



AML/CFT

ACTIVITY REPORT

2022



Table of Contents

Introduction

AML/CFT Supervisory Function

Risk-Based Approach to AML/CFT Supervision

2022 Onsite Inspections

Enforcement Actions

National Risk Assessment

ML/TF Descriptors

Virtual Asset Service Providers Supervision

Outreach Activities

Future Objectives & Outlook



Introduction

Financial service providers (“FSPs”) play a central role in the fight against money laundering, terrorist financing and proliferation financing (“ML/TF/PF”). They help to ensure that financial crime controls of the Cayman Islands, including targeted financial sanctions, are effective and robust. FSPs are integral to the Cayman Islands’ economy and enhance the status of the jurisdiction as an international financial centre.

As part of its overall mandate under the Monetary Authority Act (2020 Revision), the Cayman Islands Monetary Authority (“CIMA” or “the Authority”) is responsible for the regulation and supervision of FSPs, and for monitoring, supervising, and enforcing compliance under the Anti-Money Laundering Regulations (2023 Revision) (the “AMLRs”).

This AML/CFT Activity Report sets out CIMA’s AML/CFT activity and outcomes during the period. CIMA has delivered on its AML/CFT objectives, including conducting on-site inspections (“OSIs”) and maintaining regular contact with licensees, registrants, and industry associations.

In summary, the Authority has:

- Conducted 88 AML/CFT OSIs of regulated entities.
- Issued 3 letters of no findings.
- Issued 940 requirements, 825 being ‘matters requiring immediate attention’ (“MRIAs”).
- Conducted 16 follow-up inspections, all of which had repeat findings or further deficiencies identified through their follow-up OSI.
- Issued 2 administrative fine penalties totalling CI\$378,670.72 relating to breaches of the AMLRs.
- Collected and analysed ML inherent risk data through AML Surveys for the 2021 reporting year using new bespoke technology, STRIX.

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

AML/CFT Supervisory Function

During 2022, CIMA carried out its AML/CFT supervision of regulated entities through the work of the Anti-Money Laundering Division (“AML/D”) and its Regulatory Divisions. The AML/D is a specialist supervisory division dedicated to the monitoring and supervision of relevant entities under CIMA’s remit for compliance with AML/CFT requirements.

In 2022, the AML/D had 26 staff, three quarters of whom were allocated to the two highest risk sectors identified through CIMA’s Sectoral risk assessments the Securities Investment Business and Trusts and Corporate Service Providers (“TCSPs”).

As of December 31, 2022, over 32,000 legal persons were subject to CIMA’s supervision across all sectors as per the below.

Table 1: Number of licensees and registrants under CIMA's supervision, 2022

Sector	Total
Banking & Trusts	94
Cooperative & Building Societies	4
Development Bank	1
Banking - Controlled Subsidiaries	7
Money Services Businesses	5
Trust & Corporate Services Providers	469
Insurance	821
Mutual Funds	12,995
Private Funds	15,854
Mutual Fund Administrators	74
Securities Licensees and Registered Persons	1,701
Virtual Asset Service Providers	18
Total	32,043

Supervision for Registered Persons

In 2022, CIMA continued its comprehensive AML/CFT supervision of its population of 1,654 Securities Investment Business Registered Persons ("SIB RPs"), including undertaking fitness and propriety checks, onsite inspections and taking enforcement action where required.

CIMA completed risk-based inspections for 53 SIB RPs to evaluate their AML/CFT policies, procedures, systems, and controls. CIMA issued 634 requirements to SIB RPs during 2022, including 553 'Matters Requiring Immediate Attention'.

CIMA also published a Supervisory Information Circular on "Key Findings of Registered Persons from Onsite Inspections". This looked at data from 53 inspections and set out findings to help improve standards of compliance in the sector.

CIMA has been closely monitoring remediation of requirements and has taken enforcement action where appropriate and proportionate.

CIMA also continued to apply robust supervision to its Securities Investment Business Licensees, issuing 2 administrative fines for CI\$ 261,990.72 and CI\$116,680 for breaches of the AMLRs.

Risk-Based Approach to AML/CFT Supervision

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

The following are additional factors or sources of information that the regulatory divisions consider in prioritising OSIs:

- Nature and intensity of the deficiencies identified in a licensee/regulated entity during off-site monitoring or the previous OSI.
- Insufficient progress of a licensee/regulated entity in remediating deficiencies and requirements.
- Information received from other regulatory authorities.
- Licensees/regulated entities with ongoing or potential non-compliant issues
- Complaints received against the licensee/regulated entity.
- Self-disclosure by a licensee/regulated entity of their weak compliance systems.

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

In 2022, AMLD issued AML Surveys through STRIX, a Suptech software, to support the completion of individual entity risk assessments. This live risk rating tool incorporates the following data points to ensure the Authority has a live understanding of regulated entity risk:

- Inherent risk data from each regulated financial service provider,
- Results from AML/CFT OSIs,
- Information from onward disclosures from the Financial Reporting Authority or Registrar of Companies,
- Screening results from World-Check software,
- Quarterly Cash Flows Return – Banking,
- Quarterly Travel Rule Return – VASP, and
- Adverse media.

2022 Onsite Inspections

During 2022, a total of 88 AML/CFT specific OSIs were conducted compared to 161 in 2021. The table below shows the number of AML/CFT OSIs conducted in 2022 per sector.

Table 2: Number of AML/CFT on-site inspections conducted, 2022

Sector	Total
Banking	11
Finduciary Services	16
Insurance	2
Securities	55
Mutual Fund Administrators	4
Total	88

Deficiencies and Requirements

The table below shows the number of entities identified as having AML/CFT deficiencies in 2022 (across licensees and registrants identified as having such deficiencies) along with the associated number of inspection requirements issued by type:

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

Category	Apportionment of deficiencies across licensees & registrants	Total number of requirements issued
AML/CFT Programme	6%	63
CDD / KYC Identification Procedures	23%	180
Internal Controls	13%	178
Internal Reporting Procedures	4%	38
Officer Appointment	1%	6
Ongoing Monitoring	7%	73
Policies and Procedures	7%	61
Record Keeping Procedures	4%	33
Risk Based Approach	21%	160
Sanctions Programme	8%	88
Training Programme	6%	60

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



Themes from 2022 AML/CFT Inspections

Customer Due Diligence ("CDD")

Deficiencies around client identification/know your client ("CDD/KYC") and verification documentation accounted for 23% of all deficiencies identified through onsite inspections in 2022. Issues included:

- Incomplete or inadequate reliable and independent CDD/KYC measures, such as identification verification, address verification, source of wealth/source of funds, corporate records, and authorised signatories.
- Inadequate CDD/KYC due diligence, such as illegible photo identification documents.
- Inadequate enhanced due diligence ("EDD") for high-risk clients.
- Missing or inadequate certification of CDD/KYC documents.
- Incomplete documentation in relation to the nature and purpose of business, account turnover, reference letters, and non-face-to-face procedures.
- Incomplete Politically Exposed Persons ("PEP") due diligence documents, such as source of wealth/source of funds, senior manager sign-off, and EDD.

Risk-Based Approach

Deficiencies around the risk-based approach ("RBA") accounted for 21% of all those identified through onsite inspections in 2022. Issues included:

- Lack of or inadequate evidence of the application of a business RBA as it relates to the size, nature and complexity of the business operations and its client relationships.
- Inadequate evidence that all relevant elements of risks were considered to determine the level of overall client risk.
- Inadequate client risk rating tools, such as the client risk ratings were undocumented, or the documentation was incomplete.
- Missing information such as the date and timing of the last RBA review.
- Inadequate or incomplete documented RBA methodology where all risk factors and parameters are considered such as counterparty risk, PEPs, suspicious activity and/or geographic risk are considered.
- Client risk assessments not being performed and/or maintained as part of the ongoing monitoring programme.
- Missing senior management review and/or approval of client risk assessments especially in high-risk situations.

Training Programme

Deficiencies around the training programme accounted for 6% of all those identified through onsite inspections in 2022. Issues included:

- Missing details of the training content being implemented and conducted.
- Missing content on CPF training.

Internal Controls

Deficiencies around internal controls accounted for 13% of all those identified through onsite inspections in 2022. Issues included:

- Lack of evidence of the Board's oversight of the entity's controls, policies, or procedures. For example, Board minutes did not document discussions of AML/CFT compliance matters.
- Lack of evidence of the Board's approval of key AML/CFT policies and procedures.
- Lack of evidence of documented corporate governance policies and procedures outlining the structure and collective duties of the Board or its equivalent with respect to AML/CFT compliance.
- Lack of evidence of policies and procedures for having an internal audit function and the frequency of the audit.
- Lack of evidence of AML/CFT audits being conducted.
- Lack of evidence of the independence of the person conducting the AML/CFT audit.

Sanctions Programmes

Deficiencies around Sanctions programmes accounted for 8% of all those identified through onsite inspections in 2022. Issues included:

- Inadequate evidence of screening all clients and counterparties.
- Missing documentation of timely screening of clients and counterparties as sanctions lists were updated.
- Inadequate ongoing Sanctions monitoring procedures.
- Inadequate resources applied to ensure immediate and effective Sanctions screening of clients and counterparties.
- Inadequate management of Sanctions alert data, including alerts log, evidence of screening the reasons for closing alerts and the approval process.
- Inadequate evidence of how manual screening processes are implemented and applied in a non-automated screening process.

Ongoing Monitoring

Deficiencies around ongoing monitoring accounted for 8% of all those identified through onsite inspections in 2022. Issues included:

- Missing documentation of periodic client file reviews conducted; and
- Missing documentation evidencing that transactional monitoring procedures were performed.

Policies and Procedures

Deficiencies around policies and procedures accounted for 7% of all those identified through onsite inspection in 2022. Issues included:

- Inadequate documentation of targeted sanctions requirements for the Cayman Islands including reference to appropriate Sanctions lists extended to the Cayman Islands, screening procedures to updated lists, alert processing, asset freezing, and reporting procedures.
- Inadequate documentation of a client risk-based approach.
- Inadequate EDD procedures for higher risk clients including high-risk jurisdiction, PEPs and RCAs, and suspicious activity.
- Inadequately documented ongoing monitoring procedures.
- Missing AML/CFT policies for addressing the certification of client identification documents.
- Inadequate gap analysis performed to identify and address gaps between the regulated entity's group-wide AML/CFT Policies and Procedures and the regulatory requirements of the Cayman Islands.
- Missing regulatory requirements to perform periodic internal AML/CFT audits.
- Missing regulatory requirements to maintain documents in English and ensure legibility.

Focus on Targeted Financial Sanctions (“TFS”)

In 2022, the AMLD deployed a dedicated staff resource for TFS to coordinate training, outreach and internal queries relating to TFS matters. CIMA also procured software to allow for enhanced TFS screening of all regulated entities and associates.

CIMA also used active supervision and enforcement to help raise standards of TFS compliance. In 2022, 58 regulated entities were found to have deficiencies around TFS policies and procedures from onsite inspections. This resulted in 79 requirements to remediate. The Authority also issued its first administrative fine for breaches around TFS policies and procedures.

CIMA further published a Thematic Supervisory Circular on “TCSPs’ Compliance with AMLRs: TFS Screening Policies and Procedures.” This looked at data from 27 TCSPs and 567 customer files and set out findings to help improve standards of compliance in the sector. The results included:

The majority of TCSPs had adequate policies and procedures in place for TFS, with 63% having policies which adequately provided for procedures to implement TFS screening at client onboarding and 89% having policies which adequately provided for ongoing monitoring of customers and transactions against the TFS lists.

However, only 26% of the TCSPs had effectively implemented their TFS screening policies and procedures across all the client files reviewed.

The Authority took prompt and robust steps to remedy these deficiencies, including issuing requirements and (in some cases) initiating enforcement action. FSPs are required to remediate within prescribed timeframes and are monitored by the Authority.

During 2022, CIMA also routinely collaborated with other competent authorities to share information regarding TFS and remains an active member of the cross-agency Sanctions Working Group.

Enforcement Actions

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

During 2022, CIMA issued two administrative fines for breaches of the AMLRs, for a total of CI\$378,670.72. A breakdown of enforcement actions for 2022 is as follows:

Table 4: Breakdown of enforcement actions by CIMA, 2022

Enforcement Action	Banking	Fiduciary	Insurance	Investments	Securities	VASPs	Totals
Revocations/ Cancellations	0	1	0	5	0	0	6
Appointment of Controllers	0	0	0	0	0	0	0
Winding Up Petitions	0	0	0	0	0	0	0
Cease and Desist/ Requirements /Conditions	0	0	2	0	0	0	2
Actions Under the DRLA	0	0	0	1	0	0	1
Warning Notices	0	1	2	1	0	0	4
Admin Fines Breach Notices	0	0	3	0	1	0	4
Admin Fines (Prudential)	0	0	4	0	0	0	4
Admin Fines	0	0	0	0	3	0	3
Total	0	2	11	7	4	0	24
Enforcement Actions with AML/CFT Component	0	0	0	0	3	0	3
No. Of AML/CFT Breaches identified	0	0	0	0	21	0	21
Directors/ Controllers Found Not Fit and Proper	0	0	0	4	0	0	4
Shareholders Found Not Fit and Proper	0	0	0	0	0	0	0

National Risk Assessment

The most recent [National Risk Assessment](#) ("NRA") was published in 2022. It was undertaken by 15 working groups comprising representatives from various government authorities and supervisory bodies, as well as private sector stakeholders under the stewardship of the Anti-Money Laundering Steering Group ("AMLSG") and the National Coordination Team. Each financial sector was assigned an overall inherent risk rating through an assessment of the relevant nature, size and complexity, customers, products, services, transactions, delivery channels and geographic risks:

Table 5: Breakdown of overall inherent risk by sector

Sector	Overall Inherent Risk
Mutual Funds Administration	Medium High
Securities	Medium High
TCSPs	Medium High
Banks	Medium High
VASPs	Medium High
Insurance	Medium Low
High-Value Dealers	Medium Low
Dealers of Precious Metals and Stones	Medium Low
Financial Leasing	Medium Low
Accountants & Auditors	Medium Low
MSBs	Medium High
Real Estate Agents	Medium High
Lawyers	Medium High

Key findings from the National Risk Assessment were:

- The primary threat facing the Cayman Islands is from ML, as compared to TF and PF.
- The jurisdiction has a greater exposure to proceed-generating crimes committed overseas. Given the country's status as an international financial centre, the most prevalent of these foreign proceeds of crime ("FPOC") are fraud, corruption, and tax evasion.
- The most material financial sectors are Securities, Banking and TCSPs. Most supervised financial institutions ("FIs") designated non-financial businesses and professionals ("DNFBPs"), and virtual asset service providers ("VASPs") were found to have 'Medium-High' sectoral risks. Mitigating measures were considered generally good, but only satisfactory for VASPs, as they were just recently brought under the country's AML/CFT framework and subject to supervision.
- Legal persons and arrangements were assessed as 'High Risk', and areas of high inherent risk included exempt companies, exempted limited partnerships, and trusts.
- Emerging risks include cybercrime, fraud and ransomware attacks utilizing virtual assets.

The Cayman Islands Anti-Money Laundering Unit published an AML/CFT Strategy plan, 2022-2025, to focus on key areas to strengthen the jurisdiction's AML/CFT regime. Progress was regularly monitored and assessed, and CIMA was committed to completing all the actions for which it was responsible.

ML/TF Descriptors within the Sectors

CIMA continued its analysis of quarterly cash flow reporting by banks to better understand the TF risks associated with cross border threats through the collection of data in the Cash Flows Return. These returns are being used to monitor payments to high-risk countries, including sudden shifts in the origin and destination of funds.

The implementation of this reporting strengthened CIMA's understanding of the jurisdiction's cross-border activities and how this contributes to the overall ML and TF risk. Under the risk-based approach, CIMA applies resources to the review and testing of wire transfers and other cross border payments with a focus on those made to and from high-risk jurisdictions to determine whether banks are applying sufficient and appropriate CDD procedures. This includes enhanced due diligence procedures on such payments deemed high risk or by high risk customers and whether any ad hoc/unannounced inspections are needed.

Virtual Asset Service Providers Supervision

The Virtual Asset (Service Providers) Act, 2022 Revision ("VASP Act") governs the regulation of virtual asset activities which are taking place in or from the Islands. CIMA is the appointed supervisor for VASPs. The VASP Act provides for different categories of authorisation (registration, licensing, and sandbox) depending on the risk of the type of activity that will be conducted. In 2022, CIMA registered 15 VASPs, making the total 18 as of 31 December 2022. Applications continue to be reviewed including an assessment of the applicant's AML/CFT systems and controls, inherent risks, open-source information, and closed source intelligence.

CIMA continued work on "policing the perimeter" to identify entities that may be engaged in virtual asset business but failed to register with the Authority. CIMA issued 34 supervisory directions to entities potentially operating as VASPs pursuant to Section 34(8) of the Monetary Authority Act to provide further information to the Authority. These entities either proceeded to register with the Authority or confirmed that they were not - or were no longer - VASPs.

AML/D further contributed to the VASP section of the NRA where the overall risk rating for VASPs was deemed 'Medium-High'. The areas of highest risk were identified as transactions, products and services (particularly exchanges and decentralised finance) and delivery channels (use of mixers, tumblers and privacy enhanced coins). However, the VASP sector remains relatively small and lacks the materiality of other sectors within the Cayman Islands, such as Banking, Securities and TCSPs.

CIMA also devised a methodology for the collection of data and assessment of compliance with the 'Travel Rule'. CIMA reviewed proposed Travel Rule policies and procedures of its applicants and registrants and used any associated risks to better inform the entity level risk assessment of registered VASPs. The first Travel Rule data requests were issued to VASPs in Q3 2022, using STRIX.

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

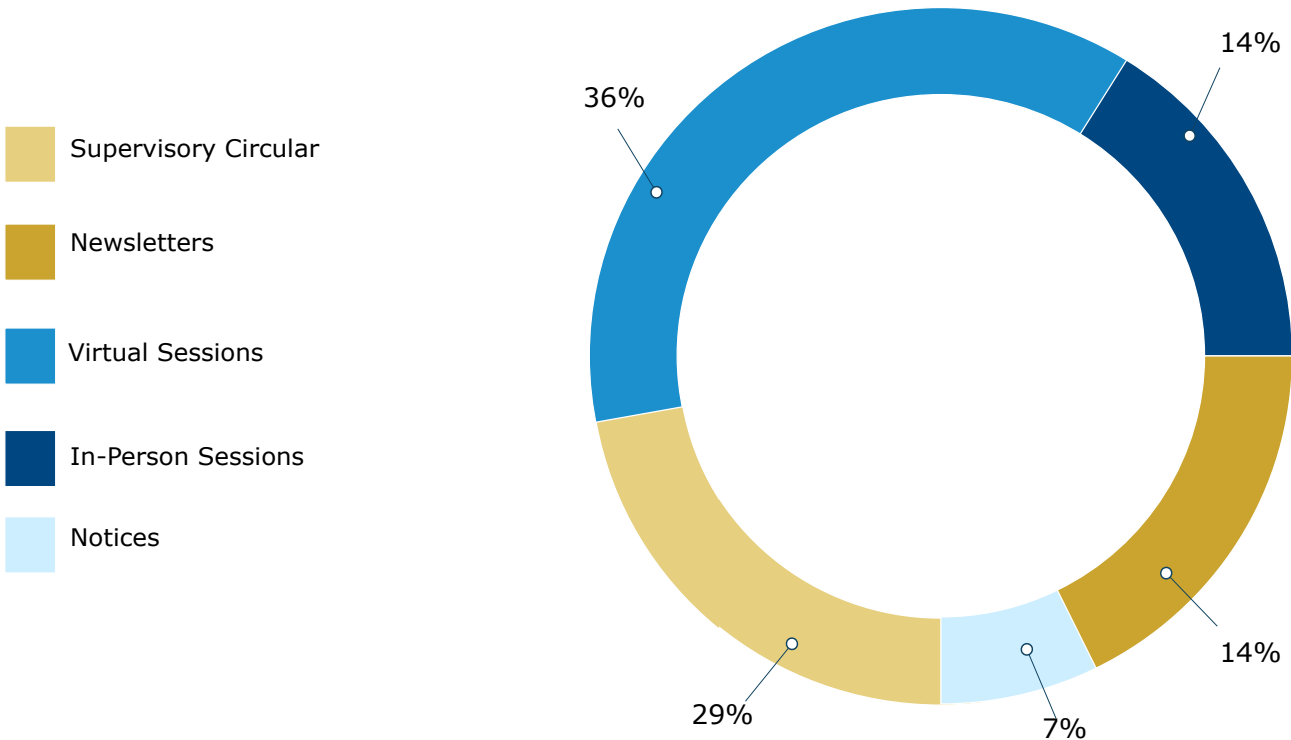
Outreach Activities

The Authority continued its commitment to raise AML/CFT compliance awareness and standards through outreach activities. Outreach activities were hybrid, with some still being presented virtually for practical reasons. CIMA presented on topics including:

- CIMA’s Approach to AML/CFT Supervision
- National Risk Assessment
- AML Strategies to Fight the Misuse of Legal Persons
- Cayman Island’s AML/CFT Regulatory Update
- Key Findings of SIB RPs
- AML Supervisory Findings and Themes

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

CIMA also published a number of advisories, notices, circulars and newsletters. The chart below shows the different types of outreach activities conducted in 2022:



Training

CIMA continued to expand its training mandate and provided greater levels of training on various aspects of AML/CFT supervision to staff members across all levels in all divisions. This resulted in staff participating in over 250 training sessions through conferences, numerous webinars, and internal training. CIMA continues to provide a mandatory e-learning pack for staff through a software tool, 'KnowBe4' based on the principles set out in its AML/CFT training policy.

Future Objectives and Outlook

CIMA will continue its oversight of AML/CFT obligations to promote and safeguard the integrity of the Cayman Islands financial services industry. AMLD will continue to utilise and expand upon the use of STRIX DCM to drive data-led AML/CFT supervision. The Authority will also continue its work to track deficiencies, requirements and remediation to assess entity compliance with CIMA's findings and ensure prompt and consistent escalation to enforcement where required. CIMA will use this analysis to identify trends, systemic problems and areas of risk, as well as to evaluate its own effectiveness, and focus its resources on where the ML/TF/PF risks are greatest.



AML/CFT

ACTIVITY REPORT 2022



SIX, Cricket Square
PO Box 10052
Grand Cayman KY1-1001
Cayman Islands



Tel: +1 (345) 949-7089



www.cima.ky