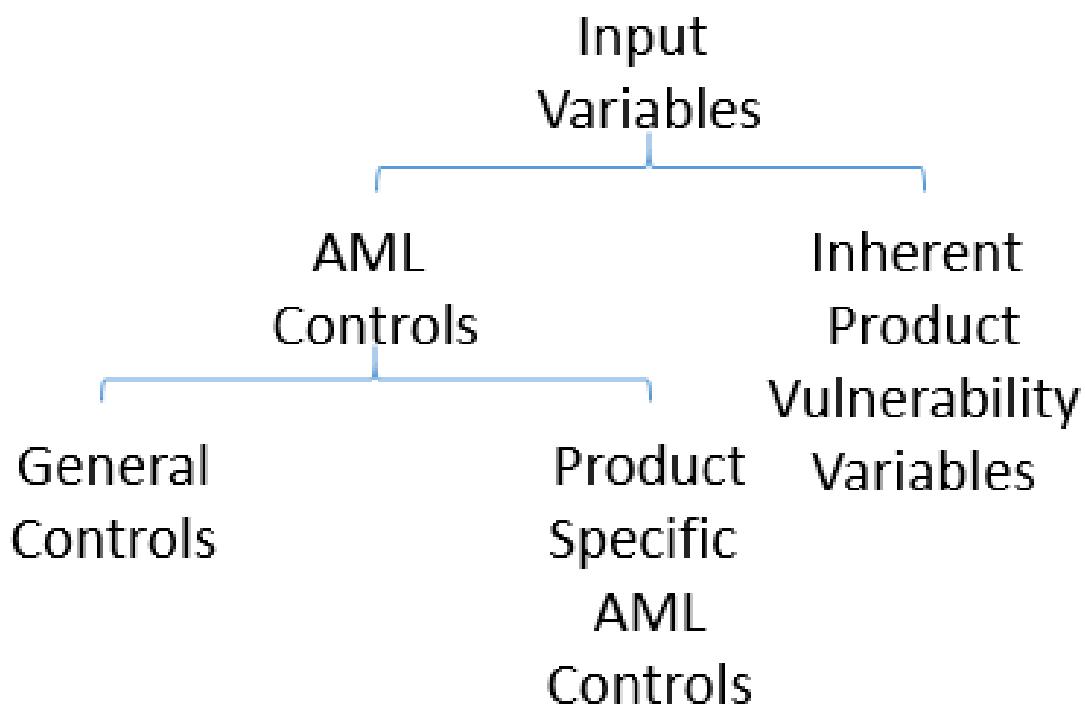


Industry representative

- Participation
- Agreeing how to segment the data
- Industry use



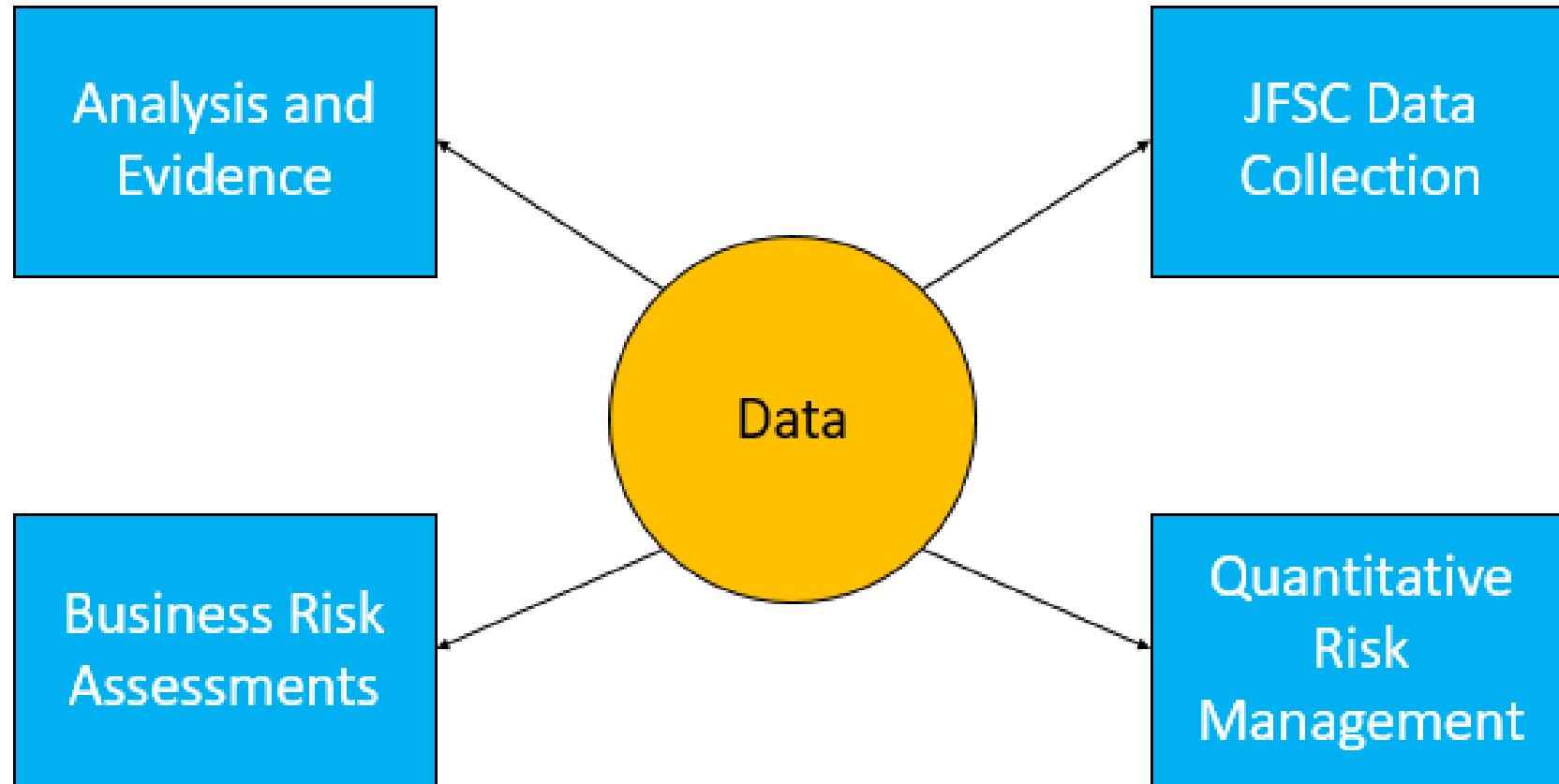
Sector segmentation



- Assessment ratings required for input variables
- Determining method of segmentation
- Sector split by client type
 - Local Retail (<£5m)
 - International Retail (<£5m)
 - Private Banking (>£5m)
 - Corporate (Trading)
 - Corporate (Large/ Global)
 - TCSPs



Data – challenge and opportunity





Threat

- Rated as higher risk
 - Location/volume of customers
 - Services offered
 - Central to financial services
 - Level of ML activity
 - Perceived as high – hidden assets
 - Volume of SARs
 - Cases involving Jersey banks
 - Indication of predicate offences generating proceeds of crime
 - drug trafficking, fraud and larceny
- Domestic**
- drug trafficking, fraud and larceny
- Foreign**
- tax evasion, fraud and corruption





Threat

- Foreign customers
 - Part of a group
 - Over 215 countries represented
 - All 10 (by reported residency) feature on the list of countries in the National Threat section
 - Connection to “Appendix D2 countries”
 - Approx. 8% of customers
 - Over 750 persons that referred deposit-taking customers



Sector vulnerabilities and controls

- The overall net assessment of ML vulnerability is medium.
- Inherent vulnerability factors
- AML control variables



Inherent vulnerabilities

- Over 140,000 local resident bank accounts, reflects the fact individuals multi bank
- Global nature of customers and transactions
- Increased outsourcing of financial crime support and tasks
- Evidence of source of 'original' wealth for private bank customers and large corporates
- Onboarding HNW customers outside of stated risk appetite
- Complex structures and ownership
- Use of reliance on obliged persons



Sector AML control analysis

- There is a requirement for published feedback both from JFSC, LOD and JFCU
- Compliance staff sector average of 14%
- Trend for outsourcing to “centres of excellence”
- Effectiveness of screening
- Sector SAR externalisation rate of 54%



National vulnerabilities

- Beneficial ownership
- Reliable identification infrastructure
- Availability of independent information sources



Next steps

- Banking sector
- JFSC
- Island





Questions?



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Services Commission

IFSC Official

Thank you



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