



INSPECTION FINDINGS (2024)

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1. Foreword

The British Virgin Islands Financial Services Commission (“the Commission”) established the Onsite Compliance Inspection regime in 2002 for the specific purpose of conducting inspections and reviews. The inspections and reviews are conducted to verify the level of compliance as it relates to the provisions of the Anti-Money Laundering and Terrorist Financing Code of Practice (AMLTF COP) and other relevant legislation. This function is critical to ensuring that the Virgin Islands continues to manage and mitigate the relevant money laundering (ML), terrorist financing (TF) and proliferation financing (PF) risks appropriately within the jurisdiction’s financial services sector.

The onsite function also facilitates the Commission’s ability to comply with international standards and maintain its standing as a leading international finance centre. Therefore, the Commission will continue to ensure that onsite inspections are conducted at the level and frequency that allows it to meet its objectives and will proactively explore ways in which the process can be continuously improved.

The inspections conducted usually vary in scope based on the risks presented by a specific licensee, a particular sector, or the wider jurisdiction. However, whether themed or full scope, each inspection conducted allows the Commission to identify deficiencies as it relates to a licensed entity’s compliance, and further understand and mitigate risks presented.

For the benefit of the wider sector and industry at large, the Commission continuously collates the findings of inspections for dissemination to industry participants. This allows all licensees to identify shortcomings within their compliance frameworks and apply appropriate actions to ensure full compliance.

The Commission has published its 2024/2025 Inspection Plan, which outlines the key areas to be assessed across various sectors. The Commission, continues to make significant progress in the conduct of the inspections, and this report aims to disseminate key findings gathered thus far. These findings will follow on from the findings disseminated in relation to the Third Party Relationship themed inspections.

Licensees are encouraged to review the findings which continue to be published as a result of inspections or other assessments conducted. It is envisaged that appropriate review and consideration by licensees, would allow for adoption of any positive practices and recommendations that have been outlined.

The dissemination of the findings also aims to ensure a high level of compliance and conformity with the AMLTF COP in key areas. The Commission is committed to ensuring that its licensees comply with legislation, prudential standards and other best practices and that the Territory maintains its standing and reputation by complying with all international standards. Further, where licensees are found wanting, the Commission is committed to taking proportionate and dissuasive actions.

2. Executive Summary

The 2024/2025 Inspection schedule identified key areas that presented ML/TF/PF vulnerabilities for review and assessment by the Commission. These areas were tailored for each licensee and sector, based on the risks posed and consideration to their specific nature, size and complexity.

Summarily, the key areas which continue to be assessed as part of the Commission’s inspection plan are as follows:

Area of Assessment	Detail of assessment
Due Diligence	Assesses licensees’ ability to collect appropriate and complete due diligence information regarding a customer including their beneficial owners, to facilitate a complete risk profile. Where higher risk scenarios have been identified, the assessment also considers the implementation of additional due diligence measures and the effectiveness of such.
Risk Assessment: Institutional and Customer Risk	Assesses the conduct of an institutional risk assessment (IRA) to identify the ML, TF, and PF risks to which the licensee is exposed based on its accepted customer, product and delivery channel risks. This assessment also looks at customer ratings to ensure the appropriate identification and classification of customer risks.
Verification: Beneficial Ownership	The assessment focused primarily on Corporate Service Providers (CSPs) and Trust Service Providers (TSPs). The assessment considers licensees’ ability to implement verification procedures for legal persons and arrangements, to identify and verify beneficial ownership information and maintain adequate, accurate and up-to-date records.
Sanctions Handling	Assesses licensees’ ability to identify designated persons including beneficial owners within their customer base (via screening) and the implementation of sanctions monitoring and reporting procedures for all sanctions; including those related to Russia and Targeted Financial Sanctions under the relevant UN regimes.
Suspicious Activity Reporting	Assesses licensees’ mechanisms to identify suspicious activities or transactions as well as the appropriateness and implementation of the

	internal suspicious reporting procedure (via sample testing).
Third Party Relationships	Assesses the overall risk within this delivery channel, inclusive of the suitability of the third party, the level of testing undertaken, and the adequacy of the third-party agreements. It also tests the third party's ability to evidence the maintenance of due diligence and beneficial ownership information.

All areas of assessment include a review of the established policies and procedures, as well as sample testing to gauge the level of effectiveness of the policies and procedures and conformity to the AMLTFCOP.

For the purposes of this report, the findings focus on three (3) key areas reviewed.

- ✓ Due Diligence;
- ✓ Verification; and
- ✓ Third-Party Relationships.

The findings aim to convey constructive practices undertaken by inspected licensees, which allow for conformity to legislative requirements and appropriate management of respective ML/TF/PF risk exposure. The findings also consider areas that may require further improvement, as well as recommendations that may require specific actions from licensees.

The Commission has also prepared individual reports for each licensee inspected and will take appropriate and proportionate action where necessary for non-compliance issues. Inspected licensees are not to consider this report as a source of confirmation as to the level of compliance or confirmation as to whether any requirements have been met.

3. Findings and Good Practices

3.1 Third Party Relationships

The Inspection Team continues to progress the thematic assessments relating to adherence of Third-Party requirements as set out in the AMLTFCOP. This assessment has focused on both Trust Service Providers (TSPs) who provides trustee services and/or services to other legal arrangements and Corporate Service Providers (CSPs) who provides company management and other services related to formation and administration of legal persons. The assessment has reviewed the inspected licensees' practical ability to minimise any elevated risks from conducting business through a third party.

Overall, the initial findings indicate an increased level of compliance within the TCSPs reviewed, compared to previous findings. A significant portion of licensees assessed in the latter half of 2024 attained a rating of largely compliant or compliant as it relates to third party obligations. These ratings signify only minor shortcomings with licensees' ability to monitor and manage the elevated risks relating to third party relationships.

As a result of the inspections conducted, key good practices have been identified. A number of these observations and practices, which have led to a large rate of compliance, are detailed below:

- Appropriate due diligence documentation for each third party on which reliance is placed has been collected and maintained. The due diligence documentation evidences the suitability of the third party, and the equivalent AML/CFT/CPF controls established by such third party. The documentation has also been readily accessible and available.
- Updated agreements in accordance with the 2022 amendment to the AMLTFCOP. Agreements were duly updated to conform to legislative requirements and ensure the ability to retrieve due diligence information and relevant documentation within 24 hours. Licensees were also able to retrieve information within 24 hours as requested by the Inspection Team.
- Licensees were largely able to provide evidence of testing of a significant portion, or all of the third-party introducers. Outcomes of testing reviewed by the Inspection Team illustrated a high level of compliance, with on average, 75% of licensees evidencing only minor shortcomings. Overall, the testing conducted evidenced the receipt of complete and appropriate due diligence and beneficial ownership information from the third party, within the requisite time-period. Furthermore, where testing has been conducted and found to be lacking, appropriate actions have been taken by the licensees, inclusive of reviewing the status of the third-party relationship and termination.

3.2 Due Diligence

The Commission reviewed a wide cross-section of customer files across various sectors. The findings relating to due diligence demonstrate a high level of compliance for all entities reviewed, with more than 90% of licensees reviewed receiving a rating of Compliant or Largely Compliant. Such ratings indicate minor or no shortcomings.

The findings reveal good practices undertaken by each licensee and key commonalities in onboarding controls related to customers inclusive of beneficial owners. Specifically, such controls are clear and detailed, which plainly guide front line staff as to the onboarding and due diligence criteria and increases the rate of implementation and compliance. Furthermore, the onboarding and due diligence controls are risk-based and consider, amongst other things, the licensee's customers, products and delivery channels (as evidenced in institutional risk assessments).

Good key practices and findings included the following:

- Clear inquiry and understanding of the source of funds (SoF) and source of wealth (SoW) of the customer (inclusive of beneficial owners) for greater than 85% of files reviewed. Licensees inspected were able to demonstrate relevant measures to determine SoF and SoW on a case-by-case and risk-based approach basis; with higher risk scenarios leading to more intrusive questions.
- Inquiry and information gathered concerning the nature of the activities conducted by the customer for greater than 95% of files reviewed. The data relating to nature of business also encompassed an understanding of the geographical location of the activities, and the expected size and volume of transactions to be undertaken. Further, where higher risk scenarios or activities were identified, licensees largely conducted additional inquiries and data gathering to add further depth and context to the nature of activities being carried out by the customer.
- Clear inquiry and understanding of the ownership and control structure of the customer was evidenced for greater than 90% of files reviewed. Based on the findings, licensees demonstrated identification of the beneficial owner through due diligence inquiries and documentation obtained. Further, a risk-based approach was proportionately applied.

3.3 Verification

The assessment relating to verification of beneficial ownership has been conducted across all sectors. However, recognising inherent risks within various sectors, this assessment focused on CSPs and TSPs, noting the nuanced risks presented within the sub-sector. Licensees providing nominee shareholder services and director services were also assessed within this scope.

The overall findings reveal an overall high level of compliance.

As it relates to the assessment conducted, key findings illustrate as follows:

- For both TSPs and CSPs, there has been the ability to fully identify the beneficial owners of legal arrangements (trusts) in almost 90% of the files reviewed. However, for verification purposes involving the verification of the underlying legal persons and arrangements within the ownership structure, CSPs had a slightly lower level of compliance, whilst TSPs were able to conduct verification, to identify and verify beneficial owners, in almost all instances reviewed.
- Where beneficial owners have been identified, valid, accurate, and up-to-date verification documents have been produced and evidenced for 90% of the beneficial owners identified. Furthermore, to mitigate the ML/TF/PF risks stemming from beneficial owners, licensees have conducted screening (against relevant sanctions databases) and appropriate due diligence measures on such identified individuals. The information and due diligence measures enabled licensees to risk-assess the beneficial owner(s) and incorporate any identified risks within the customer risk assessment.
- Where a licensee provides nominee shareholder services, there has been verification to identify the beneficial owners and those persons with influence or control. Specifically, where there are nominee arrangements, the nominator and beneficial owners are clearly identified and verified.
- Where director services are provided, the relevant agreements have been evidenced in greater than 80% of the files reviewed; establishing and identifying any person on whose behalf instructions are taken. This in turn increases the transparency and diminishes ML/TF/PF risks.
- Established systems are in place which demonstrate efficient production of accurate and valid verification information on relevant persons such as directors, shareholders and beneficial owners.

4. Areas for improvement

Based on the data gathered, there were areas identified which required further improvement and enhancement in the control framework. One area related to enhanced due diligence, with particular reference to conducting enhanced due diligence in a manner that is effective in mitigating the elevated ML/TF/PF risks presented in a beneficial owner or customer.

Enhanced Due Diligence

Specifically, the following practices were noted as it relates to the conduct of enhanced due diligence measures:

- Inability to establish and verify SoF and SoW for higher risk customers. Where higher risk customers are presented, steps are not consistently taken by a small percentage of licensees to verify SoF and SoW information against publicly available information sources. Licensees should consider their enhanced customer due diligence procedures and the guidance relating to enhanced CDD measures issued by the Commission. Such guidance, which can be found [here](#), aims to clarify the documents and public sources that can be utilised to verify SoF and SoW information.
- Insufficient additional information on higher risk business relationships and beneficial owners to truly understand the activities engaged in by the customer. Whilst the standard due diligence information would largely be obtained, additional measures for higher risk customers are not always fully and consistently carried out to increase the level of awareness or verify such information through use of relevant search engines, databases and publicly available information.

Ongoing Monitoring

Furthermore, with regulatory amendments to the ongoing monitoring framework, as set out in the AMLTFCOP, the preliminary findings illustrate a need for improvement in implementing a holistic ongoing monitoring framework. Specifically, the ongoing monitoring assessment has identified the following practices:

- A piece meal approach to risk-sensitive or periodic reviews has been observed. Evidence and data illustrate that a portion of licensees are not fully reviewing all aspects of key due diligence information as part of their reviews; specifically, the SoF and nature of business activities. At times, the approach focuses heavily on extrapolating where identification documentation (e.g., passport) may be outdated or expired only. Therefore, some licensees could not demonstrate the ability to identify and assess where there have been changes in other aspects of the customer's profile, which would trigger a review. Licensees should consider all due diligence information and whether the information maintained is sufficient

based on any change to the risks or time that has elapsed, thereby being able to identify trigger events.

- Lack of consideration of trigger events or occurrences. The below identifies examples regarding trigger events from licensees reviewed.

For a particular CSP reviewed, the compliance manual would identify and define trigger events. Such controls identified and labelled trigger events as changes made to the control or ownership structure or changes in the pattern of services requested.

For an Investment Business licensee, trigger events included occurrences where deposits or transactions emanate from a high-risk jurisdiction, or instances where the trading volume exceeds the economic profile of the customer.

In such instances, though trigger parameters were identified, there were shortcomings in conducting reviews or monitoring at the point of occurrence. Consideration of trigger events within the ongoing monitoring framework is critical as it allows for the risk profile of the customer to be adjusted and kept up to date based on risk. Furthermore, through the review of trigger occurrences, licensees can identify circumstances that may be atypical or indicative of a suspicion and implement its reporting procedures.

- The Commission also recognises the room for improvement in the level of ongoing screening (specifically for Targeted Financial Sanctions) by licensees. Whilst the Investment Business and Banking sector show commendable strides in this regard, there is further room for attaining full compliance within the TCSP Sector.

Institutional Risk Assessment

The significant majority (90%) of licensees reviewed conducted an institutional risk assessment (IRA). In some cases, there were flaws in the appropriate consideration of the relevant risk factors. For example, some TCSPs had not fully considered all relevant risk factors such as the ML/TF/PF exposure that may arise due to the delivery channels utilised.

In other instances, IRAs submitted did not fully consider the specific risks and circumstances pertaining to the licensees' customers. The consideration of such identified risks would significantly affect the assessment of the client risk and the overall risk exposure faced by the licensee. The review conducted demonstrates a need for licensees to consider their specific circumstances, and consider the relevant ML, TF and PF risk exposure across the relevant customer, delivery, geographical and product lines.

Guidance regarding to the conduct of an IRA has recently been published by the [FSC](#) to assist licensees and industry participants. Licensees should consider such guidance and ensure that IRAs conducted consider all relevant risk exposure and conform to the legislative requirements.

5. Recommendations and Actions to be Taken

The thematic reviews have provided useful data regarding common deficiencies and trends. Below are recommendations for consideration. The recommendations outlined below are aimed at ensuring that the appropriate controls and mechanisms are taken into consideration by licensees.

- **Recommendation 1** – Establish and implement risk-based due diligence and enhanced due diligence measures. Such measures should be appropriate for the nature, size, and complexity of the licensee’s business and customers.¹ The enhanced due diligence measures should also be tailored to the ML/TF/PF risks identified to allow for appropriate mitigation of identified risks. The enhanced due diligence measures should be sufficiently clear and detailed, to allow for easier implementation.
- **Recommendation 2**- Have appropriate oversight regarding the implementation of ML/TF/PF controls. Specifically, section 11(3A) of the AMLTFCOP requires licensees to establish mechanisms to monitor the implementation of their internal controls and to test the effectiveness of such controls on a regular basis. The conduct of reviews or testing of the due diligence controls, including enhanced and ongoing due diligence controls, ensures that such measures continue to be effective.
- **Recommendation 3**- Conduct ongoing monitoring of customers and establish a mechanism to trigger the review of customers at specified or required intervals based on risk and ensure that such efforts are documented. Furthermore, the guidance within the AMLTFCOP highlights the importance of ongoing monitoring and provides:

“on-going CDD reviews and update of customer information [is vital] to identify when transactions or behaviours fall outside a customer’s profile. Where behaviours fall outside of a customer’s profile, an entity or professional must determine whether there are changes in the customer’s circumstances and consider whether the ML/TF risks of that customer have also changed.”

Employees should be duly trained to identify potential suspicious activity where behaviours fall outside of a customer’s profile. This would allow for the initiation of the reporting procedure and allow for the review and investigation of such occurrences by the Money Laundering Reporting Officer.

The ongoing monitoring framework should also encompass sanction screening, to immediately identify designated persons and take appropriate measures.

- **Recommendation 4** – Conduct screening of customers and beneficial owners on a continuous basis to allow for the swift identification of designated persons. Such identification would ensure

¹ This should also be outlined within the licensee’s institutional risk assessment.

that licensees can take the requisite actions in a timely manner. Licensees may employ the use of automated screening tools for efficiency in conducting ongoing screening but should also ensure the configuration of any screening tools includes screening against UN and UK sanctions designations. Furthermore, Licensees must ensure that screening is also done when there has been any update to the consolidated lists, and have the ability to evidence such.

- **Recommendation 5** – Review testing conducted on any third party to ensure adherence to the agreement and the AMLTFCOP. Where the outcomes of testing demonstrate a lack of compliance, licensees must review the relationship and consider termination where necessary. Also consider published guidance, such as the issued guidance relating to third party relationships. This guidance, which can be found [here](#), provides further clarity and expectations for conducting business with third parties.
- **Recommendation 6** – Ensure controls and procedures fully account for guidance on [Beneficial Ownership Obligations Under the AML Regime](#) which provides further clarity on beneficial ownership and control of legal persons and legal arrangements including mechanisms to mitigate ML, TF and PF risks.

The areas covered in this report will continue to be topics of focus and will be covered in future inspections and comprise part of the Commission’s desk-based supervisory mechanisms.

Furthermore, where additional risks and shortcomings are identified, the Commission intends to provide further granular findings in this regard and publish guidance where necessary.

End.