

# National Risk Assessment

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Remaining Industry sectors



Jersey Financial  
Services Commission

JFSC Official

# Presentation scope

Money service business  
Estate agents  
Lenders  
Casinos  
Insurance  
Other financial institutions



# Activities:

## Schedule 2 to the Proceeds of Crime (Jersey) Law 1999

- Money service business (*Financial Services (Jersey) Law 1998*)
  - A person carries on money service business if the person carries on the business of any of the following:
    - a bureau de change;
    - providing cheque cashing services;
    - transmitting or receiving funds by wire or other electronic means
- Estate agency services
  - Whether the property is situated in Jersey or overseas, the business of providing estate agency services for or on behalf of third parties concerning the buying or selling of:
    - freehold (including flying freehold) or leasehold property (including commercial and agricultural property);
    - shares the ownership of which entitles the owner to occupy immovable property.



# Activities:

## Schedule 2 to the Proceeds of Crime (Jersey) Law 1999

- Lending
  - The business of providing the following service to third parties: lending, including consumer credit, mortgage credit, factoring (with or without recourse), financing of commercial transactions (including forfeiting).
- Casinos (including internet casinos)
  - Operating, by way of business, a casino. That provides a service that:
    - is a gambling service, within the meaning of Article 2 of the Gambling (Jersey) Law 2012; **and**
    - consists of giving people an opportunity to participate in one or more casino games\*.

\*A casino game is a game of chance that involves playing or staking against a bank (whether described as a "bank" and whether or not controlled or administered by a player); and where the chances are not equally favourable to all participants.



# Activities:

## Schedule 2 to the Proceeds of Crime (Jersey) Law 1999

- Insurance
  - Any long-term business as defined in Article 1(1) of the Insurance Business (Jersey) Law 1996 except business carried on by:
    - the association of underwriters known as Lloyd's
    - a trade union or employers' association, where the insurance business is limited to the provision for its members of provident or strike benefits
    - any company incorporated in Jersey by, or on behalf of, an individual which is life and annuity long term business solely for that individual and the individual's dependants.
- Other financial institutions, such as:
  - Listing agents
  - Those investing, administering or managing funds or money
  - High value dealers



# 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.

## 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



# How did we get here?



# Working groups

- No working group for insurance or other financial institutions
- Chaired by JFSC, Policy
- Representatives from
  - JFCU
  - Government & JGC\* (casinos only)
  - Industry
- 18 months work
  - Discussion
  - Challenge
  - Analysis
  - Report drafting



\* Jersey Gambling Commission



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# NRA ML report

- September 2020: Government issued ML report
- 242 pages
- National sections
  - Threat
  - Vulnerabilities
  - Residual risk
  - Recommended actions
- Separate sections for each sector



# Heatmap

**Money service business**

**Real estate**

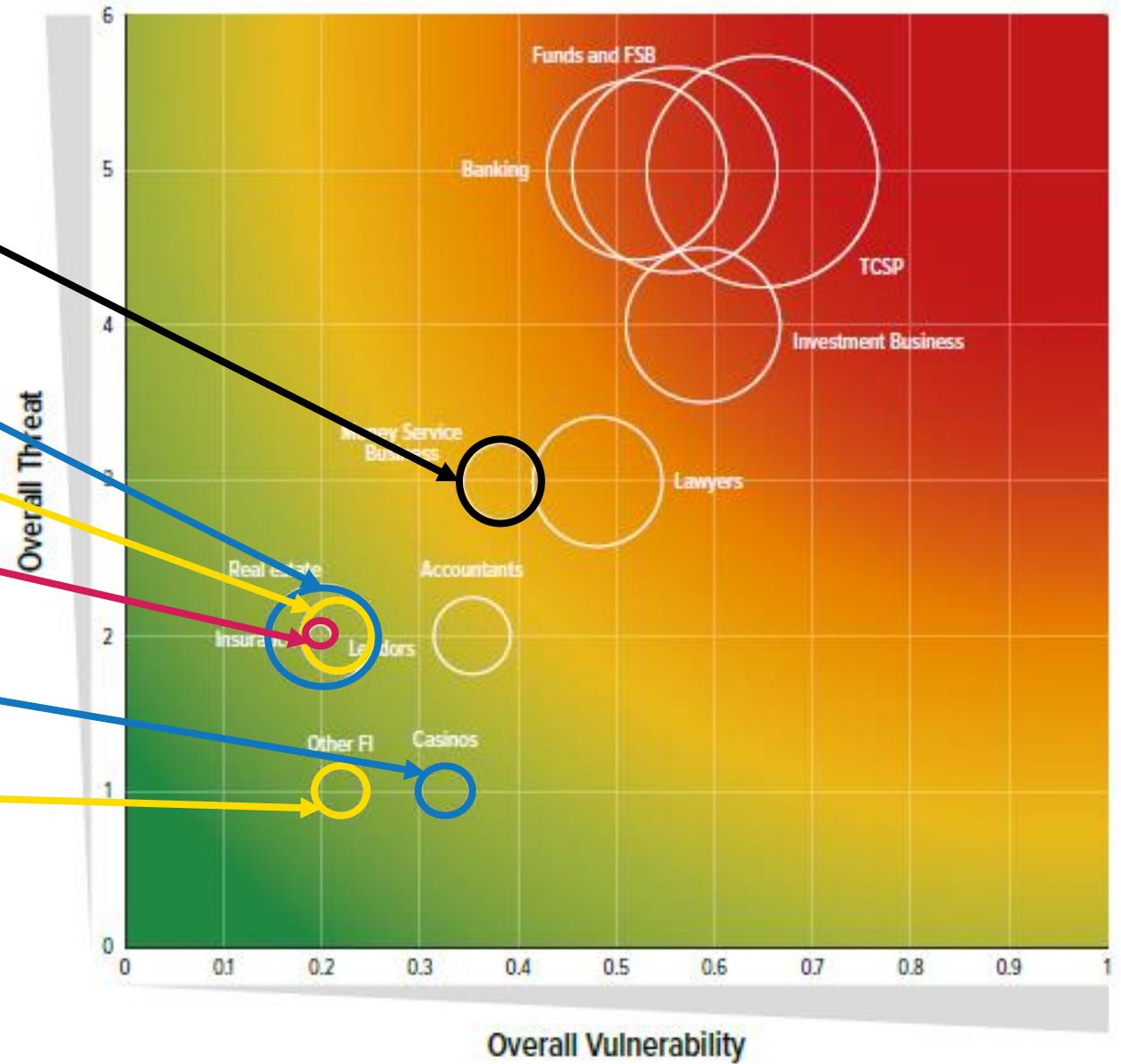
**Lenders**

**Insurance**

**Casinos**

**Other financial  
institutions**

Residual Risk 'Heatmap' for Jersey



# MSB data (2018)

- Eight registered persons
  - Four retail and four wholesale focussed
  - Three of the retail offer services to the public through 22 Jersey-based outlets (bureau de change)
- Reported no. of customers: 174,127
  - Treat with caution. *Retail = one-off transactions rather than business relationships*
- Retail vs wholesale - difference in statistics due to sector composition



# MSB data (2018)

- Retail
  - All individuals
  - 99% reported as Jersey resident
  - No foreign PEPs
  - Predominately cash
  - Most popular fund flows:

Incoming (80+)	Outgoing (125+)
Romania	Romania
Portugal	Portugal
Poland	Poland
UK	Kenya
Italy	Philippines

- Wholesale
  - HNW individuals and corporates
  - 80% reported as UK or Crown Dependency resident
  - 2% reported as foreign PEPs
  - No cash
  - Prepaid cards
    - 75% Euros
    - 20% US Dollars
    - 5% GBP



# Real Estate data (2018)

- 44 registered persons,
  - sole practitioners (39%)
  - small businesses (42%)
- 96% clients Jersey resident
- One transaction included non-Jersey immovable property
- No foreign PEPs
- Total value of property and land transactions GBP 1.2 billion

- 4% of transactions related to commercial property
- Data does not include sales by property developers
- Private transactions are permissible (no estate agent involved)
  - estimated at around 15 – 20% of property sales





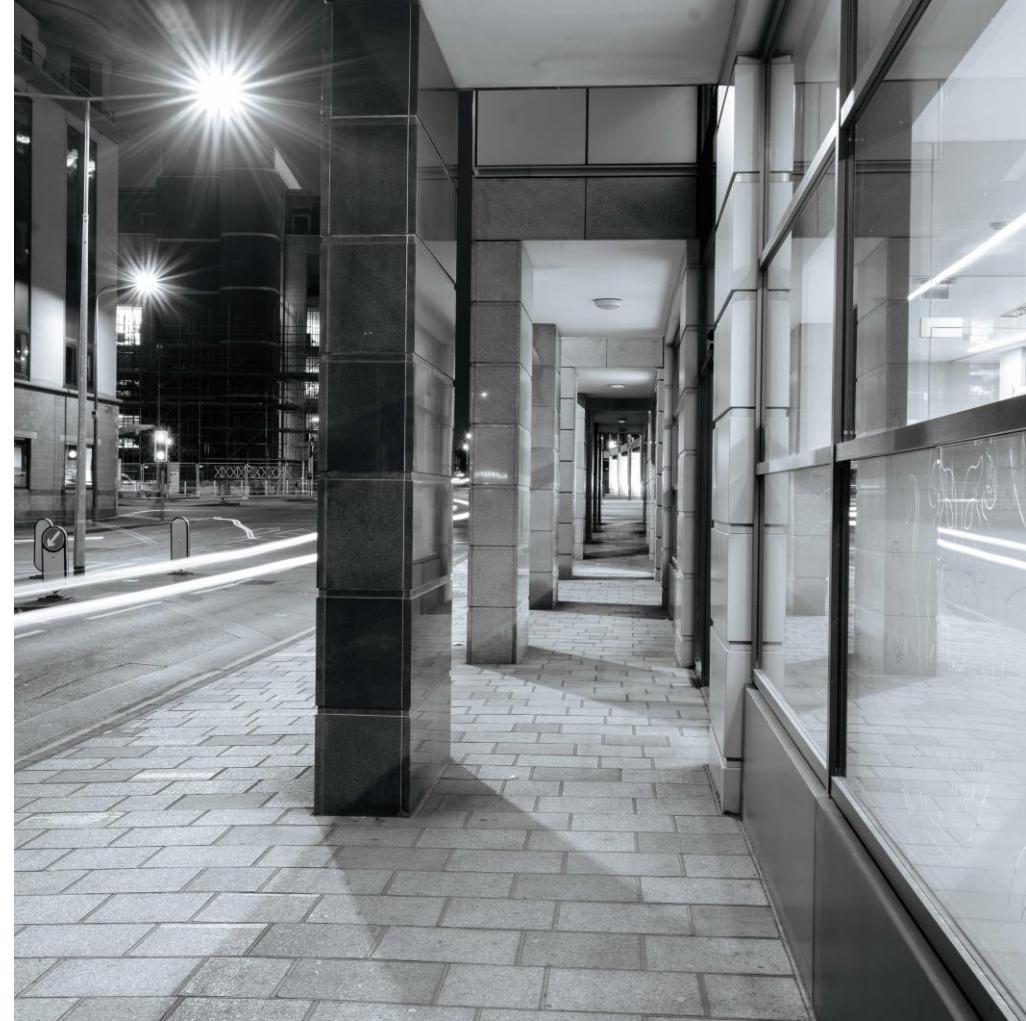
# Lending data (2018)

- 28 registered persons
  - 60% privately owned
  - 40% within a banking group
- Four also carrying on financial leasing
- 91% of customers reported as individuals, of which 92% are resident in UK or Crown Dependencies
- 2% of outstanding loans, by value, are to a PEP or PEP associate



# Casino data (2018)

- Two online casinos in Jersey
- No terrestrial – no cash
- JGC\* conduct supervisor
- Casino operators reported 99% of clients risk rated as low
- Low average bet, recreational
- One PEP reported
- All individuals, majority non-resident



\* Jersey Gambling Commission



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# Insurance data (2018)



- 61 permit holders conducting long term insurance, includes one Jersey company
- Most popular classes of long term insurance business
  - Life and annuity
  - Linked long term
  - Permanent health
- 60 permit holders also AML/CFT regulated and supervised in their home jurisdiction
- Very limited data held



# Other financial institutions

- Listing agents, mostly for TISE\*
  - 42% of TISE listing agents Jersey-based acting for 76% of the TISE listed securities
  - All clients are legal persons/arrangements
  - Separate checks by exchanges
  - All transactions are international
- Investing, administering, managing funds
  - Varied activities – 20 registered persons
  - Includes: debt collectors and property managers
  - Some cash



\* TISE - *The International Stock Exchange (Guernsey)*



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# Threat

- MSB – Medium
- Real Estate – Medium low
- Lenders – Medium low
- Casinos – Low
- Insurance – Medium Low
- Other Financial Institutions - Low



# National Threat - Domestic

- Low crime rate, steadily decreasing
- Domestic predicate offences generating proceeds of crime
  - Drugs trafficking
  - Fraud
  - Larceny
- Organised criminal gangs
  - Persistently target Jersey
  - Financial infrastructure
  - Profitable drugs market



# National Threat - Foreign



- Non-resident customers – foreign predicate offences generating proceeds of crime
  - Corruption
  - Fraud
  - Tax evasion
- Layering stage
- Specific countries identified, includes UK
  - An International Finance Centre
  - Strong links to Jersey
  - At risk of being a transit location



# Sector Threats

- MSB
  - Grey economy – tax evasion
  - Moving funds using prepaid cards and cash transmission services
- Lenders
  - Source of funds being lent in private lending
  - Peer-to-peer lending
- Real estate
  - Investment properties
  - Share transfer





# World Bank Tool – Inherent Vulnerability factors

- Core elements
  - Sector size
  - Client base profile
  - Level of cash activity
  - Frequency of international transactions
- Sector specific
  - High value residents (real estate)
  - Private lending (lenders)
  - Collusion between players (casinos)



# World Bank Tool – Inherent Vulnerability factors

- Other, sector relevant
  - Use of agents
  - Anonymous use of services
  - Difficulty in tracing transaction records
  - Existence of ML typologies
  - Use in fraud or tax evasion schemes
  - Availability of non-face to face



# Overview of four sectors

	MSB - Retail	MSB - wholesale	Real Estate	Lenders	Casinos
ML vulnerability	Medium low	Medium low	Low	Medium low	Medium low
Total size/volume	Low	Low	Low	Low	Low
Client base profile	Very low	Low	Low	Low	Low
Use of agents	Low	Does not exist	Does not exist	Medium	Does not exist
Level of cash	High	Does not exist	Does not exist	Low	Does not exist
International transactions	Medium	High	Low	Low	High



# Categories of control

- Comprehensiveness of AML legal framework
- Effectiveness of supervision/oversight
- Availability and enforcement of administrative and criminal sanctions
- Integrity and AML knowledge of entity staff
- Effectiveness of compliance functions
- Effectiveness of suspicious activity monitoring and reporting



# Control vulnerabilities



- One AML legal framework for all financial services businesses
- Two-tier registration:
  - Level 1: lenders, casinos, MSBs, other financial institutions
  - Level 2: Estate agents
- Very low availability and effectiveness of entry controls.
- Low level of supervision 2015 – 2018
- Range of sanctions
- Level vs quality of SARs



# Control vulnerabilities

- Assessment of risk – both business and customer risk – effectiveness is low
- Internal systems and controls – effectiveness is low
- Reporting of knowledge or suspicion – policies and procedures effectiveness is low
- Ongoing monitoring and identification measures - effectiveness is low
- Partial compliance with statutory and regulatory controls – largely ineffective and inadequate



# Control vulnerabilities – Identified

- Random sample of 12 firms, including estate agents and lenders in 2020 financial crime examinations
- >70 findings mirroring those identified in regulated financial services
- 25 instances where the statutory obligations of the Proceeds of Crime (Jersey) Law 1999 not complied with
- **BRA** - All 12 firms hadn't considered key risks. For example, cultural barriers including conflict of interests when MLCO/MLRO is also customer facing
- **CRA** – eight firms were inadequate or failed to risk assess their customers
- **SARs** – All 12 firms were unable to demonstrate compliance, had ineffective staff training and awareness, inadequate policies and procedures and cultural barriers





# Recommended actions

- Guidance and communication
- Communicating typologies/trends and themes
- Industry guidance – red flags and risk factors
- Clarifying activities captured and considering whether additional activities should be captured for AML/CFT purposes in line with FATF standards
- Current statutory exemptions and concessions from AML/CFT obligations should be reviewed.



# Action to date

- Industry updates – webinars e.g. NRA, compliance monitoring and CDD
- Thematic and financial crime examination feedback papers:
  - The role of the Money Laundering Reporting Officer
  - Financial Crime 2019-2020
  - Property Manager and Letting Agents



# What next?



- Industry
  - Consider/react to relevant sections of NRA
  - Refresh BRA
  - Consider/use data provided to JFSC
- JFSC
  - AML/CFT examinations
  - Outreach
  - Greater analysis/use of data
- Island
  - Develop and articulate updated Financial Crime Strategy
  - Dynamic risk assessments





# Questions?



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IFSC Official

# Thank you

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