



AML/CFT

ACTIVITY REPORT 2021

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Introduction

It is increasingly critical for financial service providers (“FSPs”) to have effective AML/CFT compliance frameworks. The surge of financial crime triggered by the COVID-19 pandemic, the growth of virtual technologies and non face-to-face interaction, the rapid rise of virtual assets and the escalation of war in Ukraine (and ensuing sanctions orders) have left FSPs more vulnerable to new and evolving attempts by bad actors to try and circumvent financial crime controls. FSPs must play a central role in the fight against money laundering, terrorist financing and proliferation financing (“ML/TF/ PF”) to help safeguard against flows of illicit finance.

As part of its overall mandate under the Monetary Authority Act (2020 Revision), the Cayman Islands Monetary Authority (“CIMA” or “the Authority”) is responsible for the regulation and supervision of FSPs, and for monitoring, supervising and enforcing compliance under the Anti-Money Laundering Regulations (2020 Revision) (the “AMLRs”).

This AML/CFT Activity Report sets out CIMA’s AML/CFT/CPF activity and outcomes during the period. CIMA has delivered on its anti-money laundering, combatting the financing of terrorism and counter proliferation financing (“AML/CFT/CPF”) objectives, conducted on-site inspections (“OSIs”) using virtual technology, and has maintained regular contact with licensees, registered persons and industry associations.

In summary, the Authority has:

- Conducted 161 AML/CFT OSIs of regulated entities
- Issued 11 letters of no findings
- Issued 1,915 requirements, of which 1,698 were “matters requiring immediate attention” (“MRIAs”)
- Conducted 45 follow-up inspections, 41 of which had repeat findings or further deficiencies
- Issued 3 administrative fine penalties totalling CI \$4,555,408 and took 1,365 enforcement actions

CIMA will continue to take robust and prompt action where it finds that regulated entities are not meeting the standards required by the AMLRs, including use of enforcement action where appropriate and proportionate.

AML/CFT Supervisory Function

During 2021, CIMA carried out its AML/CFT supervision of regulated entities through the work of the Anti-Money Laundering Division (“AML/D”) and its Regulatory Divisions. The AML/D is a specialist supervisory division dedicated to the monitoring and supervision of relevant entities under CIMA’s remit for compliance with AML/CFT requirements.

In 2021, the AML/D expanded its staff complement to 27 and took responsibility for around two thirds of all in-house AML/CFT inspections, with the rest split across the Regulatory Divisions and the Onsite Inspection Unit. Three quarters of the AML/D’s resources have been allocated to the two highest risk sectors identified through CIMA’s Sectoral Risk Assessments; Securities Investment Business and Trusts and Corporate Service Providers (“TCSPs”).

As of 31 December 2021, over 35,000 legal persons were subject to CIMA’s supervision across all sectors as set out below.

Table 1: Number of licensees and registrants under CIMA's supervision, 2021

Sector	Total
Banking & Trusts	130
Money Services Businesses	5
Trust & Corporate Services Providers	468
Insurance Licensees	765
Mutual Funds	12,719
Private Funds	14,679
Mutual Fund Administrators	75
Securities Licensees and Registered Persons	1,740
Virtual Asset Service Providers	1
Total	30,582

Supervision for Registered Persons

In 2021, CIMA entered its second year of AML/CFT supervision of 1,692 Securities Investment Registered Persons ("SIB RPs"), including undertaking fitness and propriety checks, onsite inspections and taking enforcement action where required.

SIB RPs are still relatively new to full AML/CFT supervision with registration requirements in force since 15 January 2020. CIMA completed risk-based inspections for 57 SIB RPs to evaluate their AML/CFT policies, procedures, systems, and controls. CIMA issued 806 requirements to SIB RPs during 2021, including 751 MRIA. These are the largest numbers for any sector and demonstrates that many SIB RPs are still in the process of implementing appropriately robust AML/CFT compliance frameworks.

CIMA has been closely monitoring remediation of requirements and has taken enforcement action where appropriate and proportionate. In October 2021, the Authority issued its first administrative fine to a SIB RPs for CI \$250,000 for breaches under the AMLRs.

Risk-Based Approach to AML/CFT Supervision

CIMA takes a risk-based approach in determining the frequency and focus of on-site and off-site AML/CFT supervision. In addition to considering the identified ML/TF risks and mitigation measures associated with regulated entities (or groups), it will also take into account the inherent ML/TF risks identified by the country through the National Risk Assessment and sectoral risk assessments conducted by CIMA. This approach takes into consideration the characteristics of all entities within CIMA's remit, and has particular regard for the number and diverse nature of these entities and the degree of supervisory discretion afforded to them under the risk-based approach.

Additionally, the following factors may be considered when prioritising OSIs:

- The nature and intensity of the deficiencies identified in a regulated entity during off-site monitoring or the previous OSI
- Insufficient progress of a regulated entity in remediating deficiencies and requirements
- Onward disclosures from the Financial Reporting Authority
- Information received through AML/CFT reporting such as high/unusual frequency, amounts, origin, or destination of cash flows
- Information received from other regulatory authorities
- Adverse media
- Ongoing or potential non-compliant issues with a regulated entity
- Complaints received against a regulated entity
- Self-disclosure by a regulated entity of their weak compliance systems

CIMA uses a “supervisory attention matrix” to outline the frequency with which supervisory activities will take place, based on the criteria above. As regulatory risk is identified, the frequency of supervisory activities, including OSIs, increases commensurate with the risk. Follow-up inspections may also be conducted in between scheduled OSIs

2021 Onsite Inspections

During 2021, a total of 161 AML/CFT specific OSIs were conducted compared to 180 in 2020. The table below shows the number of AML/CFT OSIs conducted in 2021 by sector.

Table 2: Number of AML/CFT on-site inspections conducted, 2021

Sector	Total
Banking	25
Trust & Corporate Services	39
Insurance	15
Securities	66
Mutual Fund Administrators	16
Total	161

Deficiencies and Requirements

The table below shows the apportionment of AML/CFT deficiencies in 2021 (across licensees and registrants identified as having such deficiencies) along with the associated number of inspection requirements issued by type:

Table 3: Types of AML/CFT deficiencies and requirements identified through onsite inspection

Category	Apportionment of deficiencies across licensees & registrants	Total number of requirements issued
AML/CFT Programme	2%	75
CDD / KYC Identification Procedures	23%	396
Internal Controls	13%	299
Internal Reporting Procedures	3%	75
Officer Appointment	3%	86
Ongoing Monitoring	6%	105
Policies and Procedures	8%	189
Record Keeping Procedures	5%	74
Risk Based Approach	22%	315
Sanctions Programme	10%	195
Training Programme	5%	94

CIMA imposes requirements for non-compliance and actively monitors regulated entities identified as having deficiencies. CIMA also uses this data as part of its risk-based approach, considering the inherent risks of the sector, and applying resources to supervision accordingly. Additionally, CIMA issues a quarterly [AML/CFT newsletter - The Anchor](#), [notices](#), and [supervisory circulars](#) to encourage compliance by regulated entities.

Themes from 2021 AML/CFT Inspections

Customer Due Diligence (“CDD”)

Deficiencies around client identification and verification documentation accounted for 23% of all those identified through onsite inspection in 2021. Issues included:

- Incomplete or inappropriate independent CDD: identification verification, address verification, source of funds, corporate records, and authorised signatories.
- Invalid CDD/enhanced due diligence (“EDD”) and illegible photo identification documents.
- Improper, or lack of, certification of CDD in accordance AMLRs/Guidance Notes and/or with the regulated entity’s policies and procedures.
- Incomplete client profiles relating to documenting the nature and purpose of business, account turnover, reference letters, and non-face to face procedures.
- Incomplete Politically Exposed Persons (“PEP”) due diligence documents: source of wealth, senior manager sign-off, and enhanced ongoing monitoring.

Risk-Based Approach

Deficiencies around the risk-based approach accounted for 22% of all those identified through onsite inspection in 2021. Issues included:

- Inappropriate application of the risk-based approach to the size, nature and complexity of the business operations of the regulated entity and its client relationships.
- Inadequate consideration all relevant risk factors for the client before determining the level of overall risk and the appropriate level and type of mitigation.
- Inappropriate client risk rating tools or the client risk ratings being undocumented.
- Outdated or non-completed client risk ratings for client population.
- Missing information on client risk assessment forms such as date and timing of last review.
- Inadequate/incomplete client and counterparty risk assessment methodology documenting all risk factors and parameters: PEPs, suspicious activity, or geographic risk.
- Client risk assessments not being performed and/or kept current as part of the regulated entity’s ongoing monitoring programme.
- Failure by senior management to review and/or approve client risk assessments.

Internal controls

Deficiencies around internal controls accounted for 13% of all those identified through onsite inspection in 2021. Issues included:

- Lack of appropriate Board oversight of the entity’s controls, policies, or procedures. For example, Board minutes indicating no discussion of AML/CFT compliance matters.
- Lack of evidence of the Board approving key AML/CFT policies and procedures.
- Lack of documented corporate governance policies and procedures outlining the structure and collective duties of the Board or its equivalent with respect to AML/CFT compliance.
- Lack of policies and procedures with guidelines for an internal audit function.
- Lack of evidence of AML/CFT audits being conducted.

Sanctions Programmes

Deficiencies around sanctions programmes accounted for 10% of all those identified through onsite inspection in 2021. Issues included:

- Inadequate evidence of screening all clients and counterparties.
- Inability to demonstrate timely screening of clients and counterparties as sanctions lists were updated.
- Inadequate ongoing monitoring procedures and/or periodic reviews.
- Insufficient resources applied to ensure immediate and effective screening.
- Insufficient management of data: alerts log, evidence of screening, logic for clearing alerts.
- Inadequate evidence of how hits provided by the screening software were being resolved.

Policies and Procedures

Deficiencies around policies and procedures accounted for 8% of all those identified through onsite inspection in 2021. Issues included:

- Insufficiently addressed targeted sanctions requirements of the Cayman Islands: reference to appropriate lists, screening procedures to updated lists, alert processing, asset freezing, and reporting procedures.
- Ineffective documentation of a risk-based approach.
- Inadequate EDD procedures for higher risk clients: high-risk jurisdiction, PEPs and RCAs, and suspicious activity.
- Inadequately developed ongoing monitoring procedures.
- AML/CFT policies not sufficiently addressing the certification of client identification documents.
- Inadequate gap analysis performed to identify and address gaps between the regulated entity's group-wide AML/CFT Policies and Procedures and the applicable regulatory requirements of the Cayman Islands.
- Non-compliance with regulatory requirements to perform periodic internal AML/CFT audits.

Ongoing monitoring

Deficiencies around ongoing monitoring accounted for 6% of all those identified through onsite inspection in 2021. Issues included:

- Lack of documentation of periodic client file reviews conducted; and
- Lack of documentation to evidence that transactional monitoring procedures were performed.

Focus on Beneficial Ownership (“BO”)

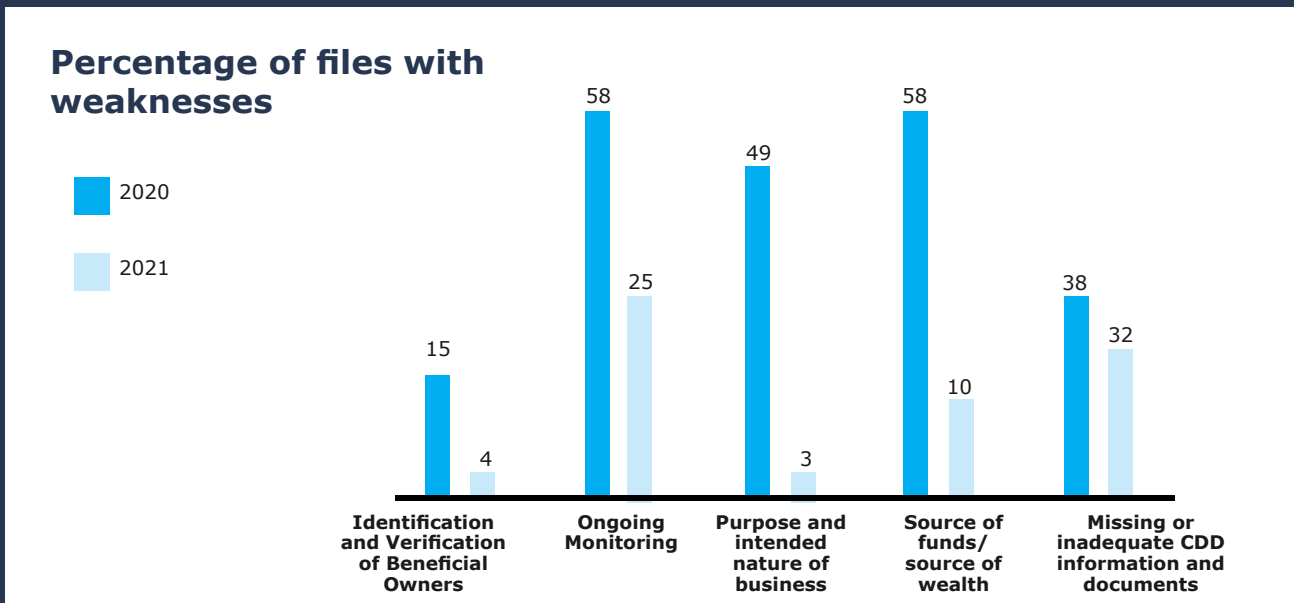
By obtaining and maintaining adequate, relevant and up to date information, TCSPs have greater visibility of the controllers and beneficial owners of the businesses they are serving, and a better understanding of their business relationships.

In February 2020, the Authority conducted a Thematic Review of compliance by TCSPs with Regulation 12 of the AMLRs (client verification and identification) based on a sample of 144 files. This identified weaknesses. Specifically, of files reviewed:

- Missing or inadequate CDD information and documents: 38%
- Source of funds/source of wealth: 58%
- Purpose and intended nature of business: 49%
- Ongoing Monitoring: 58%

Using data from 2021, CIMA published a follow-up Thematic Review (in January 2022) to assess whether standards had improved, based on a sample of 359 files.

CIMA observed significant improvement in TCSP compliance. The number of files found to have weaknesses reduced by 69% (from an average of 46% to 14%). This demonstrates the positive impact of CIMA's active supervision and enforcement, and the positive engagement from the TCSP sector.



In addition to sharing the results of the Thematic Review with licensees and registrants, CIMA engaged with fellow supervisors via the Supervisors Forum, including the Registrar of Companies, to ensure that BO compliance remained a priority in 2022.

The Authority continues to take appropriate and proportionate action where regulated entities are in breach of their BO obligations under the AMLRs. In 2021, CIMA issued an administrative fine of CI\$ 4,232,607.50 to a TCSP for breaches of the AMLRs, including lack of and inaccurate BO information.

Enforcement Actions

CIMA is both a prudential and an AML/CFT regulator, and therefore CIMA's powers to impose sanctions through enforcement actions for breaches of AML/CFT (other than administrative fines) are through the operation of its regulatory acts. CIMA's regulatory acts state that where a licensee/registrant has contravened regulatory acts or the AMLRs, CIMA may take any of the listed enforcement actions.

During 2021, CIMA issued three administrative fines for breaches of the AMLRs totaling CI\$ 4,555,407.50. This included CIMA's largest fine against a TCSP for CI\$ 4,232,607.50, a fine against an Insurance Licensee for CI\$ 72,800 and CIMA's first enforcement action against a Securities Investment Business Registered Person for CI\$250,000. CIMA also revoked the license of a Class B Bank.

Table 4: Breakdown of enforcement actions by CIMA, 2021

Enforcement Action	Banking	Fiduciary	Insurance	Investments	Securities	VASPs	Totals
Revocations/ Cancellations	1	0	3	0	0	0	4
Appointment of Controllers	0	0	0	0	0	0	0
Winding Up Petitions	0	0	1	0	0	0	1
Cease and Desist/ Requirements /Conditions	0	1	0	0	0	30	31
Actions Under the DRLA	0	0	0	991	312	0	1,303
Warning Notices	0	1	16	0	0	0	17
Admin Fines Breach Notices	0	1	1	0	4	0	6
Admin Fines	0	1	1	0	1	0	3
Total	1	4	22	991	317	30	1,365
Enforcement Actions with AML/CFT Component	1	4	1	0	4	0	10
No. Of AML/CFT Breaches identified	11	134	8	0	58	0	211
Directors Found Not Fit and Proper	2	0	3	0	0	0	5
Shareholders Found Not Fit and Proper	3	0	5	0	0	0	8

National Risk Assessment

A jurisdiction-led task force was established to update the [National Risk Assessment](#) in 2021 and CIMA actively participated in the following working groups:

- National Vulnerabilities
- Banking Sector
- Securities Sector
- Investments Sector
- Insurance Sector
- Trust and Corporate Service Providers
- Lawyers
- Non-Profit Organisations
- Virtual Assets
- Other Financial Institutions
- Legal Persons and Legal Arrangements

ML/TF Descriptors within the Sectors

CIMA continued its analysis of quarterly cash flow reporting by banks to better understand the TF risks associated with cross border threats, and collected cash flow information for 2021. This informs CIMA's risk-based approach to the review and testing of wire transfers or cross border payments to and from high-risk jurisdictions.

Virtual Asset Service Providers Supervision

The Virtual Asset (Service Providers) Act (2022 Revision) ("VASP Act") provides that CIMA is the appointed supervisor for VASPs and establishes different categories of authorisation (registration, licensing, and sandbox) depending on the risk of the type of activity conducted.

The VASP Act, 2020 came into force on 31 October 2020 and focused on the implementation of AML/CFT compliance, supervision and enforcement, and other key areas of risk. All entities that were engaged in, or intended to engage in virtual asset services, were required to file applications for Registration with the Authority by 31 January 2021. CIMA registered one VASP by the end of 2021, and a further four VASPs were subject to conditional registration. Applications reviewed include an assessment of the applicant's AML/CFT systems and controls, inherent risks, open-source information, and closed source intelligence.

CIMA continued its work on "policing the perimeter" to identify persons that may be providing virtual asset services but had failed to apply to register with the Authority. Where satisfactory responses were not received to supervisory letters, CIMA issued directions to entities pursuant to Section 34(8) of the Monetary Authority Act (2020 Revision) to provide information to the Authority.

CIMA further prepared a VASP sectoral risk assessment based on the data received through applications for registration and open-source information. This 18-page sectoral assessment was submitted to the Caribbean Financial Action Task Force (“CFATF”) in May 2021 in support of the jurisdiction’s successful application for the re-rating of the Financial Action Task Force’s (“FATF”) Recommendation 15.

The overall risk rating for VASPs was deemed “Medium-High”. The sector was rated on a scale of Low, Medium Low, Medium High, and High against the five inherent risk areas recommended in the FATF 40 Recommendations, namely:

- i. Nature, size, and complexity of business
- ii. Transactions, Products and Services
- iii. Delivery Channels
- iv. Customer types
- v. Geographic risks

The areas of highest risk were identified as transactions, products and services (particularly exchanges and decentralised finance) and delivery channels (use of mixers, tumblers and privacy enhancing coins). However, the VASP sector remains relatively small and lacks the materiality of other sectors within the Cayman Islands, such as Banking, Securities and TCSPs.

During 2021, CIMA also worked closely with the Ministry of Financial Services in relation to the ongoing development of the full prudential licensing framework for VASPs.

Ransomware attacks using virtual assets

CIMA focused industry awareness around the increasing use of virtual assets in ransomware attacks by hosting a virtual roundtable discussion for industry between US Treasury, Cayman Islands Bureau of Financial Investigations, the Financial Reporting Authority and CIMA on managing risks around ransomware attacks and cyber-crime. CIMA also produced key indicators through its AML Newsletter – The Anchor. Cyber security remains a key component of the registration criteria for VASPs.

Environmental crimes

CIMA helped to raise understanding about environmental crimes by including guidance on environmental crime red flags in The Anchor, and is ensuring that licensees and registrants are taking all relevant risks into account when conducting risk assessments.

Proliferation financing

CIMA worked closely with other agencies through the Proliferation Inter Agency Group to help raise awareness and understanding around proliferation financing (“PF”). This continues to be an area of focus throughout the onsite inspection process.

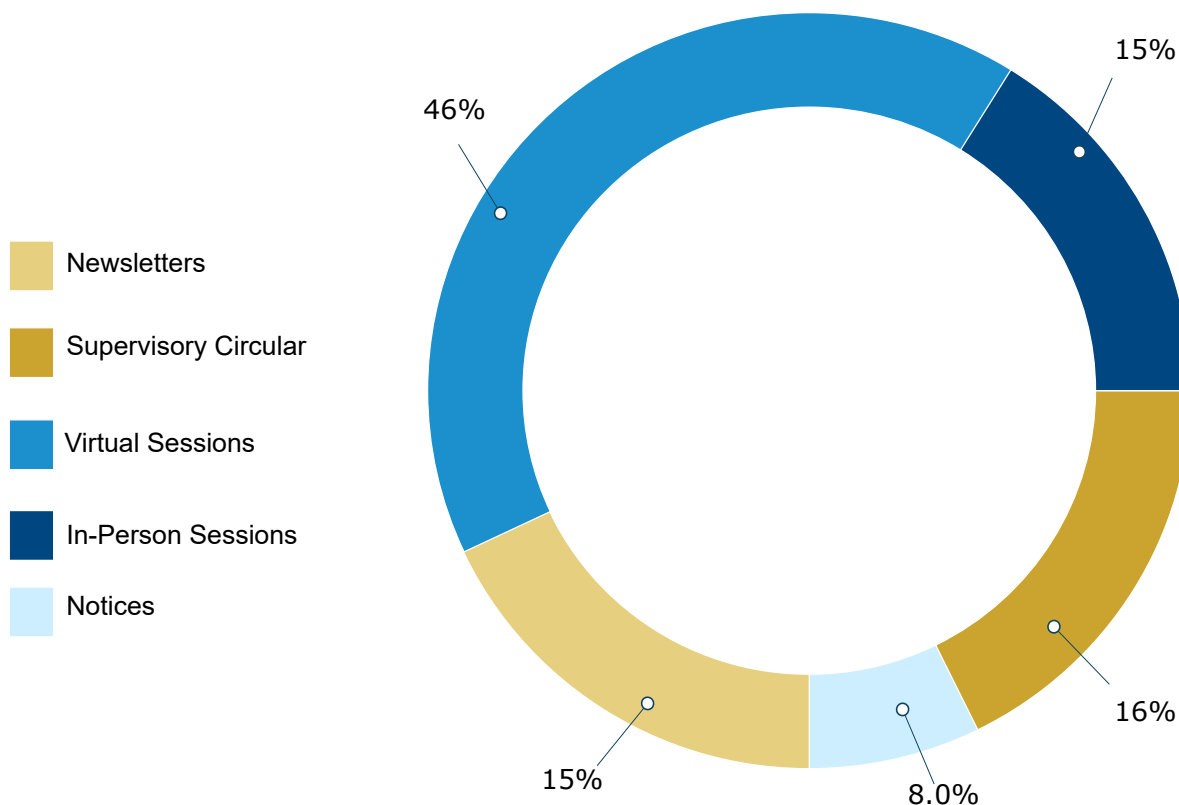
Outreach Activities

CIMA continued its commitment to raise AML/CFT compliance awareness and standards through outreach activities. Due to social distances measures arising from the COVID-19 pandemic, outreach activities primarily took place virtually in 2021. CIMA presented on topics including:

- CIMA’s Supervisory Approach to AML/CFT Supervision
- Cayman’s AML/CFT Regulations
- Virtual Assets Introduction
- VASP Sectoral Risk Assessment
- Virtual Assets Emerging Risks
- The Importance of Physical Presence in the Cayman Islands
- CIMA’s Administrative Fines Regime
- CIMA’s Onsite Inspection Programme

Presentations were either conducted by CIMA, in collaboration with other Cayman Islands Government Agencies, or at industry-led virtual conferences and outreach sessions, such as ACAMs, GAIM Ops and the Cayman Islands Compliance Association.

CIMA also published a number of advisories, notices, circulars and newsletters. The chart below shows a full breakdown of outreach activities carried out in 2021:



Training

CIMA expanded its training mandate and continued to provide greater levels of training on various aspects of AML/CFT supervision to staff members across all levels in all divisions. This resulted in over 175 members of staff having receiving training through conferences, webinars and internal training. CIMA continued to provide a mandatory e-learning pack for staff through a software tool, "KnowBe4", based on the principles set out in its AML/CFT training policy.

Future Objectives and Outlook

AML/CFT remains a key priority for the Cayman Islands, and the Authority has continued to work in collaboration with government and industry stakeholders to demonstrate the robustness of the Cayman Islands AML/CFT framework. In particular, CIMA looks to leverage technology to enhance data collection and the ongoing monitoring of its regulated entities. This helps to demonstrate improvement across the sectors and further allow CIMA to focus its resources on where the ML/TF/PF risks are greatest.



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