



VIRGIN ISLANDS FINANCIAL SERVICES SECTOR

Terrorist Financing Risk Assessment 2020

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FOREWORD

This report is the culmination of a joint effort between the Financial Services Commission (“the Commission”) as the regulator/supervisor of financial services and the Financial Investigation Agency (“the FIA”) as AML/CFT supervisor of Non-profit Organisations and Designated Non-Financial Businesses and Professions (DNFBPs) in the Virgin Islands.

This assessment is the first sectoral assessment that specifically targets the risk of terrorist financing within the jurisdiction. It follows the findings of the National Risk Assessment concluded in 2016, which looked broadly at the structures in place for the criminalisation of Terrorist Financing (“TF”) and the implementation of the relevant UN Security Council Resolutions within the Virgin Islands. This assessment has moved beyond that review of the effectiveness of the established legislative framework, to taking a critical look at the TF threats to which the Virgin Islands are exposed, and the TF risks posed by the sectors under each of our supervisory remits. Conducting this assessment has ensured that we will be able to continue to take appropriate action to effectively mitigate and manage these and other emerging risks.

The importance of identifying, understanding and mitigating the risk of TF as a result of the activities carried out in and from within the Virgin Islands cannot be underscored. As supervisors we are cognizant of the need to comprehensively examine the threats and vulnerabilities that magnify this risk. Such examination not only ensures compliance with international standards, but aids in maintaining the safety of the citizens of the Virgin Islands and our reputation as a leading International Financial Centre.

All relevant sectors should pay particular attention to the findings of this report as this will help you to better identify the particular TF risks you face and allow you to take the necessary actions to mitigate these risks. Each sector is unique as are the risks identified. Entities should therefore examine the findings of the report and integrate these findings into their own institutional risk assessments and those of their clients.

The Commission and the FIA are proud of the strong and robust AML/CFT regime in place to combat the risks of money laundering, terrorist financing and the financing of proliferation. As supervisors we remain committed to identifying and responding to such risks. We are confident that with continued cooperation and collaboration between the public and private sectors, we will be able to maintain and enhance our global reputation as a place to conduct legitimate business as we continue to play our part in the ongoing global fight to combat both Money Laundering and Terrorist Financing.



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1. EXECUTIVE SUMMARY

- 1.1 The initial National Risk Assessment that was concluded in 2016 reviewed the structures in place for the criminalisation of TF and the implementation of the relevant UN Security Council Resolutions. Recommendations were made for legislative improvements and for proper training of LEAs and CAs in detecting, investigating and prosecuting TF. Building on the NRA, this assessment delves into the assessment of TF risk at a sectoral level further addressing any perceived gaps from the previous NRA.
- 1.2 The assessment has taken a critical look at the level of exposure to TF and TF related activities at both a domestic and international level, focusing on trade and fund flows generally, and homing in on the activities of each relevant sector that may elevate their exposure to misuse for TF purposes. The assessment was jointly conducted by the Financial Services Commission and the Financial Investigation Agency. It covers the vulnerabilities within three main areas: the financial services sector which comprises the banking, money services, insurance, TCSP, investment business, financing and insolvency sectors; the designated non-financial businesses and professions sector which comprises the accounting, legal, notarial, real estate, jewellery and other high value goods dealers; and the non-profit organisations sector.
- 1.3 Data used was collected from the following CAs and LEAs with responsibility for, and connected to various aspects of the AML/CFT regime within the jurisdiction:

Agency	Area of Responsibility
British Virgin Islands Financial Services Commission	Regulator/Supervisor of FIs
British Virgin Islands Financial Investigation Agency	Financial Intelligence Unit and Supervisor of DNFBPs and NPOs
The Royal Virgin Islands Police Force	Criminal Investigations
Office of the Governor	International Sanctions and extraditions
Attorney General's Chambers	Mutual Legal Assistance
Office of the Director of Public Prosecutions	Criminal Prosecutions
Department of Labour and Workforce Development	Approval of employment status of emigrant workers and general employment matters
Her Majesty's Customs	Imports/Exports, border protection
Immigration Department	Immigration/Emigration

National Threats

- 1.4 The threat of TF is of particular importance given the Virgin Islands' standing as an International Finance Centre and the use of BVIBCs and other legal arrangements to facilitate business globally. The global nature of such business makes these structures susceptible to misuse for illicit purposes. Reported instances of TF associated with BVI structures have been very few during the reporting period, which covered 2015 to 2019. However, given the large number of BVIBCs and other legal arrangements operating in and from within the Virgin Islands the threat of misuse of these entities internationally is considered to be greater than at the domestic level.
- 1.5 At the domestic level, there are no known terrorist groups, organisations and/or terrorist fighters or self-radicalised terrorists operating in or targeting the Virgin Islands. Labour force data does indicate, however, that during the reporting period a number of persons from several Tier 1 and Tier 2 jurisdictions (as defined in the Methodology and outlined in paragraph 6.6) were granted authorisation to reside in the Territory for work purposes. To date, there has not been any information or intelligence provided to suggest potential funding of overseas terrorist organisations by individuals resident in the Territory.
- 1.6 The VI's main industries are tourism and financial services. It carries out little to no manufacturing or agricultural activities at any significant scale and is not a significant exporter of locally manufactured goods. Conversely, because the VI is not a large-scale producer of goods it is heavily dependent on imports. There is no indication, however, of any level of direct engagement with any high-risk country as a result of the importation of goods into the Territory.
- 1.7 Internationally, a significant number of BVIBCs do engage in import/export and other trading related activities. Consequently, there is an elevated risk of these entities having direct engagement with some of the jurisdictions categorised as high-risk, or being used, whether knowingly or unknowingly, to finance or facilitate the financing of terrorist activities.
- 1.8 The general threat of funds generated in the VI being used to finance terrorist operations within the VI is low. Remittance payments indicate that funds generated in the VI have been transmitted to a number of Tier 1 and Tier 2 jurisdictions. However, the data has not yielded any evidence that any funds generated in the VI were used to support or finance terrorist activities. Where the threat level becomes slightly elevated is in relation to activities carried out by the BVIBCs registered in the VI that conduct business globally. The rationale being that it is possible that these BVIBCs and other available financial products may be used to route funds to terrorist organisations. However, during the reporting period reported instances of TF associated with BVI structures have been limited.

Inherent TF Risk at the Sectoral Level

- 1.9 The banking sector in the Virgin Islands is small in comparison to other similar jurisdictions. However, the sector plays an integral part within the local financial services sector, with operations at both the domestic and international levels. Exposure to criminality within the banking sector comes from the universal

nature of retail banking transactions, as well as the frequency and speed with which they are conducted. However, the volume of activities involving high-risk jurisdictions is small and are not conducted on a regular basis. Further, exposure to high-risk customers and PEPs is highly localised to those types of customers resident in the Territory. There is some risk of international exposure due to the provision of services to non-resident clients, many of whom may be legal persons and legal arrangements.

- 1.10 While the money services sector itself is small in terms of number of participants, it is significant in terms of outflows, as it accounts for a large volume of cross-border transactions. The core markets for MSBs are emigrant workers repatriating funds to their home countries, and residents sending money abroad primarily for business and educational support purposes. While remittance payments data does indicate that funds generated in the VI have been transmitted to some Tier 1 and Tier 2 jurisdictions, there is no evidence that any of these funds were used to support or finance foreign terrorist activities. Rather, the jurisdictions in question equate to the country of origin of the migrant workers who tend to repatriate funds to their home countries to support their families.
- 1.11 The insurance sector in the VI comprises primarily of domestic and captive insurance business. It also includes intermediaries such as managers, brokers, and agents as well as loss adjusters. The products and services offered through domestic insurance companies and intermediaries are limited to life and health insurance, and property and casualty insurance business. These products are not seen as likely vehicles for the movement of terrorist-related funds. With regard to captive insurance providers, given the nature and the way in which they operate they are internationally considered low risk institutions. Further, there is no significant level of business relationships with any of the identified Tier 1 or Tier 2 countries.
- 1.12 Based on nature and activity, it is recognised that the greatest risk of TF lies within the TCSP sector, which serves as the primary gateway to the Virgin Islands' international financial services sector. The complex corporate and legal structures facilitated by TCSPs, as well as other services provided, make these structures attractive to both legitimate and illegitimate activity. This attraction may be elevated due to the high level of non-face to face transactions, and the potential for these structures to be used to conceal the source of assets and the identity of BOs. Given the size of the client base of the Territory's TCSP sector, the risk of misuse of such structures for TF purposes is considered more elevated than in other sectors.
- 1.13 The complex nature of the products offered by the investment business sector makes them attractive to high-risk customers, including PEPs and other high net worth individuals. However, these products are not generally attractive vehicles for providing financing to terrorist organisations, although the risk remains given the nature of the products. Most service providers reside outside the VI and are geographically dispersed providing for a high level of non-face to face business. The sector's diverse international client base increases the potential for exposure to some Tier 1 and Tier 2 countries. This, however, does not inherently indicate a higher risk of TF.
- 1.14 With regard to financing business, the services provided are currently limited to the provision of small, short term loans to connected persons or payment plans for insurance premiums. Further, services are

offered to residents on a face-to-face basis, and do not involve clients from any Tier 1 or Tier 2 jurisdictions.

- 1.15 Similarly, the general nature of insolvency business not being on-going business makes the risk of the sector being used for any TF purposes extremely miniscule.
- 1.16 The vulnerability in respect of accountants stems from the businesses they provide services to. The types of customers served by this sector are generally corporate and business clients, and high net worth individuals, with the majority of the work being undertaken for corporate clients. However, there is no evidence to suggest any terrorist financing links within this sector, particularly in relation to those firms that are entirely domestically focused.
- 1.17 As with accountants, the vulnerability within the legal sector also stems from the businesses to which services are provided; a significant number of such services being provided almost exclusively non-face-to-face. The majority of the work undertaken by this sector relates to corporate clients based in the US, UK, China, Hong Kong, Russia and the BVI. Data reviewed indicates that some law firms have provided services to clients classified as PEPs or based in high-risk jurisdictions. However, the number of transactions where this has been the case is low when compared to the total number of transactions undertaken by these firms. There is no evidence to suggest any terrorist financing links within this sector.
- 1.18 Notaries in the VI are required to be practicing lawyers in accordance with the Commissioners for Oaths and Notaries Public Act, 2007. Issues relative to notaries, therefore, mirror those outlined in relation to lawyers. There is no data to support any risk of TF by notaries in relation to either foreign or domestic terrorist activities.
- 1.19 With regard to real estate agents, transactions involved local properties and properties located in other jurisdictions. The data collected shows that most sales were in relation to local residential properties and land, with a very small percentage of commercial property sales also occurring. As noted, some entities do undertake non-face-to-face transactions involving properties outside of the Territory, but these were found to be predominantly based in the US. Given the localised nature of the market and the lack of any identifiable domestic terrorist activity the risk of the sector being used for any TF purposes is low.
- 1.20 There are very few DPMS within the Territory. Those that do exist, concentrate on the sale of finished pieces, almost exclusively on a face-to-face basis. They do not focus on the sale of raw stones, gems or bullion, which, based on international typologies are more attractive means of raising terrorist funds. There have been no suspected cases of TF involving DPMS, nor any other indications of any TF activity within the sector. This is consistent with the makeup of the sector and the general profile of the businesses and their customers.
- 1.21 The majority of NPOs within the sector have been long established, approximately 95% of whom carry out their activities solely within the Territory. Cash and donation activity varies; however, donations generally come in the form of cash, cheques or wire transfer. A considerable number of NPOs operating within the

Territory are considered “small” and do not receive donations above \$10,000. During the hosting of events certain larger NPOs have been known to collect significant amounts of funding, contributed for specific philanthropic purposes. These are all inbound donations, many of the larger of which are made via payments methods (e.g. cheques or wire transfers) utilising the banking and other systems that would, therefore, already have been subject to AML/CFT requirements. While NPOs may generally be vulnerable to being used for TF purposes through affiliation (i.e. via connection with an organisation situated or working in an area with an active terrorist or TF threat, or knowingly or unknowingly being connected to a terrorist organisation), there is no evidence to indicate that any affiliations with international organisations are being used to foster TF through NPOs within the Territory. There is also no evidence to indicate that local NPOs supporting charities abroad have unwittingly sent funds to sham NPOs with terrorist connections.

- 1.22 With regard to VA and VASPs, in the context of the VI, unregulated BVIBCs operating globally do pose an inherent risk, as these entities may, and do, operate as VA exchanges and ICOs. The VI’s vulnerability exists primarily in that the majority of transactions carried out are on a non-face-to-face basis, which offers a higher degree of anonymity than traditional non-cash payment methods. Further, VASPs may also include transfers that are anonymous or pseudo-anonymous, making it difficult to identify beneficiaries of the transactions, thereby elevating the risk above other existing FIs.
- 1.23 The Territory’s overall TF risk was determined based on the impact of the TF threats emanating from both domestic and foreign activities, taking into account all of the vulnerabilities identified within each identified sector. Given the Territory’s position as an IFC, the impact of foreign criminality on the overall risk level was considered more severe based on the potential of BVI registered entities being used to facilitate TF, and the scope of the impact of this conduct. The threat of TF for the purposes of supporting foreign terrorist activity was assessed as **Medium-Low**. The domestic TF threat was considered **Low**.

2. INTRODUCTION

Jurisdictional Profile

Geographical

- 2.1 The Virgin Islands is an archipelago of some sixty (60) islands which sit to the north of the Leeward Islands and lie approximately 110 miles west of St. Maarten, a few miles east of the USVI and some 60 miles east of Puerto Rico. It consists of approximately sixty islands, islets and cays, twenty of which are inhabited. The islands are primarily volcanic in nature, with the exception of Anegada, which is the most northerly of the islands and is constituted of coral and limestone. The geographical composition and location of the islands brings with it inherent risks of people smuggling, drug trafficking and illegal movement of goods which have the potential to increase the Territory's risk of money laundering (ML). The threat of domestic terrorism, however, has historically been very low.

Political

- 2.2 The Territory is classified by the United Nations as a Non-self-governing Territory of the United Kingdom. However, the Territory is internally self-governing, and operates under the Westminster system with a Cabinet style government. The Ministers of Cabinet are appointed from amongst the members of the Legislature and are not independently elected to executive office. Ultimately, they are accountable to the Parliament. The Virgin Islands' Parliament consists of thirteen elected members, the Attorney General and a non-elected Speaker selected by the elected members of the House.
- 2.3 Historically, the Virgin Islands has had a relatively low crime rate and is politically stable.

Socio-economic

- 2.4 The population of the Virgin Islands is approximately 32,000 and the Territory is home to residents from over 110 different countries and territories who make up approximately 70% of the local labour force. The official currency of the Territory is the US dollar.¹ The primary sectors of the economy which generate the most economic activity and revenue are tourism and financial services, with financial services contributing approximately 22.6% of the Territory's GDP. The Virgin Islands' economic performance is reflected by an increase in positive growth of the Territory's GDP from \$1.02 billion in 2014 to \$1.30 billion in 2019. However, the current global coronavirus pandemic is likely to have some negative impact on performance and growth, particularly given the total closure of the tourism sector for most of the fiscal year 2020.

The Assessment

- 2.5 The 2016 NRA covered the period 2011 to 2014 and focused primarily on the implementation of the relevant TF related UN Security Council Resolutions by the Territory, and the corresponding level to which the Territory has been able to criminalise TF. That NRA also included an initial TF risk assessment, which

¹ This is by virtue of the Legal Tender (Adoption of United States Currency) Act (Cap. 102) of the Laws of the Virgin Islands.

noted that the shortcomings found in relation to the LEAs, CAs, FIs, NPOs and DNFBPs would indicate that there could be some risk of TF activity occurring without detection because of the low level of training in detecting, investigating and prosecuting TF activity².

2.6 This assessment now takes a more comprehensive look at the Territory's TF risk profile resulting from data collected for the years 2015 to 2019. This assessment builds on the findings of the initial NRA as well as other CFT related measures taken by the Territory since that time, and considers mechanisms in place for addressing TF risks, particularly in high-risk sectors such as NPOs.

2.7 The assessment was carried out jointly by the FSC and the FIA and involved the following stakeholders:

- The British Virgin Islands Financial Services Commission – Regulator/Supervisor of FIs
- The British Virgin Islands Financial Investigation Agency – Financial Intelligence Unit/Supervisor of DNFBPs and NPOs
- The Royal Virgin Islands Police Force – Criminal Investigations
- Office of the Governor – International Sanctions
- Attorney General's Chambers – Mutual Legal Assistance
- Office of the Director of Public Prosecutions – Criminal Prosecutions
- HM Customs – Import/Export of Goods and Border Security
- Department of Immigration – Migration Flows
- Department of Labour and Workforce Relations – National Labour Composition

2.8 The data used in conducting this risk assessment has been determined through interrogation of the requirements under the FATF Standards, the results of the Virgin Islands' 2016 National Risk Assessment, and other best practice models. The assessment looked not only at data available to measure the level of international exposure to TF as a result of the Territory's position as an IFC, but also at other critical economic and crime data that were key to properly identifying the level of domestic TF risk posed to the VI.

2.9 The key sources of data for this exercise included:

- Available macro-fiscal data
- FSC supervisory and inspection data
- FSC enforcement data
- Prosecutorial data
- RVIPF crime statistics
- Import/export data
- Immigration related data
- Workforce related data
- FIA suspicious activity statistics
- Corporate Registry data
- International Cooperation data

² Pg 44 pp 108 Virgin Islands National Risk Assessment Report 2016

- Sanctions data
- FIA supervisory and inspection data
- FIA enforcement data

3. METHODOLOGY

3.1 In carrying out this exercise the jurisdiction was assessed based on the following identified areas of vulnerability taking into consideration the threat environment and the potential consequences of such vulnerabilities going undetected and unmitigated:

- Structural elements:** the extent to which elements such as the rule of law, national counter terrorism and TF strategies and activities, and frameworks for relationships with regional partners exist.
- Materiality:** extent to which the Territory is a financial hub, relative importance of different parts of the economy; the extent to which the economy is cash based/unregulated; the importance of financial and non-financial sectors which have been highlighted in international typologies as higher risk for TF; cultural links and society demographics etc.
- Sector or product-specific TF vulnerabilities:** extent to which products or services have been misused in known domestic or international typologies; the level of TF awareness and compliance within sectors, and the relative complexity and reach of money movement through sub-sectors or firms that may be at higher risk for TF i.e. the manner in which funds move around and through sub-sectors and between firms, and how far within the global economy such funds can be dispersed.
- Compliance with FATF Standards relevant to TF:** extent to which the legal framework provides for the TF offence and implementation/management of Targeted Financial Sanctions (TFS), preventive measures, cross-border controls, LEA powers and expertise, and TF information exchange in accordance with FATF standards.
- Effectiveness of AML/CFT regime and other weaknesses:** extent to which authorities have the capacity to identify and prevent TF; effectiveness of TF-related suspicious transaction reporting, monitoring and analysis; quality of intelligence; effectiveness of international CFT cooperation; adequacy of human resources; and timely access to beneficial ownership information.

3.2 A numerical rating between 1 and 4, with 1 signifying lowest risk and 4 signifying highest risk, was assigned to each of the five criteria based on the inherent vulnerability to the particular criteria. The sum of these individual ratings determined the total vulnerability rating, which could range between a minimum of five (5) and a maximum of twenty (20). This numerical rating determined the jurisdiction’s vulnerability classification as follows:

	Scale
a) High	17 - 20
b) Medium High	13 - 16

- c) Medium Low 9 - 12
- d) Low 5 - 8

3.3 The level of each of the following controls in place to mitigate against the identified vulnerabilities was used to off-set these vulnerabilities:

- 1) Knowledge of AML/CFT obligations
- 2) Prior risk assessment rating
- 3) Risk mitigation policies and procedures in place
- 4) Level of inter-agency training, coordination and information sharing
- 5) Level of maintenance of BO information

3.4 Similarly to the vulnerability criteria, each of the five (5) mitigating criteria was assigned a rating between 0 and 2, with 0 indicating a low level of mitigation control measures and 2 indicating a high level of mitigation control measures. The sum of these individual ratings determined the total controls rating, which could range between a minimum of zero (0) and a maximum of ten (10). This numerical rating determined the sector’s mitigating classification as follows:

	<u>Scale</u>
a) High	9 - 10
b) Medium High	6 - 8
c) Medium Low	3 - 5
d) Low	0 - 2

3.5 The total controls rating was then subtracted from the total vulnerability rating to determine the overall TF risk rating. The following point value scales were then applied to determine the overall risk rating:

	<u>Scale</u>	<u>Rating</u>	<u>Rationale</u>
a)	15 -20	High	high vulnerability/low mitigating controls
b)	8 - 14	Medium High	high vulnerability/high mitigating controls
c)	1 - 7	Medium Low	low vulnerability/low mitigating controls
d)	-5 - 0	Low	low vulnerability/high mitigating controls

3.6 The resulting risk rating for each sector of either Low, Medium Low, Medium High or High as outlined in **Charts 3.1 and 3.2** below, was based on the **average** net score received after applying the mitigating controls to offset the identified vulnerabilities as detailed in **Tables 3.1 and 3. 2**.

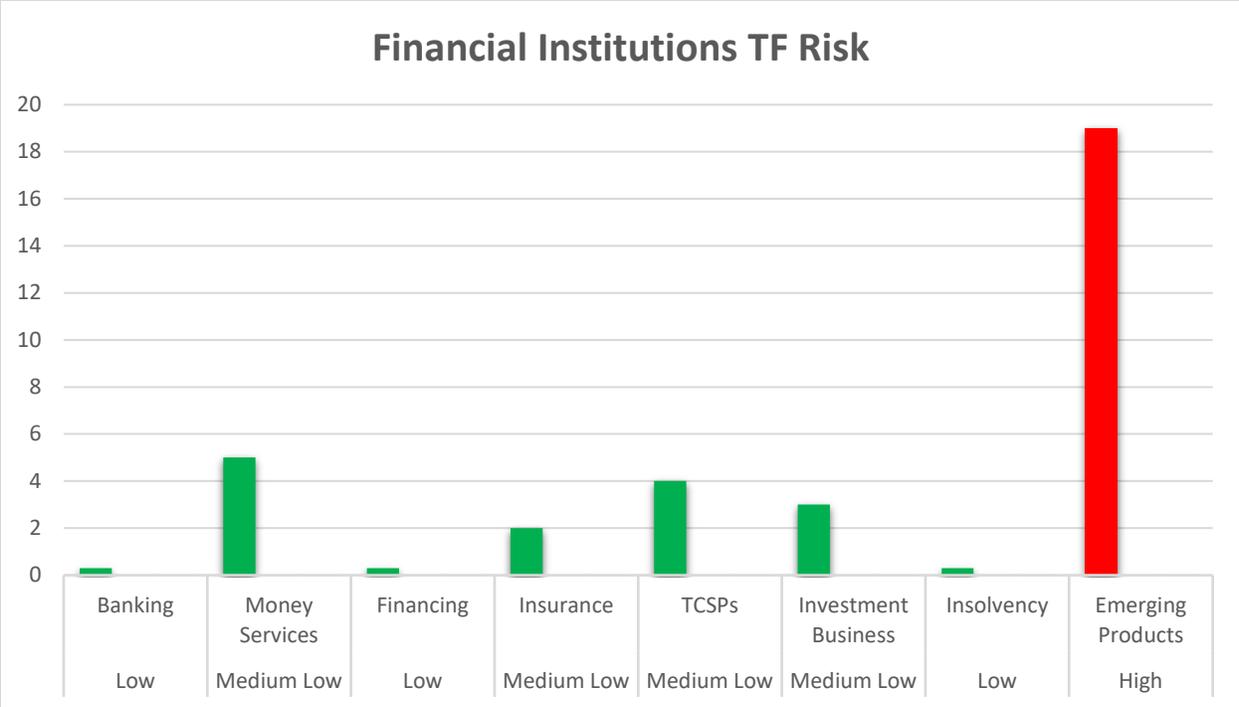


Chart 3.1: Financial Institutions Sector Risk Ratings

Sector	Vulnerability	Mitigating Controls	Net Score	Risk Rating
Banking	8	8	0	L
Money Services	10	5	5	ML
Financing	6	7	0 ³	L
Insurance	8	6	2	ML
TCSPs	10	6	4	ML
Investment Business	10	6	3	ML
Insolvency Services	7	7	0	L
Emerging Products	19	0	19	H

Table 3.1: Financial Institutions Sector Risk Scoring and Ratings

³ Discrepancies in final scores are result of rounding out average vulnerability and mitigating control scores

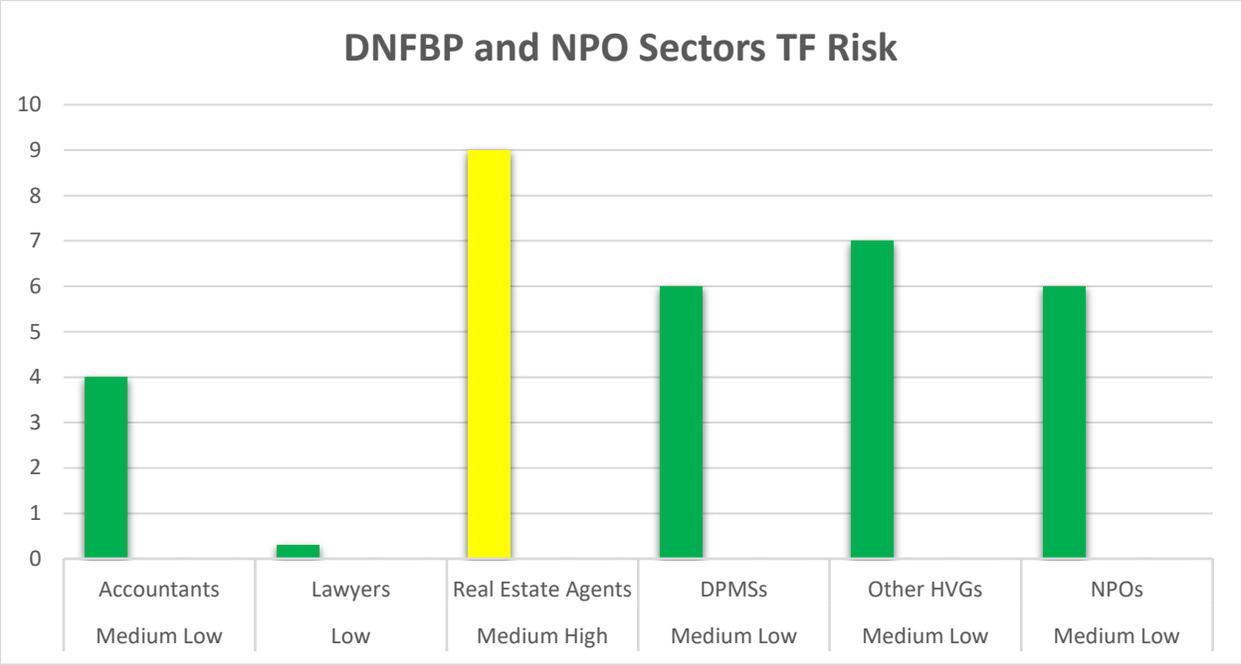


Chart 3.2: DNFBP AND NPO Sectors Risk Ratings

Sector	Vulnerability	Mitigating Controls	Net Score	Risk Rating
Accountants	10	6	4	ML
Lawyers	7	7	0	L
Real Estate Agents	13	4	9	MH
DPMSs	11	5	6	ML
Other HVGs	11	4	7	ML
NPOs	11	5	6	ML

Table 3.2: DNFBP AND NPO Sectors Risk Scoring and Ratings

3.7 Additionally, the methodology was modified to take into account the risk of TF from both a domestic and international perspective. The reason for this is due to the BVI’s position as a significant IFC, which in itself carries its own additional risk factors. **Charts 3.3 and 3.4** outline the domestic and international TF risk ratings assigned to the financial institutions, and DNFBPs and NPOs respectively.

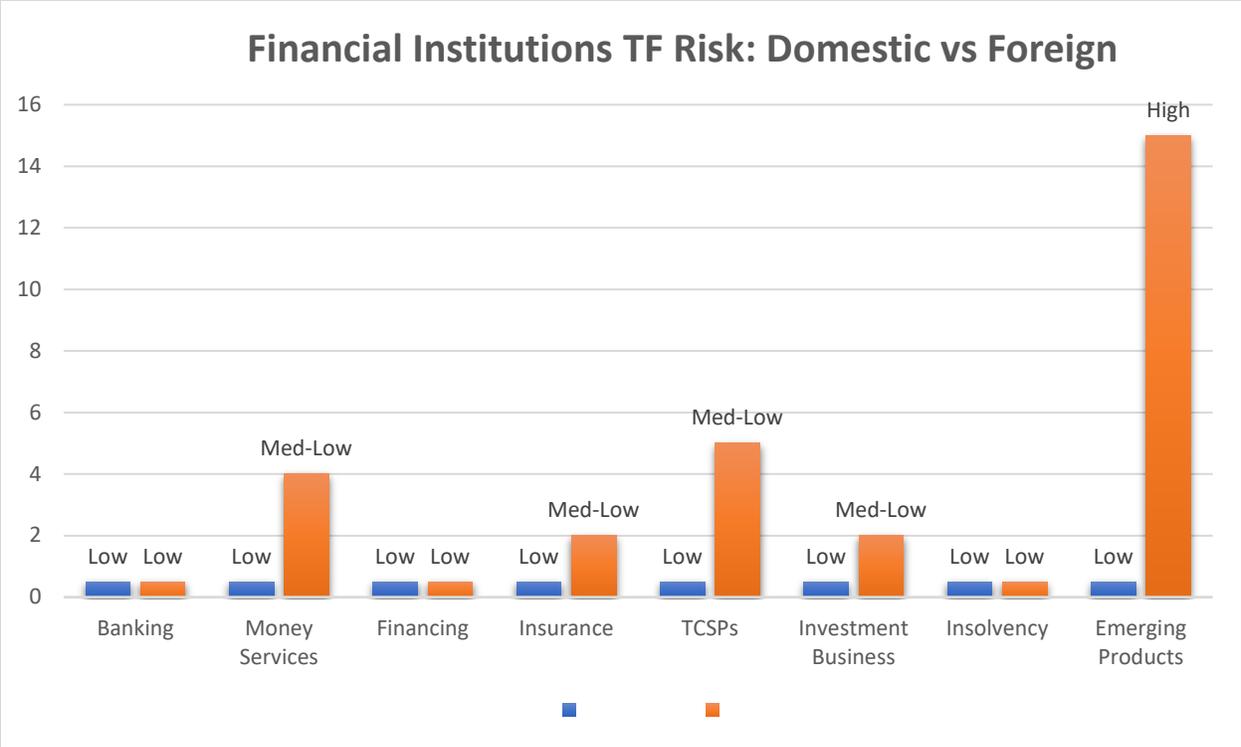


Chart 3.3: Financial Institutions: Domestic vs Foreign Risk Ratings

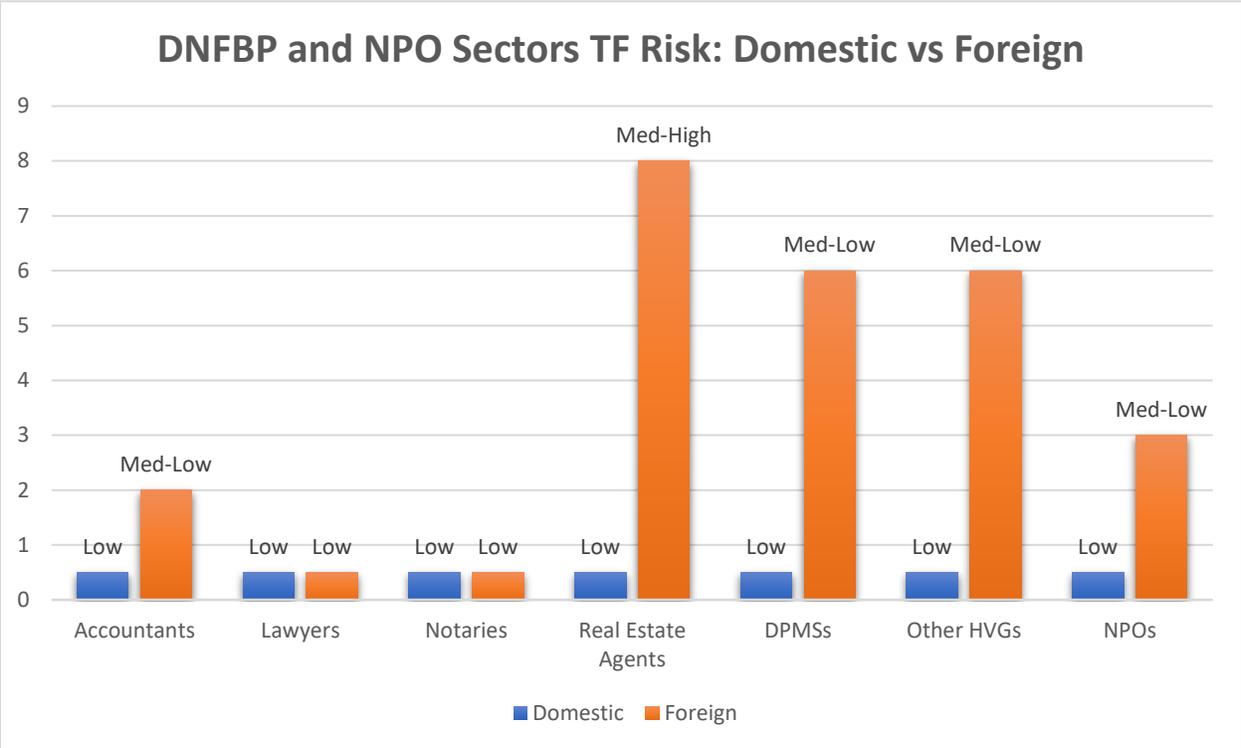


Chart 3.2: DNFBP AND NPO Sectors: Domestic vs Foreign Risk Ratings

4. THE LEGISLATIVE FRAMEWORK

4.1 Terrorist Financing is criminalized in the Virgin Islands through the following Orders-in-Council, which are imperial legislation extended to the Territory by the United Kingdom.

- **Terrorism (United Nations Measures) (Overseas Territories) Order, 2001** - prohibits the raising of funds for purposes of terrorism and places restrictions on making funds available and providing financial services to terrorists. It creates a regime that allows for the disclosure of information, on the authority of the Governor, to the United Nations and any government of a country for the purpose of detecting evasion of measures relative to terrorism.
- **Anti-terrorism (Financial and Other Measures) (Overseas Territories) Order, 2002** - restricts transactions in terrorist property and creates extra-territorial jurisdiction in respect of offences relative to terrorism such as engaging in fundraising or money laundering, using or possessing property or arranging fundraising activities, for terrorist purposes. It also enables the registration and enforcement of foreign confiscation orders by an order of the Governor, and provides measures for the enforcement of forfeiture orders in relation to:
 - money or other property which is likely to be used for the purposes of terrorism;
 - proceeds of the commission of acts of terrorism; and
 - proceeds of acts carried out for the purposes of terrorism.
- **Terrorist Asset-Freezing etc. Act 2010 (Overseas Territories) Order, 2011 (as amended)** - extends Part 1 (including Part 1 of Schedule 2) of the United Kingdom's Terrorist Asset-Freezing etc. Act 2010 to the Territory and replaces the existing power that the Territory has to freeze the assets of those suspected of being involved in terrorism under the 2001 Order.

4.2 In addition, the **Afghanistan (United Nations Measures) (Overseas Territories) Order, 2012** and the **ISIL (Da'esh) and Al-Qaida (Sanctions) (Overseas Territories) Order, 2016** give effect to the UNSCRs which impose targeted financial sanctions against the Taliban, Al-Qaida and ISIL (Da'esh). They enable relevant authorities to take the necessary action to freeze funds of designated persons and entities in respect of targeted individuals, groups, undertakings and entities associated with the Taliban, ISIL and Al-Qaida, and prohibit funds being made available to such persons. The 2016 order also prohibits the supply of military goods and technical assistance related to military activities to designated persons.

4.3 At the time of writing, the Territory was in the process of finalising a draft Counter Terrorism Bill, which when enacted would serve as the primary legislation under which terrorism and terrorism financing offences, *inter alia*, would be criminalised within the Virgin Islands.

5. CFT OPERATIONAL FRAMEWORK

5.1 In the Virgin Islands the responsibility for identifying, monitoring, investigating, prosecuting and providing mutual legal assistance and other forms of international cooperation on TF related matters spans across the following CAs and LEAs.

- a) **AGC** – primary authority responsible for receipt and actioning of MLA requests and other forms of international cooperation relative to civil and criminal matters
- b) **FIA** – supervisory authority for NPOs and DNFBPs. Serves as the national intelligence unit for the receipt and analysis of SARs and dissemination of intelligence to local and foreign counterparts. Assists the AGC in the provision of information in response to MLA requests
- c) **FSC** – regulatory authority responsible for the supervision of FIs including monitoring and enforcement of regulatory obligations relative to TFS. Provides international cooperation assistance to foreign counterparts in concurrence with established MoUs and other international obligations
- d) **GO** – CA responsible for the implementation of financial sanctions measures including the issuing, varying and revocation of licences that permit the conduct of activities otherwise not permitted under the relevant Orders-in-Council
- e) **RVIPF** – sole LEA responsible for the investigation of terrorist and TF related activities, and development and implementation of the Territory’s Counter-Terrorism strategy.
- f) **ODPP** – prosecutorial authority responsible for ensuring swift and proper prosecution of TF and other terrorism related matters
- g) **HMC** – primary LEA responsible for the safeguarding of the Territory’s borders (in conjunction with the RVIPF and the Immigration Department) against illegal entry, people smuggling and human trafficking, and the prevention of importation and/or transshipment of illegal weapons and related contraband
- h) **ID** – primary LEA responsible for the identification and detention of illegal immigrants, prevention of entry of unauthorised persons, and the deportation of persons identified as undesirable

5.2 These agencies work closely together on a bi-lateral and multi-lateral basis and have established MoUs that allow for domestic cooperation and the exchange of information on matters relative to TF in addition to other ML and sanctions related matters⁴. A legislative framework is also in place that allows for the exchange of information and the provision of mutual legal assistance in international cooperation matters.

⁴ A list of MoUs currently in place are set out in Appendix I

6. TERRORIST FINANCING OVERVIEW

- 6.1 A “terrorist act” is defined by the FATF as any act constituting an offence under a range of widely adopted international conventions⁵. The FATF further defines terrorist financing as the financing of terrorist acts, and of terrorists and terrorist organisations⁶. These definitions are aligned with those specified in the relevant Orders-in-Council that criminalise terrorism and terrorist financing within the Virgin Islands.
- 6.2 As with ML, a jurisdiction’s TF risk is considered to be a function of its TF threats and vulnerabilities. A threat in the TF context, being a person or group of people, object or activity with the potential to cause harm to the state, society, economy etc.⁷, through the raising, moving, storing or using of funds and other assets (whether from legitimate or illegitimate sources) for terrorist purposes, if relevant action is not taken.
- 6.3 The concept of vulnerabilities is closely linked to that of a threat and comprises those things that can be exploited by the threat, or that may support or facilitate threat activities. Vulnerabilities are effectively those factors that represent weaknesses in the Territory’s AML/CFT system, including features of a particular sector, financial product or type of service that make them attractive for TF purposes, and covers the broadest areas of the economy.

TF Threats

- 6.4 The threat of TF is of particular importance given the Virgin Islands’ standing as an International Finance Centre and the use of BVIBCs and other legal arrangements to facilitate business globally, as such structures are susceptible to misuse for illicit purposes. Reported instances of TF associated with BVI structures, however, have been very few during the reporting period. The number of SARs received by the FIA directly identifying terrorist or TF related activities totaled 21. These SARs were all associated with BVIBCs operating in foreign jurisdictions. Analysis on nine of these SARs did not reveal anything that required further investigation. These SARs were closed, and the information recorded for intelligence purposes. The remaining twelve SARs are still undergoing analysis and investigation. A general observation is that the information in these SARs were all filed based on information obtained from an electronic online intelligence search tool, whose results were not verified by the reporting entities prior to the SARs being filed. This, along with some of the data provided being outdated resulted in poor quality SARs, thereby posing a challenge where analysis and investigations are concerned.
- 6.5 Further, the RVIPF did not report any TF related investigations, domestic or otherwise during the reporting period, which is not unexpected in view of the low level of TF related SARs reported. However, additional training with respect to identification investigation and prosecution of TF related matters for LEAs would be beneficial to ensure these agencies fully understand their roles.

⁵ Pg 125, International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation, The FATF Recommendations, June 2019

⁶ Ibid

⁷ Pg 8 FATF Report, Emerging Terrorist Financing Risks, October 2015

- 6.6 The number of TF related SARs received over the reporting period does not reflect a recognizable threat of TF in this area, as these SARs accounted for a mere 0.96% of the 2,396 SARs received by the FIA. However, this does not negate the potential of BVIBCs and other vehicles being used to finance terrorist activities. Given the large number of BVIBCs and other legal arrangements operating in and from within the Virgin Islands the threat of misuse of these entities is considered to be greater than at the domestic level.
- 6.7 Exposure to terrorism and TF at a domestic level on the other hand is considered to be low. There are no known terrorist groups, organisations and/or terrorist fighters or self-radicalised terrorists operating in or targeting the Virgin Islands. For the purposes of this assessment, however, a pool of high-risk jurisdictions was identified to determine the Territory’s potential level of exposure to these countries based on relationships stemming from both domestic and cross-border activities. These jurisdictions were recognised as having either been identified by the FATF as having weak AML/CFT regimes⁸, are known conflict areas, or are subject to UN sanctions. Also included were those countries that did not appear on any of those lists but have ties to the Virgin Islands⁹ and scored less than 50 on the Global Corruption Perceptions Index (GCPI)¹⁰. This resulted in the classification of the following jurisdictions outlined in **Table 6.1** below as Tier 1 and Tier 2 jurisdictions, with Tier 1 jurisdictions posing a higher risk than their Tier 2 counterparts:

Tier 1 Jurisdictions	Tier 2 Jurisdictions
Central African Republic	Afghanistan
Democratic Republic of Congo	India
DPRK	Nigeria
Iran	Russia
Iraq	Trinidad and Tobago
Lebanon	Ukraine
Libya	Venezuela
Pakistan	Zimbabwe
Palestine	
Philippines	
Somalia	
South Sudan	
Sudan	
Syria	
Yemen	

Table 6.1: Identified Tier 1 and Tier 2 Jurisdictions

- 6.8 Particular attention was placed on the economic activity identified between these countries and the VI in relation to labour and imports on the domestic front, and fund flows in relation to international financial

⁸ Improving Global AML/CFT Compliance: On-going Process – 18 October 2019

⁹ Ties are either by way of business relationships or immigrant settlers

¹⁰ 2018 Global Corruption Perceptions Index

transactions. Subsequent to this, a further review of the list of countries was carried out to ensure there were no additional anomalies.

Labour

- 6.9 During the reporting period the RVIPF did not record any TF related cases associated with domestic activity, nor have there been any reports of radicalisation of persons residing within the VI. Labour force data does indicate, however, that during the period a number of persons from several Tier 1 and Tier 2 jurisdictions were granted authorisation to reside in the Territory for purposes of work. While this itself is not an indication of any possible TF related activity, authorities should monitor fund flows into these jurisdictions and take into account any trends that may develop that might indicate potential funding of overseas terrorist organisations. There has, however, not been any information or intelligence provided to suggest any such activity.
- 6.10 **Table 6.2** below outlines the number of work permits granted to citizens of Tier 1 and Tier 2 jurisdictions annually during the reporting period.

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
Tier 1						
Central African Republic	0	0	0	0	1	1
Iran	0	2	0	1	0	3
Iraq	6	9	0	0	0	15
Lebanon	0	0	5	1	4	10
Libya	2	1	0	0	0	3
Pakistan	2	1	0	2	0	5
Palestine	0	0	0	1	1	2
Philippines	404	411	400	295	383	1893
Syria	2	0	3	0	0	5
Tier 2						
India	63	77	74	42	71	327
Nigeria	27	23	29	25	22	126
Russia	2	5	3	1	4	15
Trinidad and Tobago	232	194	207	178	160	971
Ukraine	7	4	6	1	1	19
Venezuela	0	0	0	42	43	85
Zimbabwe	4	7	10	8	31	60

Table 6.2: Work Permits Granted to Citizens of Tier 1 and Tier 2 Jurisdictions: 2015-2019

Trade - Domestic

- 6.11 With regard to trade, the VI's main industries are tourism and financial services. It carries out little to no manufacturing or agricultural activities at any significant scale and is, therefore, not a significant exporter of local goods. Rather, it serves as a secondary exporter of goods i.e. for goods previously imported and

then re-exported. This mainly occurs in relation to goods imported and purchased by individuals who then subsequently export these goods to their home country. Some reasons for this include lack of availability of such goods in the home country, quality of goods and cost. Goods are primarily exported to other Caribbean countries, particularly St. Vincent and the Grenadines, St. Kitts and Nevis, Trinidad and Tobago and Guyana which parallels the distribution of the migrant population in the Territory. While such activity has been linked to a level of drug trafficking, there is no evidence to indicate that such activity is linked to any terrorist or TF activities.

- 6.12 Conversely, because the VI is not a large-scale producer of goods it is heavily dependent on imports. While most goods are imported from the US, the origin of these goods includes some Tier 1 and Tier 2 countries. This, however, is no indication of any level of direct engagement with these high-risk countries but rather a consequence of the production-distribution chain relative to these products. The VI does, however, receive a large number of varied imports from Tier 2 country Trinidad and Tobago ranging from dry goods, to paper and plastic products to medical supplies. The average annual value of such imports is approximately \$4.6 million. Again, such imports are a result of legitimate inter-island trade and there is no evidence that payment for such goods is used to finance terrorist activities in that county. As such, the threat of TF from domestic trade activities is considered to be very **Low**.

Trade - International

- 6.13 Most BVIBCs incorporated in the jurisdiction are created for the purposes of cross-border business, primarily as entities to hold assets or as vehicles for joint ventures which may be linked to the investment sector. Additionally, a significant number of BVIBCs do engage in import/export and other trading related activities these companies operate mainly in major global economies including Asia, South America, Europe, North America, and to a lesser extent Africa. Consequently, there is an elevated risk of these entities having direct engagement with some of the jurisdictions categorised as high-risk, or being used, whether knowingly or unknowingly, to finance or facilitate the financing of terrorist activities in these or other jurisdictions. Data collected during the assessment exercise, however, was insufficient to quantify the level of trade engaged in by these entities or to identify potential trading partners. Given the global nature of such trading activities, however, the threat of TF from such international trade activities is considered to be **Medium-High**.

Collection and Movement of Funds - Domestic

- 6.14 There are no known terrorist organisations or individual terrorists operating in the VI and there have been no domestic acts of terrorism. There is, therefore, no evidence of financing for specific terrorism or terrorist events. As such, the general threat of funds generated in the VI being used to finance terrorist operations within the VI is **Low**. Further, there is no evidence of a need for funds generated in a foreign jurisdiction to be provided to anyone in the VI to finance such activities domestically. Equally, there is no evidence of such use of funds within the local NPO sector as explained in detail in **section 10** of this report. The risk of foreign financing to support domestic terrorist activities is consequently also **Low**.
- 6.15 Remittance payments indicate that funds generated in the VI have been transmitted to a number of Tier 1 and Tier 2 jurisdictions. There is no evidence, however, that any funds generated in the VI were used to

support or finance terrorist activities outside of the Territory. Based on labour force data the level of remittances to these jurisdictions is commensurate with the current demographic composition of the local labour force, as non-resident workers tend to repatriate funds to their home countries to support their families. The average value of outgoing money remittance transactions was \$288.00. As such, this threat is also considered to be **Low**.

- 6.16 However, there is still a need for on-going public education of the general populace in relation to emerging TF methods and trends, which could take advantage of both the local and ex-patriate population's desire to provide legitimate assistance to persons or organisations overseas. Additionally, training of LEAs in these areas is also important.

Collection and Movement of Funds - International

- 6.17 Where the threat level becomes slightly elevated is in relation to activities carried out by the BVIBCs registered in the VI that conduct business globally. The inherent vulnerability of such BVIBCs is driven by the complexity of the international financial transactions they engage in, which heighten the risk of these structures being used to facilitate the financing of terrorism.
- 6.18 As these multinational entities conduct large scale cross-border transactions on a daily basis, the potential for misuse is inherently greater. The rationale being that it is possible that these BVIBCs and other available financial products may be used to route funds to terrorist organisations. As noted previously, however, reported instances of TF associated with BVI structures have been negligible during the reporting period. Nonetheless, irrespective of the number of investigations and TF related SARs recorded, given the large number of BVIBCs and other legal arrangements operating in and from within the VI, the threat of misuse of these entities is considered to be material, given the potentially extensive impact of such activity to the reputation of the jurisdiction. It is therefore, important that the relevant LEAs receive the requisite training to identify TF at the international level. The threat of TF associated with the collection and movement of funds on an international level is, therefore, considered to be **Medium-High**.

TF Risks

- 6.19 While the identifiable threats of TF may be low, the risk of TF by and through individuals and entities, including financial institutions, residing in, or operating from within the Virgin Islands cannot be disregarded. These risks, along with those found in the domestic non-profit (NPO), and to a lesser extent, designated non-financial business (DNFBP) sectors, collectively impact the Virgin Islands' level of effectiveness in combatting TF, and in meeting its obligations relative to FATF standards.
- 6.20 TF risks posed by the individual sectors under review are discussed in **sections 8 to 10** below. The level of risk has been identified based on each sector's level of exposure to identified vulnerabilities taking into consideration the threats to the jurisdiction as identified above, and the extent to which each sector has been able to successfully mitigate these vulnerabilities.

- 6.21 The identified vulnerabilities themselves are based, *inter alia*, on:
- the level of implementation of CT and TF strategies,
 - use of the Territory's international cooperation framework,
 - links to high-risk jurisdictions,
 - identification of sectors in TF typologies,
 - level of compliance with TF requirements including TFS,
 - strength of the legal framework to address TF related offences, and
 - availability of information to assist in MLA and other international cooperation requests.
- 6.22 These vulnerabilities have been mitigated to varying levels in most instances through the jurisdiction's level of understanding of TF amongst high-risk sectors, understanding of its CFT obligations relative to the maintenance of BO information, level of coordination and information sharing among LEAs, and the effectiveness of the sanctions regime currently in place.
- 6.23 In determining the Territory's overall TF risk level focus was placed on the major TF threats emanating from both domestic and foreign activities and their impact to the Territory. The domestic TF threat was considered **Low**, while the threat of TF for the purposes of supporting foreign terrorist activity was assessed as **Medium-Low**. Given the Territory's position as an IFC, the impact of foreign criminality on the overall risk level was considered more severe based on the potential of BVI registered entities being used to facilitate TF, and the scope of the impact of this conduct.

7. COOPERATION MATTERS

International Cooperation

- 7.1 The greater risk of TF for the VI lies with the misuse of legal persons and legal arrangements registered in and operating from within the VI. The ability to provide mutual legal assistance and other forms of international cooperation is therefore paramount to the VI's ability to assist in mitigating such risk. Formal MLA requests are handled through the AGC with assistance from the FIA for those requests where a BVIBC or other legal arrangement may be the subject of the enquiry. In addition, exchange of financial intelligence is facilitated through the FIA's membership in the Egmont Group as well as the Territory's membership in the CFATF, which allows the FIA to utilise information sharing agreements with non-Egmont members. The FIA also has the ability to make spontaneous disseminations to other LEAs based on intelligence gathering exercises.
- 7.2 The RVIPF interacts regularly with its foreign counterparts and has developed strong working relationships with regional, US and UK law enforcement authorities which extends to potential matters relating to both ML and TF. HMC has also forged solid working relationships with regional and international counterparts through its membership in the WCO and the CCLEC, and works closely with US CBP and ICE. HMC also has the ability to participate in joint operations with these agencies, along with the RVIPF when necessary. These relationships ensure that if there is a need for cooperation in relation to a local TF related investigation with extra-territorial reach, or an international TF investigation with a domestic link, the framework is in place for such cooperation to take place.

- 7.3 Based on data provided the FIA received seventy-one (71) foreign requests for assistance during the reporting period in which TF was identified in the subject matter. The vast majority of these, (62), were recorded in 2019 and were related to requests for BO information of BVIBCs from one UK authority. However, the classification of the requests from that particular UK authority was very broad, as all the requests identified “corruption, ML, TF, proliferation and organised crime” as the reason for the request, which appeared to be a ‘catch-all’ description. It was, therefore, initially unclear whether the activities on which these requests were based, actually involved TF activities. Nonetheless, the information requested was provided in all instances. Further review of the information provided that the requests for information were not related specifically to terrorism or TF offences. This was determined through a comparative analysis with the MLA requests received, which showed a correlation with only one of the initial UK requests in which terrorism and/or TF was specifically mentioned, as outlined in **paragraph 7.4** below. Therefore, the conclusion is that the requests from the UK authority did not relate specifically to terrorism or TF but rather tax related crimes for which they were seeking BO information.
- 7.4 The FIA confirmed that during the reporting period they were asked to provide information for only one terrorism/TF related MLA request. This request involved two BVIBCs that were accused of providing “material support or resources to a foreign terrorist organisation” in Iraq and Syria. The request generally sought information on the ownership of the companies. The request was fully responded to and the information on BO of the companies was provided. Feedback on the usefulness of the information was sought, as is standard practice with the FIA.

Example

Two BVIBCs were accused of providing “material support or resources to a foreign terrorist organisation” in Iraq and Syria. The BVIBCs were linked, together with other ISIS media organisations, to social media accounts used to published ISIS related propaganda. The necessary BO information on the BVIBCs was provided by local LEAs, which indicated that the BO was an Iraqi born US citizen. Feedback on the usefulness of the information provided was sought, however, no feedback was received.

- 7.5 On the regulatory side, the FSC is an active member of IOSCO, GIFCS and IAIS, as well as other regional associations such as ASBA, CGBS, and CAIR. Membership in these organisations allows the FSC to facilitate international cooperation requests received from member jurisdictions and make requests for information, if and when necessary. During the reporting period the FSC confirmed that it did not receive or make any TF related international cooperation requests.

Targeted Financial Sanctions

- 7.6 In order to ensure an effective financial sanctions regime, the VI embraces international standards and best-practice standards which promote international cooperation and international security in accordance with international agreements. This includes the implementation of measures to ensure that it meets its obligations to combat TF as embodied under the FATF Recommendations.

- 7.7 As a British Overseas Territory, the VI is committed to ensuring its role in the maintenance of international peace and security, and therefore implements the international sanctions obligations extended through the UK in the form of Orders-in-Council. The Governor of the Virgin Islands is the CA with responsibility for enforcing Orders-in-Council relative to international sanctions. Through internal processes between the GO and the FIA these matters are investigated and responded to in a timely manner.
- 7.8 Between 2015 and 2019 BVIBCs were named in relation to 30 potential breaches of UN sanctions relative to TF. In addition, communication regarding additional potential breaches involving 27 BVIBCs was received from sources including FIs, DNFBCs and foreign NGOs. The jurisdictions to which these potential breaches and reports relate are outlined in **Table 7.1** below:

Sanctioned Jurisdiction	No. of BVIBCs Named by UN in Potential Sanctions Breaches	No. of BVIBCs Reported for Possible Sanctions Breaches
Burma	-	1
Central African Republic	1	-
Iran	-	21
Libya	9	3 ¹¹
People's Democratic Republic of Korea (DPRK)	19	-
Syria	-	2
Yemen	1	-
Zimbabwe	-	3 ¹²
Total	30	27

Table 7.1: Number of BVIBCs Reported for Potential Sanctions Breaches: 2015-2019

- 7.9 Requests received by the GO from the UN's Panels of Experts, which are working groups established by the UN to support the work of the various UN Sanctions Committees, are forwarded to the FIA for investigation, and results are returned to the GO without exception. During the reporting period 12 requests for information in relation to the 30 BVIBCs named were sent to the FIA, all of which were in relation to potential breaches of UN sanctions by BVI registered entities. All requests were responded to by the FIA within the desired timeframe, and the resulting findings were communicated to the relevant

¹¹ These 3 companies were named in relation to both Libya and Zimbabwe

¹² Ibid

UN Panel of Experts in accordance with the Territory’s commitment to its international cooperation obligations. The jurisdiction has received positive feedback from the UN Panel for its responsiveness to their requests.

7.10 With regard to other communication received by the GO from private sector entities, there has been only one instance where evidence was found to warrant action being taken. In this instance, the FIA completed an investigation and passed the file to the RVIPF. However, it was deemed by the ODPP that there was no legal framework to attempt prosecution in the matter. This is a clear gap in the Virgin Islands’ ability to respond effectively to sanctions related matters which needs to be addressed.

7.11 During the reporting period, 51 SARs submitted to the FIA related to possible sanctions offences, including alleged sanctions breaches by clients, persons on sanctions lists identified as clients, and clients who may have had an association/connection to a sanctioned individual/entity. The majority of these SARs were filed by TCSPs (see **Table 7.2** for details).

Year	TCSPs/RAs	Law Firms	Insolvency Practitioners	BVIBCs	Banks
2015	3	2	0	0	0
2016	2	1	0	0	0
2017	7	0	0	0	0
2018	10	0	0	0	0
2019	21	1	1	1	2
Total	43	4	1	1	2

Table 7.2: Sanctions Related SARs Filings by Sector: 2015-2019

All of the 51 SARs concerned sanctioned individuals who were identified as BOs, shareholders and/or directors of BVIBCs. However, there were no instances in which BVIBCs themselves were found to have breached a UN/EU sanction. Upon investigation of these SARs, forty-nine of them did not reveal anything that required further investigation as no specific sanction breach was identified. As such, no further action was recommended, and they were filed for future reference if needed. One SAR was disseminated to a foreign FIU and one to the FSC, both for intelligence purposes. Prior to the FSC taking action, the RA terminated its relationship with the BVIBC in question. The BVIBC was subsequently struck from the Register of Companies.

7.12 Given the sheer volume of BVIBCs this may reflect that generally, BVIBCs are aware of their obligations under the various UN/ EU¹³ sanctions and adhere to the requirements of the sanctions orders, or that client onboarding and monitoring procedures of FIs are robust, thereby minimising the number of clients from Tier 1 and Tier 2 jurisdictions. Conversely it could point to insufficient monitoring of the perimeter to detect the true number of BVIBCs involved in sanctions busting activities or owned by sanctioned

¹³ As a result of the UK’s withdrawal from the EU on 31 December 2020 EU sanctions are no longer applicable to the BVI

individuals. This needs to be carefully considered as it may reflect a potentially higher level of risk to the jurisdiction based on exposure to these types of individuals.

- 7.13 In accordance with the TFS regime the Governor, under the powers conferred by the individual Sanctions Orders, is responsible for granting licences to conduct business with or on behalf of a designated person or entity. In considering such licences the GO works closely with the AGC to ensure all applications meet the criteria and are properly evaluated. Between 2015 and 2019 the Governor granted 3 such licenses and revoked one. Two additional licences that were previously granted became invalid as the designated person was removed from the relevant sanctions list. The low number of requests for licenses appears to correlate with the low number of instances in which BVIBCs or persons related to BVIBCs have been designated.
- 7.14 Recognising the importance of proper adherence to the sanctions regime, the GO engages in targeted outreach to the financial services industry and the public in relation to sanctions mechanisms. Specifically, in 2019 as part of its outreach programme, the GO presented to the Territory's Association of Compliance Officers on its licensing regime and requirements for applying for a licence to conduct business with or on behalf of a designated person or entity. Over one hundred (100) persons attended this training, the focus of which was to ensure entities within the financial services sector fully understand their responsibilities when dealing with designated persons. Therefore, the low number of requests for licences is likely an indication that industry professionals understand the requirements for seeking a licence. Additionally, in 2018 the GO facilitated a sanctions workshop sponsored by OFSI that was geared toward both public and private sector entities based in the Territory. The GO's presentation focused on licensing as well as international cooperation relating to investigations, amongst other things. Over seventy (70) persons participated in that workshop.

Domestic Cooperation

- 7.15 The framework used for fostering inter-agency cooperation in the VI includes information exchange based on the use of bi-lateral inter-agency MOUs such as those established between the FSC and FIA, FIA and HM Customs, and FIA and RVIPF. Additionally, there is a multi-lateral inter-agency MOU established amongst the 18 members of the IGC, which defines the relationship between the members and compels them to work together to, *inter alia*, enhance the Territory's compliance with its international obligations with respect to information exchange, and coordinate activities to effectively combat criminality relative to ML, TF, corruption, matters related to organized crime and tax obligations.
- 7.16 Cooperation amongst these agencies spans the entire gamut of the Virgin Islands' AML regime. Of particular importance is the relationship between the FIA and the RVIPF in relation to the analysis, dissemination and investigation of SAR related activities, as well as the relationship between the RVIPF and the ODPP with respect to investigation and prosecution of offences. Additionally, as noted above, the FIA provides valuable support to the AGC in gathering information relating to legal persons and legal arrangements established in the VI to allow for the AGC to respond to MLA requests.

8. SECTORAL ANALYSIS OF TF RISK OF FINANCIAL INSTITUTIONS

Banking

- 8.1 The banking sector in the VI is small in comparison to other jurisdictions, with only six licensed commercial banks and one private wealth management institution, none of which act as a correspondent bank. The sector plays an integral part within the local financial services sector, with operations at both the domestic and international levels. The products and services offered are standard banking related products and services and are not of an overly complex nature.
- 8.2 Services are provided to non-resident persons either directly or through the provision of banking services to legal persons and legal arrangements. The BOs and other relevant persons of these legal persons and legal arrangements are clients of licensed TCSPs. However, overall, the banking sector within the VI predominantly provides banking facilities to residents and local businesses. To put this into perspective the total value of non-resident loans at the end of 2019 was reported at \$71.125 million or just over 5% of all total loans. Similarly, non-resident deposits accounted for only 14.2% of all deposits. While most institutions now offer some form of online banking, a vast majority of business is still conducted face-to-face based on the products and services offered. Exposure to high-risk customers and PEPs is therefore highly localised to those types of customers resident in the Territory. It is recognised, however, that there is some risk of international exposure due to the provision of services to non-resident clients, many of whom may be legal persons and legal arrangements.
- 8.3 Exposure to criminality within the banking sector comes from the universal nature of retail banking transactions, as well as the frequency and speed with which they are conducted. While there is the potential for some of the activities within the sector to involve high-risk jurisdictions, the volume of such activities is small and are not conducted on a regular basis. Cross-border transactions engaged in by the banking institutions, based on the value of reported incoming and outgoing wire transfers primarily involve transfers to and from North America, Europe (including the UK) and the Caribbean. There is no evidence of any direct link to any Tier 1 or Tier 2 jurisdiction, with the exception of Trinidad and Tobago. However, this is attributed to the trading relationship between Trinidad and Tobago and the Territory. Further, there have been no reports of any VI banking institutions being used to facilitate the financing of any foreign terrorist activities.
- 8.4 The risk of TF in the banking sector in support of foreign terrorism is assessed as **Low**. The risk of TF in support of domestic terrorist activities is also assessed as **Low**.

Money Services

- 8.5 There are only 2 licensed MSBs in the VI. These two entities are part of large international money transfer organisations with operations throughout the wider Caribbean region and beyond. These licensees currently provide money transmission services through two branches and three representative offices.

- 8.6 The core markets for MSBs within the Virgin Islands are emigrant workers repatriating funds to their home countries, and residents sending money abroad primarily for business and educational support purposes. Based on labour force data the level of outbound remittances is commensurate with the current demographic composition of the local labour force. The top jurisdictions receiving outward transfers are the Dominican Republic, Jamaica and Guyana. This is aligned to the size of these immigrant populations which rank in the top 5 jurisdictions from which the labour force in the VI is sourced.
- 8.7 As noted in **section 6** of this report, remittance payments data indicates that funds generated in the VI have been transmitted to some Tier 1 and Tier 2 jurisdictions. There is no evidence, however, that any of these funds were used to support or finance foreign terrorist activities. Rather, the jurisdictions in question equate to the country of origin of migrant workers who tend to repatriate funds to their home countries to support their families.
- 8.8 As transactions tend to be one-off, however, there is potentially a higher level of risk associated with the verification of BO information, as such verification is generally only conducted on high-risk customers or on transactions above the specified threshold amount. Given that approximately 93% of all transactions are outbound, and confirmation of BO information on transactions rests with the local sending party for which there is no evidence of radicalisation, the issue of verification does not appear to elevate the risk of any possible TF threat.
- 8.9 The risk of TF in the MSB sector in regard to support of foreign terrorism is assessed as **Medium-Low, specifically in the middle of the medium low scale** while the risk of TF in support of domestic terrorist activities is assessed as **Low**.

Insurance

- 8.10 The insurance sector in the VI comprises primarily of domestic and captive insurance business. It also includes intermediaries such as managers, brokers, and agents as well as loss adjusters. The products and services offered through domestic insurance companies and intermediaries are limited to the relatively vanilla type offerings of life and health insurance, and property and casualty insurance business which applies mainly to persons and property in the Territory. These products are not seen as likely vehicles for the movement of terrorist-related funds. Furthermore, most business is conducted through face-to-face contact and cash transactions are limited to the payment of premiums by some customers.
- 8.11 PEPs utilising the products and services offered are generally local PEPs consisting of government officials and other individuals holding high level positions in statutory corporations, along with their close associates and family members. It is highly unlikely that any of these persons would have connections to foreign terrorist organisations, and given the lack of any known terrorist groups, organisations or self-radicalised terrorists operating in the Virgin Islands, such connections relative to domestic terrorist activity are also highly improbable.
- 8.12 With regard to captive insurance providers, given the nature and the way in which they operate they are internationally considered low risk institutions. In the VI context, the greater portion of clients serviced

by these institutions originate in the US, so the prospect of this sector being used for state sponsored terrorism is not likely, as there is no significant level of business relationships with any of the identified Tier 1 or Tier 2 countries.

- 8.13 According to typologies and other international guidance, exposure to TF in the insurance sector comes through the provision of kidnap and ransom insurance and potential cyber-attacks. However, such guidance generally indicates that the use of the insurance sector for the purpose of TF is extremely limited. None of the insurance licensees within the sector are known to provide kidnap and ransom insurance.
- 8.14 The risk of TF in support of foreign terrorism is assessed at the lower end of the **Medium-Low** scale while the risk of TF in support of domestic terrorist activities is further assessed as **Low**.

TCSPs

- 8.15 Based on nature and activity, it is recognised that the greatest risk of TF lies within the TCSP sector. TCSPs offer a variety of services which include company administration, accounting services, ship registration, trustee and protector services, incorporations through the provision of RA services, and provision of directors and nominee shareholder services. These entities serve as the primary gateway to the Virgin Islands' international financial services sector.
- 8.16 The complex corporate and legal structures facilitated by TCSPs, as well as other services provided, make these structures attractive to high-risk customers, including PEPs and other high net worth individuals who are seeking to maximise and protect their assets. Unfortunately, these characteristics also make them attractive to international criminals, including terrorist organisations and financiers who may use these structures and services to facilitate the movement of terrorist funds. This attraction may be elevated due to the high level of non-face to face transactions, and the potential for these structures to be used to conceal the source of assets and the identity of BOs. Further, there is also the potential for regulatory arbitrage by criminals who may try to take advantage of jurisdictions with lax AML/CFT regimes that lend themselves to TCSPs being open to possible bribery and corruption as a means of facilitating the movement of funds in support of terrorist activities.
- 8.17 International guidance confirms the risk of such corporate vehicles being susceptible to misuse for TF purposes. According to the 2006 FATF publication **The Misuse of Corporate Vehicles, Including Trust and Company Service Providers**, *“Corporate entities, including corporations, trusts, foundations and partnerships with limited liability characteristics, ...may under certain conditions, be used for illicit purposes, including money laundering, bribery and corruption, improper insider dealings, tax fraud, financing of terrorist activities and other forms of illegal activities”*¹⁴.
- 8.18 Additional guidance from the FATF also indicates that the services and products available through the formal financial sector pose significant risk as they may serve as vehicles for moving funds that support

¹⁴ Pg 1 The Misuse of Corporate Vehicles, Including Trust and Company Service Providers, Financial Action Task Force, 13 October 2006

terrorist organisations and fund acts of terrorism¹⁵. It is for this reason, given the size of the client base of the Territory's TCSP sector, that the risk of misuse of such vehicles for TF purposes is considered more elevated than in other sectors.

- 8.19 At the end of 2019 there were 258 licensed TCSPs providing services to 387,344 active clients (i.e. in good standing and in compliance with the BVIBCA). Clients of TCSPs comprise persons that are resident and non-resident in the Territory, with the latter constituting the vast majority of these clients. Non-resident clients emanate geographically from most major global economies including those in Asia, South America, Europe, North America, and to a lesser extent Africa. Data provided indicates that some TCSPs do provide services to clients operating in Tier 2 countries.
- 8.20 As indicated in **section 6**, there were 21 SARs submitted to the FIA during the reporting period relating to any potential TF activity. Of these 21 SARs, 11 were filed by TCSPs while 9 were received directly from one BVIBC which appears to be engaged in VA and VASP type activities. The one remaining SAR was received from a BVI law firm. Of the 11 SARs filed by TCSPs, eight did not reveal anything that required further investigation. These SARs were closed, and the information recorded for future intelligence purposes. These SARs, along with the one SAR received from the BVI law firm were closed, and the information recorded for future intelligence purposes. The remaining three SARs filed by TCSPs, along with the nine received from the BVIBC are still undergoing analysis and investigation. Further, only one TF related MLA request was received in which a BVIBC serviced by a TCSP was the subject. Information was provided by the TCSP to the FIA, which enabled the AGC to respond to the request in a timely manner.
- 8.21 With regard to trusts, these products have characteristics that attract use from high-risk persons, including PEPs. Furthermore, the very nature of the trusts means that they are attractive to high net-worth individuals who may emanate from high-risk jurisdictions, for estate planning purposes or protection of family assets. However, there is no evidence that such structures have been identified in any international typologies as typical vehicles used by terrorist organisations or sympathisers to facilitate TF.
- 8.22 Due to the sheer volume of clients serviced by the TCSP sector and the potential for these clients to be used to facilitate TF, the risk of TF in support of foreign terrorism is assessed as mid-range **Medium-Low**. Conversely, the risk of TF within the TCSP sector in support of domestic terrorist activities is **Low** given the lack of any known terrorist groups, organisations and/or self-radicalised terrorists operating in or targeting the Virgin Islands.

Investment Business

- 8.23 The complex nature of the products offered by the investment business sector makes them attractive to high-risk customers, including PEPs and other high net worth individuals. Products and services offered include FOREX, cryptocurrencies, commodities, bonds, equities, fund administration services, insurance products, custodial services, mutual funds, segregated portfolios, and closed ended funds. Some entities operate online platforms for trading which can be accessed worldwide. These products, however, are not

¹⁵ Pg 21 FATF Terrorist Financing Typologies Report, February 2008

generally attractive vehicles for providing financing to terrorist organisations, although the risk remains given the nature of the products.

- 8.24 Due to the nature of investment business, there is generally a high level of non-face to face business. Most service providers reside outside the VI and are geographically dispersed. The sector's diverse international client base means that these entities hold substantial foreign portfolio holdings, primarily in the Asian-Pacific countries, North America, Europe, Latin America, the Caribbean, Middle East, and Africa. There is potential, therefore, for exposure to some Tier 1 and Tier 2 countries. This, however, does not inherently indicate a higher risk of TF.
- 8.25 Generally, the client profile for investment schemes does not correspond to the profile of terrorist organisations or other radicalised individuals. Further, the investment business sector has not been identified as being particularly vulnerable to TF based on typology reports and other guidance provided by the international community.
- 8.26 The risk of TF within this sector in relation to support of foreign terrorism is, therefore, assessed at the lower end of the **Medium-Low** range. Further, the risk of TF in support of domestic terrorist activities is assessed as **Low**.

Other Financial Services (Financing Business and Insolvency Services)

- 8.27 Since the coming into force of the FMSA, only three Financing Business licences have been issued. All three licensees are relatively small with client bases that are generally connected, such as employees. The services provided are currently limited to the provision of small, short term loans to connected persons or payment plans for insurance premiums. Further, services are offered to residents on a face-to-face basis, and do not involve clients from any Tier 1 or Tier 2 jurisdictions. High-risk customers and PEPs utilising these services are all domestic in nature.
- 8.28 With regard to insolvency services, appointments may involve businesses operating in high-risk jurisdictions and the potential for non-face-to-face business. Further, the client base may include international PEPs and businesses operating in high-risk jurisdictions. However, the general nature of insolvency business not being on-going business makes the risk of the sector being used for any TF purposes extremely miniscule.
- 8.29 The risk of TF in these sectors in regard to support of foreign terrorism is assessed as **Low**. Equally, the risk of TF in support of domestic terrorist activities is assessed as **Low**.

9. SECTORAL ANALYSIS OF TF RISK OF DESIGNATED NON-FINANCIAL BUSINESSES AND PROFESSIONS

Accountants

- 9.1 There are a small number of accountants operating within the Territory that, based on their activities, fall to be monitored for AML/CFT purposes. Most accounting firms form part of larger international firms with established business relationships across the globe. The sector is supervised by the FIA and is subject to comprehensive AML/CFT requirements. As with all FIs and DNFBPs, accountants are required to file SARs with the FIA.
- 9.2 The vulnerability in respect of accountants stems from the businesses they provide services to. Similar to lawyers, the types of customers served by this sector are generally corporate and business clients, and high net worth individuals, with the majority of the work being undertaken for corporate clients.
- 9.3 Lack of data made it difficult to determine whether some entities have provided services to clients classified as PEPs or based in high-risk jurisdictions. However, from what was provided there is no evidence to suggest any terrorist financing links within this sector, particularly in relation to those firms that are entirely domestically focused, given the established jurisdictional profile.
- 9.4 The risk of TF in the accountant sector in regard to support of foreign terrorism is, therefore, assessed as mid-range **Medium-Low**. The risk of TF in support of domestic terrorist activities is assessed as **Low**.

Lawyers

- 9.5 As with accountants and other DNFBPs, lawyers fall under the supervisory remit of the FIA if they engage in any of the core activities identified in the AMLR. Most qualifying entities are established global law firms who have long-standing offices in the Territory. These firms provide services internationally and usually have global compliance systems in place to ensure their compliance with AML/CFT regulatory requirements. In most cases, the compliance functions are also conducted by the regional or international compliance teams. During the reporting period one TF related SAR was filed by a BVI law firm. Upon review by the FIA however, nothing was found that required further investigation. The SAR was closed, and the information recorded for future intelligence purposes by the FIA.
- 9.6 The vulnerability within this sector also stems from the businesses to which services are provided, a significant number of such services being provided almost exclusively on a non-face-to-face basis. The types of customers that are served by this sector are also high net worth individuals, and corporate and business clients, with the majority of work being undertaken for corporate clients. Most of these are based in the US, UK, China, Hong Kong, Russia and the BVI. The size and value of transactions undertaken by these firms varies depending on the work undertaken, the type of entity, and in actuality, the transaction itself. Given the nature of these transactions, payments received or made are usually done

via wire transfers. The level of actual cash used for this purpose is little to none. While the size of these transactions is significant, this in and of itself is not indicative of any elevated TF risk.

- 9.7 The data received shows that some law firms have provided services to clients classified as PEPs or based in high-risk jurisdictions. However, the number of transactions where this has been the case is low when compared to the total number of transactions undertaken by these firms. There is no evidence to suggest any terrorist financing links within this sector.
- 9.8 The risk of TF in the legal sector in regard to support of foreign terrorism is assessed as **Low**. Equally, the risk of TF in support of domestic terrorist activities is assessed as **Low**.

Notaries

- 9.9 One of the criteria for persons wishing to serve as a notary in the VI is the requirement to be a practicing lawyer within the Territory in accordance with the Commissioners for Oaths and Notaries Public Act, 2007 unless special dispensation is granted by the Chief Justice otherwise. As such, the issues relative to notaries would mirror those outlined in relation to lawyers above. There is no data to support any risk of TF by notaries in relation to either foreign or domestic terrorist activities.
- 9.10 The assessment of TF risk in relation to notaries is **Low** in relation to foreign terrorism. Likewise, risk of TF in support of domestic terrorist activities is also assessed as **Low**.

Real Estate Agents

- 9.11 Entities within this sector engage in the business of buying and selling real estate, providing residential and commercial rentals, and property management services. For the purposes of this assessment, however, the focus has been given solely to the buying and selling element, as per the FATF Recommendations.
- 9.12 The majority of clients served by this sector are individuals, approximately 10% of which are HNIs, with another 10% being corporate clients. Most real estate sales were found to be in relation to local residential properties and land sales, with a very small percentage of commercial sales also occurring. However, some entities do undertake non-face-to-face transactions involving properties outside of the Territory and these were found to be predominantly based in the US.
- 9.13 In the course of a transaction REAs generally receive or pay out funds. The main payment methods are split between wire transfers and cheques. The size and value of transactions vary from entity to entity, depending on their areas of focus as well as the market. The approximate value of annual residential sales transactions during the reporting period ranged from \$3 million to \$10 million, while annual land sales transactions ranged from \$200,000 to \$2 million. The size of these transactions, however, is not indicative of any elevated TF risk.

9.14 Due to this sector’s limited understanding of TF risk, minimal risk mitigation policies and sanctions monitoring frameworks, the risk of TF in support of foreign terrorist activities has been assessed on the lower end of the **Medium-High** scale. However, given that the market predominantly deals with clients based on the Virgin Islands, and the lack of any identifiable domestic terrorist activity the risk of TF in support of domestic terrorism is assessed as **Low**.

Dealers in Precious Metals and Stones (Jewellers)

9.15 Dealers in precious metals and stones (DPMS) by their very nature operate a high value business, engaging in both purchase and sale of these commodities. There are only two DPMS within the Territory, and these entities concentrate primarily on the sale of finished pieces, almost exclusively on a face-to-face basis, and not the sale of raw stones, gems or bullion, which, based on international typologies are more attractive means of raising terrorist funds. They, therefore, are classified as jewellers under the Non-financial Business (Designation) Notice, 2008.

9.16 With the BVI being a high tourism destination, many visitors to the Territory purchase jewellery during their stay. These visitors are primarily from the US and Europe and all business in this sector is carried out face to face. There have been no suspected cases of TF involving DPMS, nor any other indications of any TF activity within the sector. This is consistent with the makeup of the sector and the general profile of the businesses and their customers.

9.17 The risk of TF within this sector in relation to support of foreign terrorism is assessed at the higher end of the **Medium-Low** scale. The risk of TF in support of domestic terrorist activities is assessed as **Low**.

Other High Value Goods Dealers

9.18 Under the Non-financial Business (Designation) Notice, 2008, persons who engage in buying and selling certain high value goods where the transaction involves acceptance of cash payments of \$15,000 or more are subject to AML/CFT supervision by the FIA. The categories of HVGs under the Notice include:

- Boat (yacht) dealers
- Vehicle dealers
- Jewellers
- Furniture, machinery, and art dealers

9.19 Machinery and art dealers have been excluded from this assessment as they are a very insignificant sector and have been deemed to present no ML/TF risk. Jewellers have been addressed in the assessment of DPMS under the DNFBP section.

9.20 With regard to yacht brokers and dealers, while the yachting industry within the BVI is significant, the number of entities involved in the business of buying and selling of boats is considerably small. The clients served by this sector range from individuals to businesses and corporate clients. During the course of a normal transaction these broker/dealers transfer funds between a seller and a buyer. Over 95% of such

payments are made by wire transfers. While the buying and selling of yachts has been identified as a potential means of ML, there is no evidence to indicate that this sector has been used to facilitate TF.

- 9.21 The size of vehicle dealers within the Territory varies. The number of transactions engaged in by these businesses also varies as does the average value of the vehicles sold. This sector does not generally engage in the export of vehicles. In light of this, and given the lack of any known terrorist groups, organisations and/or terrorist fighters or self-radicalised terrorists operating in or targeting the Virgin Islands, it is difficult to conclude that this sector could be used to finance any domestic or foreign terrorist activity.
- 9.22 There are very few furniture dealers within the Territory, and as with the vehicle dealers, these entities do not generally engage in the export of their merchandise. The risk of the sector being used for any TF purposes is extremely low.
- 9.23 Overall, the risk of TF within the HVG sector in relation to support of foreign terrorism is assessed at the higher end of the **Medium-Low** scale. The risk of TF in support of domestic terrorist activities is also assessed as **Low**.
- 9.24 It should be noted that any elevated level of risk identified within the various DNFBP sub-sectors is as a result of the lack of mitigating controls currently in place, more so than actual exposure to TF activities. It is necessary for the FIA as the supervisor, to ensure that all sub-sectors are made aware of their AML/CFT obligations and that proper policies and procedures are in place to mitigate any identified risks. Further, outreach should be carried out to promote proper understanding of these obligations by each sub-sector. This will aid in reducing the current level of risk.

10. SECTORAL ANALYSIS OF TF RISK OF NON-PROFIT ORGANISATIONS

- 10.1 NPOs within the VI must register with the NPO Registration Board in accordance with the Non-profit Organisations Act, 2012. The types of NPOs registered within the VI are varied and include, *inter alia*, the following categories:

- Community Organisations
- Religious Organisations
- School Clubs and Associations
- Sporting Associations
- Youth Organisations

- 10.2 Supervision of the NPO sector is the responsibility of the FIA who works in tandem with the NPO Registration Board to ensure all identified NPOs are made aware of their statutory obligations.
- 10.3 Although a small number of new NPOs are formed annually, the majority of NPOs within the sector have been long established. Of these, approximately 95% carry out their activities solely within the Territory. Of the current active NPOs, approximately 50% are categorised as Religious Organisations. The remaining

NPOs are a varied mix of the above types of organisations, the main objectives of which are very much community focused.

- 10.4 The cash and donation activity within the sector varies depending on the size and type of NPO. Fund-raising activity within the sector predominantly occurs via the hosting of events, and receipt of general donations. Donations are generally facilitated through cash, cheques or wire transfer. A considerable number of NPOs operating within the Territory are considered “small” and do not receive donations above the \$10,000 threshold. However, for larger NPOs, donation activity does go above the threshold. During the hosting of events certain larger NPOs have been known to receive significant amounts of cash contributed for specific philanthropic purposes. Additionally, some sporting organisations receive grants from global organisations with which they are affiliated e.g. International Federation of Association Football (FIFA) or the International Olympic Committee. These are all inbound donations which would have already been subject to AML/CFT requirements through the banking and other systems, and therefore do not pose any TF risk.
- 10.5 About 40% of NPOs either collect funds from or issue funds outside of the Territory. Of this 40%, 72% indicated that they send funds outside of the Territory. The geographical location the funds are sent to varies significantly from NPO to NPO. However, the majority of the funds are being sent by religious organisations to their affiliates in the US. There are also other affiliated bodies who send membership fees, and other funds to their sister organisations, some of which are in the US and some within the Caribbean region. However, there are a small number of entities who occasionally send funds to jurisdictions that, while not listed as Tier 1 or Tier 2 jurisdictions, are located in geographical areas where the risk of terrorism is elevated.
- 10.6 Based on international typologies reviewed, it is recognised that the NPO sector is vulnerable to being used for TF purposes through affiliation. In the VI context, affiliation occurs primarily within the religious sub-sector. The main religious organisations within the Territory generally have affiliations with other religious groups, predominantly in the USA. As is established practice, these religious organisations send monies/dues back to the parent group/affiliate. While NPOs may generally be vulnerable to being used for TF purposes through affiliation, based on type and location of receiving entities, there was no evidence to indicate that such affiliation is being used to foster TF via NPOs operating within the VI. This is consistent with the sector, as it is highly unlikely that the sector would be used in this form for TF purposes.
- 10.7 It is further recognised that the misuse of NPOs for TF purposes can occur through deception i.e. where terrorists or terrorist organisations create sham NPOs or portray themselves as being involved in some benevolent activity and solicit funds under the guise of such. While this is a generally recognisable vulnerability for the NPO sector globally, there is no evidence of any such occurrence taking place by entities established in the VI. There is also no evidence to indicate that local NPOs supporting charities abroad have unwittingly sent funds to sham NPOs with terrorist connections.

10.8 In relation to foreign terrorist activities the risk of TF is assessed as **Medium-Low**. Given the findings within the NPO sector, the risk of TF with regard to domestic terrorist activities has been assessed as extremely **Low**.

11. CASINOS AND OTHER EMERGING PRODUCTS AND TECHNOLOGIES

Casinos

11.1 The Virgin Islands Gaming and Betting Control Act was passed on 18 June 2020 but has not yet been brought into force. Gambling is, therefore, still not permitted in the Territory. There is, however, a level of illegal gambling within the Territory, primarily associated with horse racing and underground cockfighting. While these activities give rise to an elevated risk of ML as identified in the Territory's 2020 Sectoral ML report, there is no evidence to indicate that such activity is linked to the financing of any foreign terrorist activity. The risk of TF in relation to foreign terrorist activity, therefore, considered to be **Low**. Further, given the lack of any identifiable domestic terrorist activity the risk of TF in support of such domestic activity through the gaming sector, legal or otherwise, is also considered **Low**.

11.2 While gambling may not pose a high risk in relation to TF within the current context of the VI, given the jurisdiction's inherent vulnerabilities to ML as outlined in the 2020 Sectoral ML Risk Assessment Report, it is critical that the Government ensure the proper framework is put in place to allow for effective AML/CFT supervision of this sector prior to the Act being brought into force.

Emerging Products and Technologies

11.3 The use of emerging technologies, and more specifically Virtual Assets, has given rise internationally to concerns of abuse of these technologies by terrorists to fund their activities. However, this appears more theoretical at this stage as there is limited data to indicate wide use of these products by terrorist organisations. Nevertheless, recognition of the potential risk posed by VA and VASPs by international standards setters, particularly the FATF, which has now called for the regulation and supervision of these entities in like manner to other FIs, indicates that the potential risk posed by these products should be taken seriously and continuously monitored.

11.4 The VI is in the process of drafting legislation that will bring VAs and VASPs wishing to conduct business in or from within the VI under regulatory supervision in accordance with FATF requirements. The use of these products and technologies within the Territory is not currently permitted. However, under existing financial services legislation, primarily SIBA, some VA and VASPs are required to be licensed and/or authorised. For example, a mutual fund that is set up to operate and hold virtual assets is required to be approved. A BVI legal person or legal arrangement that provides investment business services to these entities would also be required to be licensed under SIBA should specific criteria, as set out by the regulator, be met. It is recognised, however, that normal BVIBCs that are not regulated, and which operate globally, do pose an inherent risk, as these entities may, and do, operate as VA exchanges and ICOs. As such, the probability of these entities being misused for TF purposes is elevated. However, there has been no evidence of any such misuse based on SARs filed and MLA and other international cooperation requests received.

- 11.5 The VI's vulnerability exists primarily in that the majority of transactions are carried out on a non-face-to-face basis which offers a higher degree of anonymity than traditional non-cash payment methods. Further, VASPs may also include transfers that are anonymous or pseudo-anonymous making it difficult to identify beneficiaries of the transactions, thereby elevating the risk above other existing FIs.
- 11.6 In relation to the financing of foreign terrorist activities, given the potential exposure relative to the use of BVIBCs, the risk of TF in the regard is assessed as **High**. The risk of these emerging technologies being misused for the purpose of financing domestic terrorist activities, however, is considered **Low**.

12. RECOMMENDATIONS

- 12.1 Based on the findings of this assessment a number of recommendations have been identified. For ease of reference these recommendations have been grouped into recommendations that should be addressed at the national level, those that are specific to the relevant supervisory authority and those that apply to the various sectors assessed during this exercise. Where there is overlap in the recommendations those recommendations have been listed under each.

National AML/CFT Recommendations

- 12.2 The Territory should:

1. ensure that the findings of the NRA and this Report are considered when making changes or assessing the effectiveness of the AML/CFT regime;
2. ensure all relevant CAs and LEAs are adequately trained with regard to identification, investigation and prosecution of TF and TF related activities;
3. ensure that relevant data on analysis and dissemination of TF related SARs, international cooperation, and the investigation and prosecution of TF is maintained, collected and analysed;
4. finalise and implement the Counter Terrorism Bill and other amendments to the AML/CFT regime;
5. ensure that the NRA and this Sectoral Risk Assessment are kept up to date, having regard to changes in the identified vulnerabilities and controls;
6. ensure that LEAs and CAs consider the findings of this report when developing policies and procedures to combat TF;
7. ensure the information contained herein is used to better understand the types of TF risks posed and where these risks lie to ensure more effective use of surveillance and investigative mechanisms to mitigate TF risk;
8. ensure that the proper framework is put in place to allow for effective AML/CFT supervision of the gaming sector prior to the Virgin Islands Gaming and Betting Control Act being brought into force;
9. develop procedures to ensure all agencies involved in international sanctions matters (UN and UK) are aware of their specific responsibilities, and the process for dealing with breaches (including investigation and prosecution) is clearly documented;

10. ensure that a proper legal framework, policies and procedures is put in place to allow for prosecution under BVI law of legal persons and legal arrangements incorporated or established in the VI which are involved in identified sanctions breaches and other ML/TF/PF related offences; and
11. ensure the legal framework in the VI allows law enforcement and prosecutorial agencies to effectively take the proceeds out of crime and, where appropriate, apply proportionate and dissuasive penalties.

Supervisor Specific AML/CFT Recommendations

12.3 The FSC should:

1. ensure timely and effective outreach to FIs on the findings of this report, including how the report's findings should be utilised in the development of the FIs' AML/CFT policies and procedures;
2. ensure that it takes necessary steps, such as increased desk based and onsite monitoring, to evidence that FIs are carrying out and implementing the requirements of its AML/CFT regime with regard to TF;
3. carry out ongoing outreach and training on red flag TF indicators to allow for better quality of SARs filings;
4. ensure that steps are taken to take the proceeds out of crime by, where appropriate, application of proportionate and dissuasive penalties for breach of AML/CFT regime;
5. ensure that the findings of the NRA and this Report are considered when making changes to, or assessing the effectiveness of the AML/CFT regime which may impact FIs;
6. ensure that relevant AML/CFT data is maintained, collected and analysed to allow the FSC to demonstrate that it is effective in its supervision, enforcement and international cooperation;
7. ensure on-going public education in relation to emerging TF methods and trends, including with regard to the collection and movement of funds; and
8. ensure sufficient monitoring of the perimeter to detect BVIBCs involved in sanctions busting activities or owned by sanctioned individuals.

12.4 The FIA as a supervisor should:

1. ensure timely and effective outreach to supervised entities on the findings of this report, including how the report's findings should be utilised in the development of their own AML/CFT policies and procedures;
2. ensure that it takes necessary steps, such as increased desk based and onsite monitoring, to demonstrate that supervised entities are carrying out and implementing the requirements of the AML/CFT regime with regard to TF;
3. carry out ongoing outreach and training on red flag TF indicators to allow for better quality of SARs filings;
4. ensure that the findings of the NRA and this Report are considered when making changes to, or assessing the effectiveness of the AML/CFT regime which may impact DNFBPs and NPOs;

5. ensure that relevant AML/CFT data is maintained, collected and analysed to ensure the FIA can demonstrate that it has effective supervision and enforcement mechanisms, and is effective in the provision of international cooperation;
6. determine the level of TF risk within the machinery and art dealer sub-sector of HVGs;
7. ensure implementation of FIA Amendment Act, including registration of DNFBPs and conduct of risk assessments;
8. ensure implementation of FIA Amendment Act and NPO Amendment Act with regard to assessing risk of NPOs and provide appropriate supervision based on these risk;
9. ensure adherence to the relevant sections of the AMLTFCOP by all registered NPOs; and
10. ensure on-going public education in relation to emerging TF methods and trends including with regard to the collection and movement of funds.

FIA as an FIU Recommendations

12.5 The FIA as an FIU should:

1. ensure the timely analysis of all SARs related to TF;
2. ensure proper collection, maintenance and analysis of AML/CFT related data to allow for development of trends and typologies;
3. ensure timely dissemination of intelligence to appropriate domestic and foreign LEAs and CAs; and
4. demonstrate high degree of international cooperation and information exchange on TF related matters.

Financial Services Sector Recommendations

12.6 Financial Institutions should:

1. monitor fund flows into and from Tier 1 and Tier 2 jurisdictions and take into account any trends that may develop that might indicate potential funding of overseas terrorist organisations;
2. ensure proper verification and maintenance of BO information of clients;
3. ensure proper identification of clients' source of funds and source of wealth;
4. develop and maintain proper AML/CFT policies and procedures and ensure all staff are familiar with these policies and procedures;
5. continue to monitor clients' transactions to be able to identify any developing trends that may signal possible TF activities;
6. ensure staff are aware of FATF and FIA Guidance on red flag indicators and SARs filings;
7. ensure staff are properly trained to identify red flag TF indicators to improve on the quality of SARs filings;
8. conduct timely interrogations of client databases against sanctions listings in accordance with Virgin Islands Financial Sanctions Guidelines, to ensure proper identification of listed persons and entities, and demonstrate appropriate action is taken if such persons are identified;

9. conduct and document institutional risk assessments which should also account for TF risk; and
10. ensure adherence to the requirements of the AMLR and the AMLTFCOP.

DNFBP Sector Recommendations

12.7 DNFBPs should:

1. monitor fund flows into and from Tier 1 and Tier 2 jurisdictions in relation to client transactions and take into account any trends that may develop that might indicate potential funding of overseas terrorist organisations;
2. ensure proper verification and maintenance of BO information of clients;
3. ensure staff are properly trained to understand and identify TF related risks;
4. ensure staff are aware of FATF and FIA Guidance on red flag indicators and SARs filing
5. ensure staff are properly trained to identify red flag TF indicators to improve on the quality of SARs filings;
6. develop and maintain proper AML/CFT policies and procedures and ensure all staff are familiar with these policies and procedures;
7. continue to monitor clients' transaction and accounting records to be able to identify any developing trends that may signal possible TF activities;
8. conduct and document institutional risk assessments which should also account for TF risk;
9. conduct timely interrogations of client databases against sanctions listings in accordance with Virgin Islands Financial Sanctions Guidelines to ensure proper identification of listed persons and entities, and demonstrate appropriate action is taken if such persons are identified;
10. ensure proper identification of clients' source of funds and source of wealth; and
11. ensure adherence to the requirements of the AMLR and the AMLTFCOP.

NPO Sector Recommendations

12.8 The NPO Board should:

1. ensure all qualifying NPOs are registered;
2. ensure the NPO Amendment Act is implemented;
3. ensure adherence to the requirements of the NPO Act by all registered NPOs; and
4. ensure on-going public education in relation to TF and other related issues.

12.9 The NPO Sector should:

1. ensure they can identify the source of funds for all donations received over \$10,000;
2. conduct proper due diligence on international charities and other organisations to which outgoing donations/payments may be made to ensure the legitimacy of the work being carried out by the organisation;

3. ensure proper records are maintained of all donations received and made;
4. ensure staff are aware of FATF and FIA Guidance on red flag indicators and SARs filing
5. ensure staff are properly trained to identify red flag TF indicators to improve on the quality of SARs filings; and
6. ensure adherence to the requirements of the NPO Act and the relevant sections of the AMLTFCOP.

13. CONCLUSION

- 13.1 While TF was considered during the initial NRA in 2016, the execution of this TF risk assessment exercise has provided a more in-depth review of the Territory's exposure to TF and TF related matters. The comprehensive nature of this report, which not only looked into the risks relative to the Territory's FIs, but also those of its DNFBPs and NPOs, was intended to provide a clearer understanding of the current level of exposure to TF and TF related matters facing the Territory.
- 13.2 On the domestic front, the threat of TF or terrorist related activities is considered very low. The findings of the evaluation of the domestic labour market and trade activities, including the movement of funds supports this. The risk of TF within each of the sectors reviewed for the purposes of facilitating domestic terrorist activities was also found to be quite low. As noted in the report, the elevated level of risk identified within the various DNFBP sub-sectors is as a result of the lack of mitigating controls currently in place, more so than actual exposure to TF activities.
- 13.3 Where the threat level becomes elevated is in relation to cross-border activities carried out by the BVIBCs registered in the VI that conduct business globally. Such international exposure increases the possible facilitation, whether knowingly or unknowingly, of TF to route funds to terrorist organisations. The risk of TF to facilitate foreign terrorist related activities, however, was found to be relatively low based on size and activities carried out within the sectors reviewed. It is recognised that the size of the client base of the TCSP sector increases the risk of misuse of such vehicles for TF purposes, as does the high degree of anonymity available through the use of VAs and services provided by VASPs, both of which remain unregulated and not subject to AML/CFT requirements.
- 13.4 The results of this exercise should be used by supervisors and supervised entities alike to better understand the TF risks within the jurisdiction and to ensure that the preventative or mitigating measures they have in place to counter TF remain appropriate and effective. Additionally, the results of this assessment should be used by supervisory authorities to aid in shaping their inspection programmes and identifying those entities that may require more specialised supervision.
- 13.5 Although the results of this assessment indicate that there is very little evidence to support the Virgin Islands being a source of TF, authorities and supervised entities must remain vigilant. The methods by which terrorist activities are being financed continue to evolve. It is imperative, therefore, that the Virgin Islands continues to review its CFT regime on an ongoing basis and seek to ensure that it remains robust and adaptable to any developing risks.

Appendix

Memoranda of Understanding in Place Between LEAs and CAs in the Virgin Islands

Reason for MOU	Agencies Signed	Date Signed
To facilitate cooperation through exchange of information in relation to ML, TF and other serious organized crimes, and provide assistance in processing requests received from members of Interpol	FIA, RVIPF	Initially signed 2009 Updated 10 July 2020
to facilitate cooperation through exchange of information in relation to ML, TF and other serious organized crimes and to facilitate the reporting by HMC of cash declarations or BNIs above the established threshold of \$10,000.00 to the FIA	FIA, HM Customs	Initially signed 17 April 2012 Updated 17 August 2020
To facilitate cooperation and information exchange related to due diligence, money laundering and terrorist financing, and to assist generally in the preservation of the reputation of the BVI as a financial services centre.	FIA, FSC	March 2007
To foster cooperation in the exchange of information relating to the combating of ML, TF, PF, corruption and other serious organized crimes, as well as promote cooperation in matters relating to the exchange of information in tax matters, and generally to uphold the laws of the Virgin Islands and preserve the reputation of the Virgin Islands.	Multilateral MoU between IGC members	10 April 2014

GLOSSARY OF TERMS

AGC	Attorney General's Chambers
AML	Anti-money Laundering
AMLR	Anti-money Laundering Regulations
AMLTFCOP	Anti-money Laundering and Terrorist Financing Code of Practice
ASBA	Association of Supervisors of Banks of the Americas
BO	Beneficial Ownership
BVI	British Virgin Islands
BVIBC	BVI Business Company
BVIBCA	BVI Business Companies Act
CA	Competent Authority
CAIR	Caribbean Association of Insurance Supervisors
CBP	Customs and Border Patrol
CCLEC	Caribbean Customs Law Enforcement Council
CFATF	Caribbean Financial Action Task Force
CFT	Countering the Financing of Terrorism
CGBS	Caribbean Group of Banking Supervisors
DNFBP	Designated Non-financial Businesses and Professions
DPRK	Democratic People's Republic of Korea
EU	European Union
FATF	Financial Action Task Force
FI	Financial Institution
FIA	Financial Investigation Agency
FMSA	Financing and Money Services Act, 2009
FOREX	Foreign Exchange
FSC	Financial Services Commission
GDP	Gross Domestic Product
GIFCS	Group of International Financial Centre Supervisors
GO	Office of the Governor
HMC	Her Majesty's Customs
IAIS	International Association of Insurance Supervisors
ICE	Immigration and Customs Enforcement
ICO	Initial Coin Offering

ID	Immigration Department
IGC	Inter-governmental Committee on AML/CFT
IOSCO	International Organisation of Securities Commissions
IP	Insolvency Practitioner
LEA	Law Enforcement Agencies
ML	Money Laundering
MLA	Mutual Legal Assistance
MLRO	Money Laundering Reporting Officer
MOU	Memorandum of Understanding
MSB	Money Services Business
NGO	Non-governmental Organisation
NPO	Non-profit Organisation
NRA	National Risk Assessment
ODPP	Office of the Director of Public Prosecutions
OFSI	Office of Financial Sanctions Implementation
PEP	Politically Exposed Person
RA	Registered Agent
RVIPF	The Royal Virgin Islands Police Force
SAR	Suspicious Activity Report
SIBA	Securities and Investment Business Act, 2010
TCSP	Trust and Corporate Services Providers
TF	Terrorist Financing
UK	United Kingdom
UN	United Nations
VASP	Virtual Asset Services Provider
VA	Virtual Assets
VI	Virgin Islands
WCO	World Customs Organisation