



Guernsey Financial  
Services Commission

# Identifying & Mitigating Risk

## Business Risk and PEP Risk Thematic Reviews

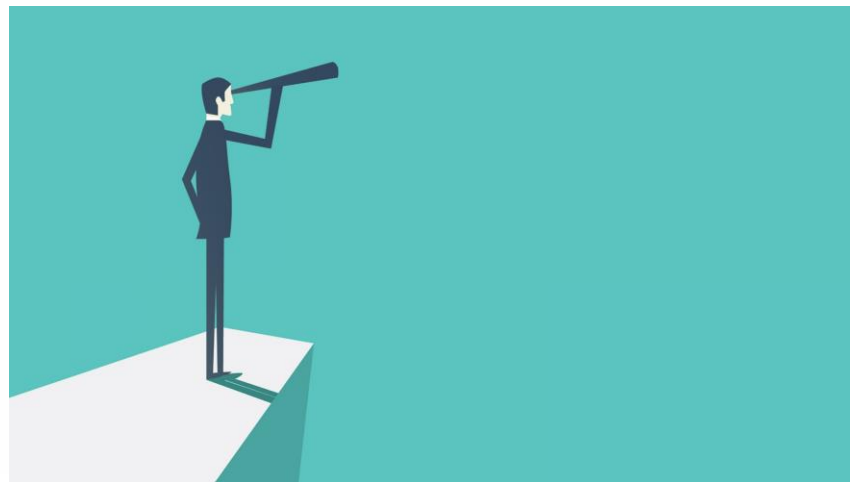
Fiona Crocker - Director

Nick Herquin – Deputy Director

Wade Hodgson - Assistant Director

# Agenda

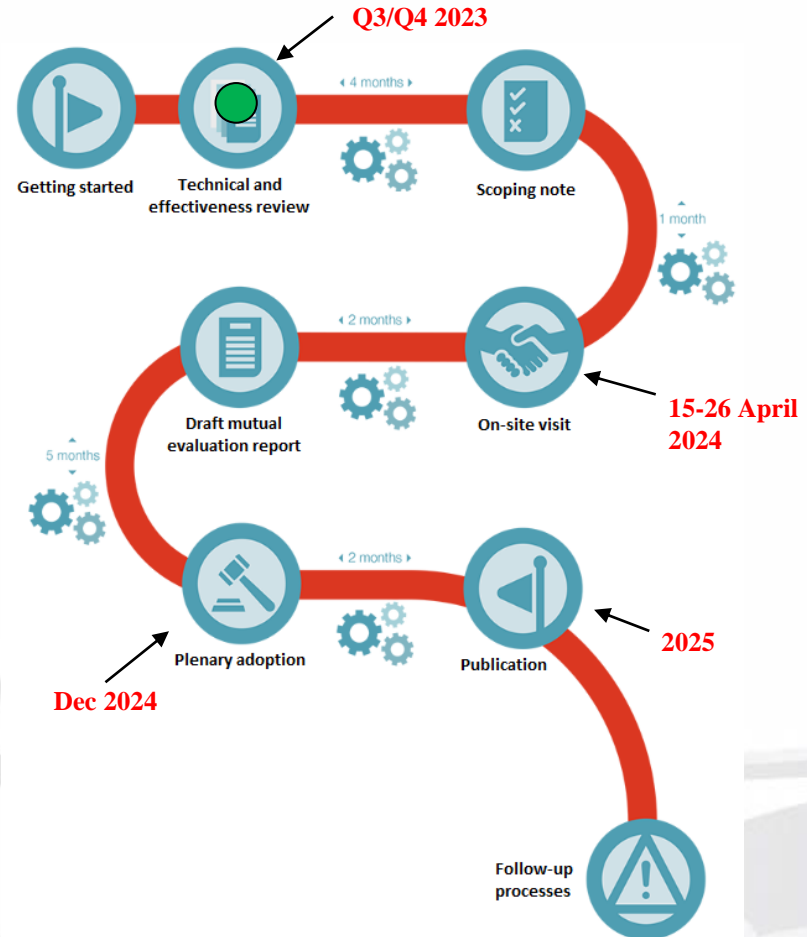
- Introduction
- MONEYVAL update
- Guernsey's international footprint
- Handbook updates dealing with risk
- Business Risk Assessments
- Identifying and Mitigating PEP Risk



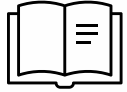
# MONEYVAL Mutual Evaluation Timeline

## Key Dates

- Technical & effectiveness submissions - due shortly
- 2 Weeks Onsite – 15 - 26 April 2024
- Peer Review - Q4 2024
- Plenary Week - Dec 2024
- FATF Peer Review - Q1 2025
- Publication - H1 2025



# Key Commission Preparations



- Ensuring the AMLCFT Handbook is up to date and meets FATF Recommendations – independent audit; VASPs “travel rule”



- Director registration regime to addressing six directorships exemption



- A VASP licensing regime within the LCF Law
- MONEYVAL pre-assessment technical and effectiveness questionnaires – incl. statistics, case studies and supporting documents such as rules, guidance and reports

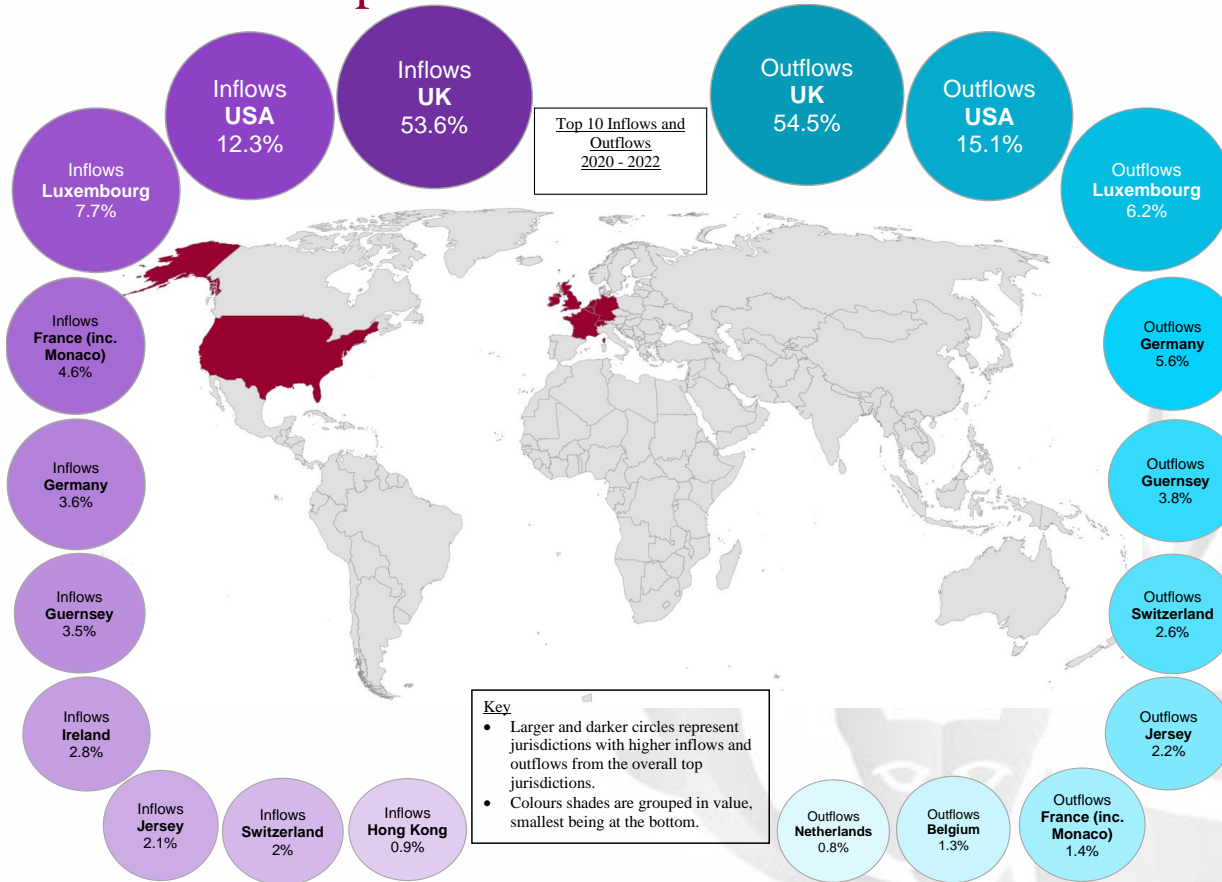


- Contributing to NRA2 and the PF NRA

# Meeting MoneyVal

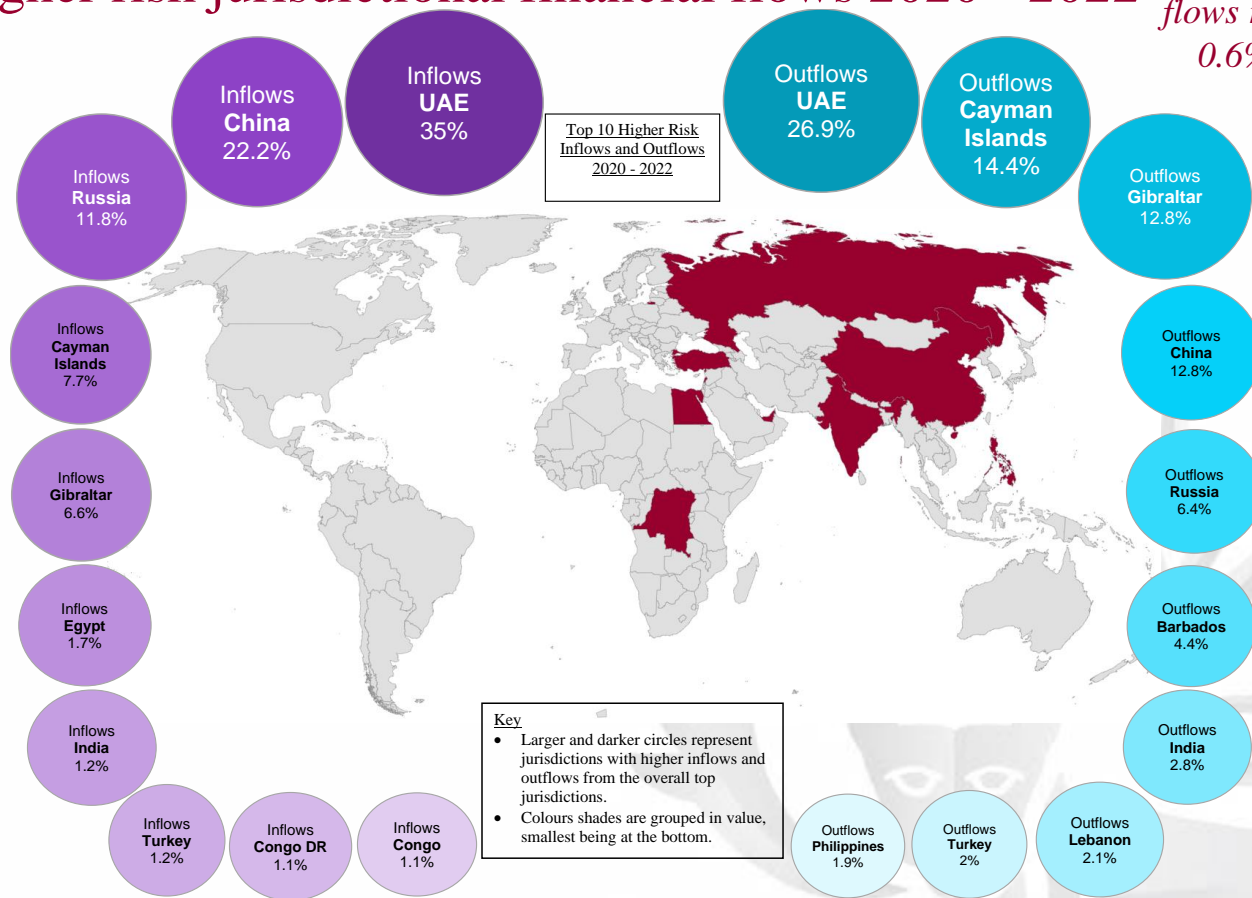


# International footprint: financial flows 2020 - 2022

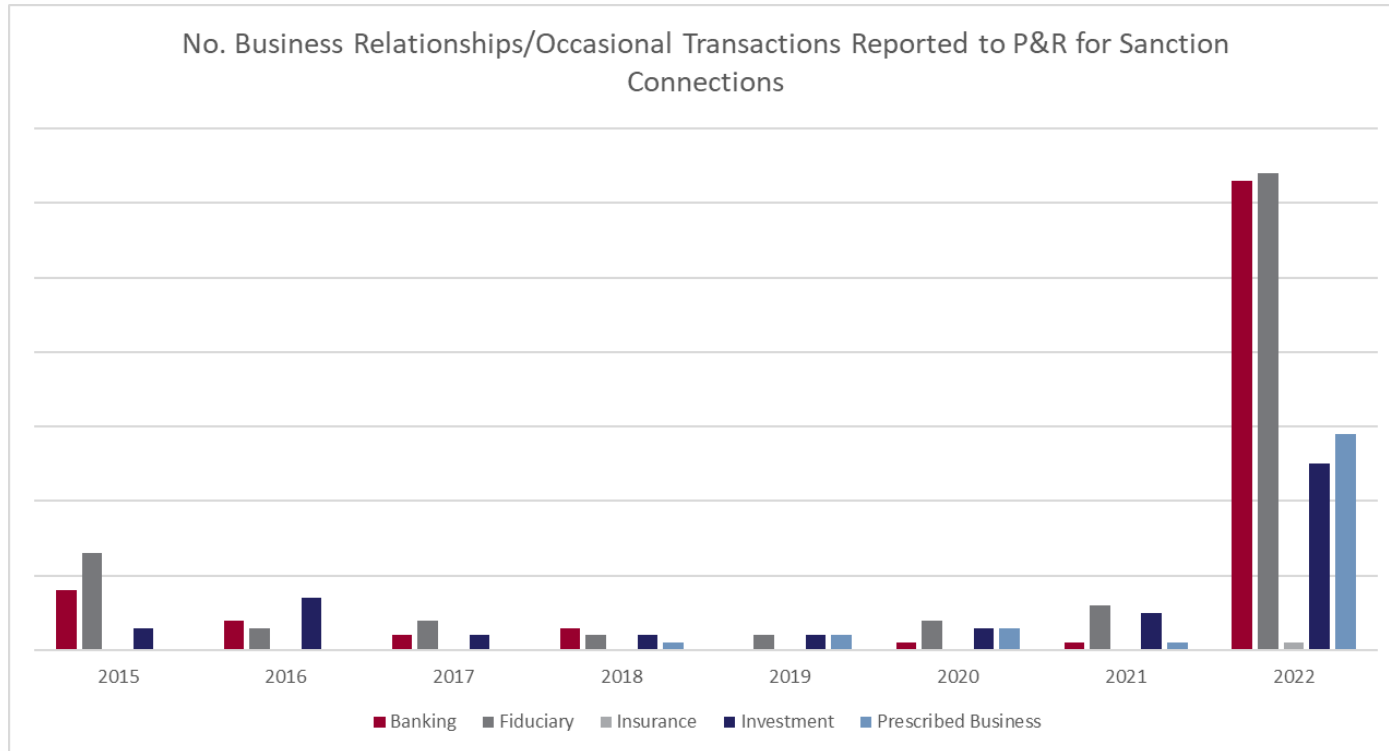


# Higher risk jurisdictional financial flows 2020 - 2022

*Higher risk flows represent 0.6% of total flows*



# Business Relationships/Occasional Transactions Reported to Policy & Resources Committee for Sanction Connections – by Sector





# Handbook: Risk Updates

- Risk assessment – focus on key ML threats from bribery, corruption, fraud and tax evasion
- Risk understanding – guidance on more risk factors incl. virtual assets
- Risk controls – independent audit function to test AMLCFT controls



# Countdown

Seven months or  
202 days to go to the  
onsite



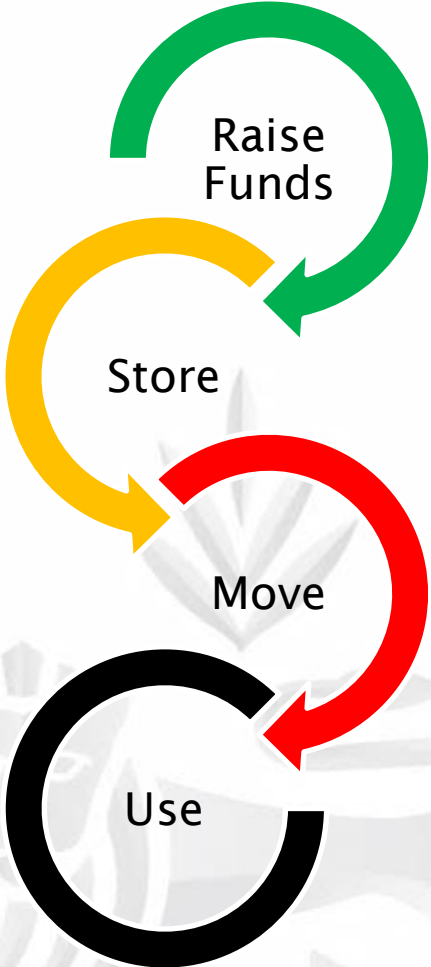
# Business Risk Assessments

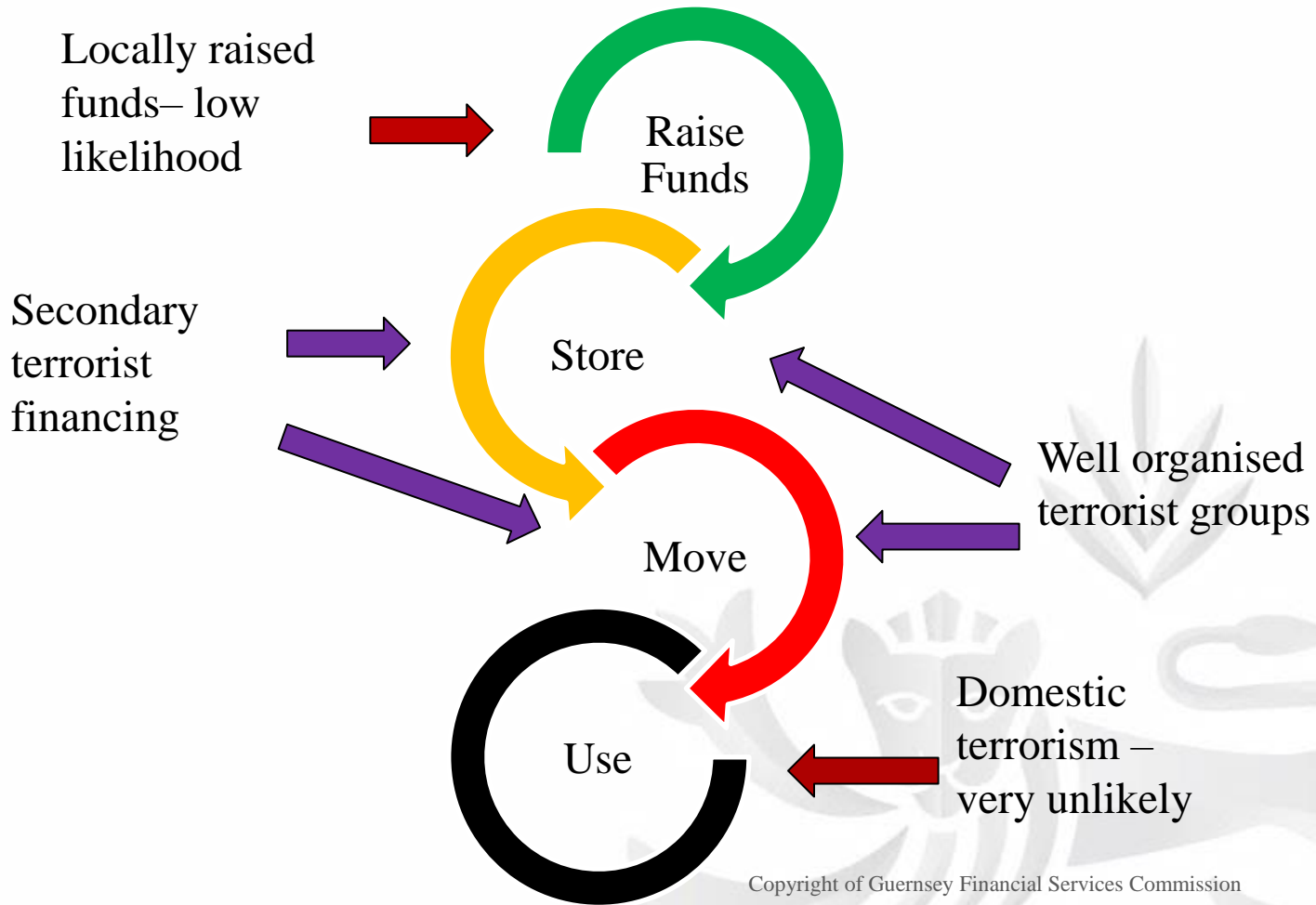
- 208 BRAs
- 104 Firms (including 2 Personal Fiduciary Licensees)
- RMPs issued to 2 Firms

Wade Hodgson - Assistant Director



# There is a difference





The controls  
may be the same



KYC

SOF/SOW

Transaction  
monitoring



# Primary point of reference

- Clearly identifies the ML and TF risks facing the firm
- Clearly outlines the procedures to counter those risks
- Must be “suitable and sufficient”



# Tailor it

- You know your:
  - Customers
  - Products
  - Services
  - Jurisdictional reach
  - Delivery channels
- Use that knowledge to make the BRAs relevant



# Overall level of ML and TF risks

- Summarise the overall level of exposure to ML and TF risks
- Provide a rationale as to the basis of this conclusion
- Include a Risk Appetite Statement



# Transactional risks

What is the geographic origin and destination of funds?

Are they linked to Appendices H and I of the Handbook?

**Use your own data !**

# Delivery channels

What are the risks of customer disconnect?

How do you monitor the activity of introducer, intermediary and non-face-to-face customers?

# Effective annual reviews

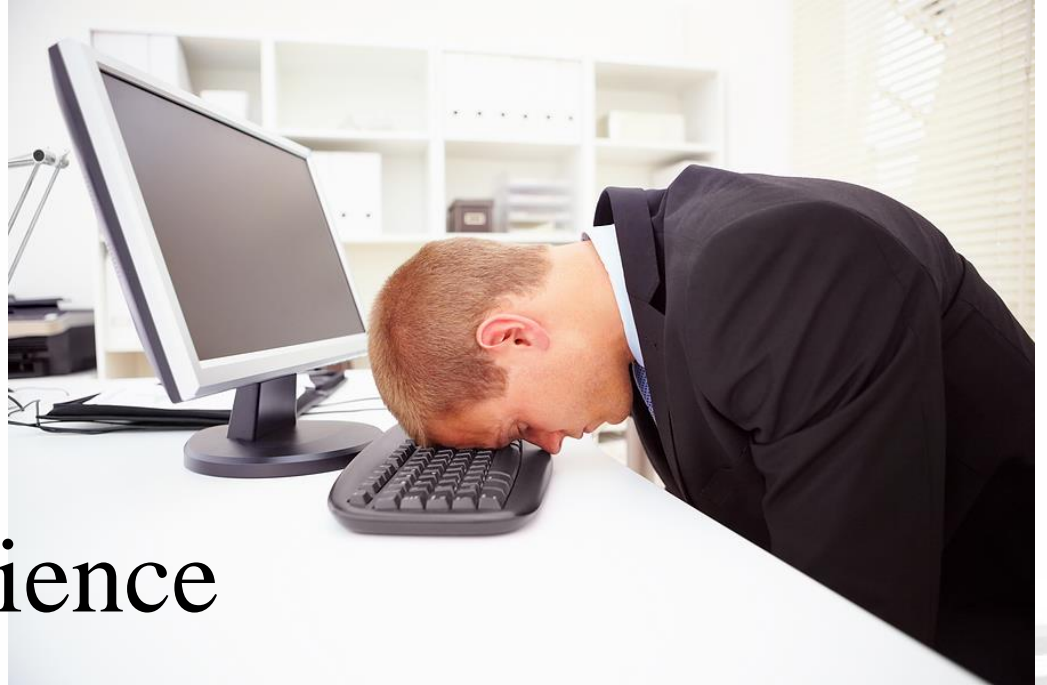


Reflect any relevant changes to the Firms business model

# Accessibility

Some business risk assessments were very lengthy

Know your audience



# Accessibility

**Layout** Customers /  
beneficial  
owners  
Countries /  
geographic  
areas  
Products /  
services /  
delivery  
channels /  
transactions

**Comprehension** Avoid  
compliance  
jargon  
Avoid cut  
and paste  
from the  
Handbook

**Accessibility** Spreadsheet:  
is the info  
accessible?  
Multiple  
BRAs should  
be clearly  
referenced

# Managing PEP Risk

- Visited 30 Firms
- Reviewed 170 PEP Relationships
- 3 Firms had RMPs

Nick Herquin, Deputy Director



# Why are PEPs High Risk?

- FATF states that from their analysis of case studies PEPs primarily have the potential to misuse their public position for committing **bribery and corruption.**
- But there should not be a presumption that a PEP is undertaking an illegal activity.
- Hence it's key to understand the risks and the PEP's SOF/SOW.



# Split of Total PEPs Across Sectors

## Sector Split

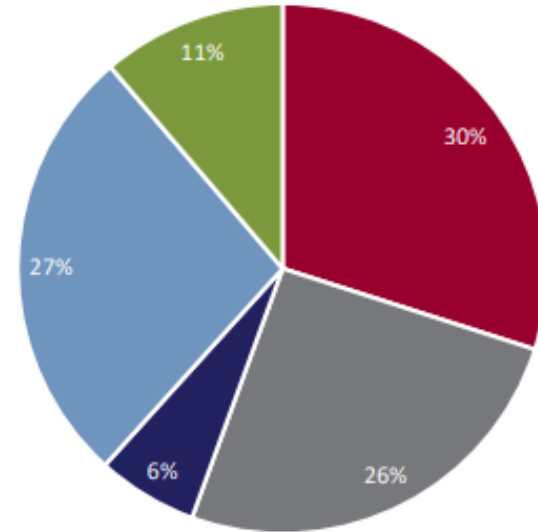
Banking – 30%

Investment – 27%

Fiduciary – 26%

Non-Core (PBs/LCF) – 11%

Life Insurance – 6%



■ Banking ■ Fiduciary ■ Insurance ■ Investment ■ Non-Core Financial Business

# Managing PEP Risk – 4 Steps

Step 1: Identify the PEP

Step 2: Understand the risks

Step 3: Corroborate SOF/SOW

Step 4: Document the risks

# Step 1 – Identify the PEP

## Foreign

- Heads of state
- Senior Politicians
- Senior government officials
- Senior members of judiciary
- Senior military officers
- Senior executives of state owned body corporates

## Domestic (App. E)

- Heads of state
- Senior Politicians
- Senior government officials
- Senior members of judiciary
- Senior military officers
- Senior executives of state owned body corporates.

## International Organisation

- Prominent public function such as a director of an international organisation established by a political agreement e.g. the UN



Includes immediate family members and close associates

# Step 1 – Identify the PEP, Associates and Immediate Family Members



## Application Documents

- The onboarding forms used by the firm should contain questions asking if there is a PEP connection for the relationship. A description of what constitutes a PEP connection should also be included.



## Commercial Screening Databases

- Commercial screening databases can provide valuable assistance to firms in identifying PEP connections. They are not infallible however and a firm should consider how much reliance is placed on these databases to ensure that PEP connections are not missed.



## Open Source Internet Searches

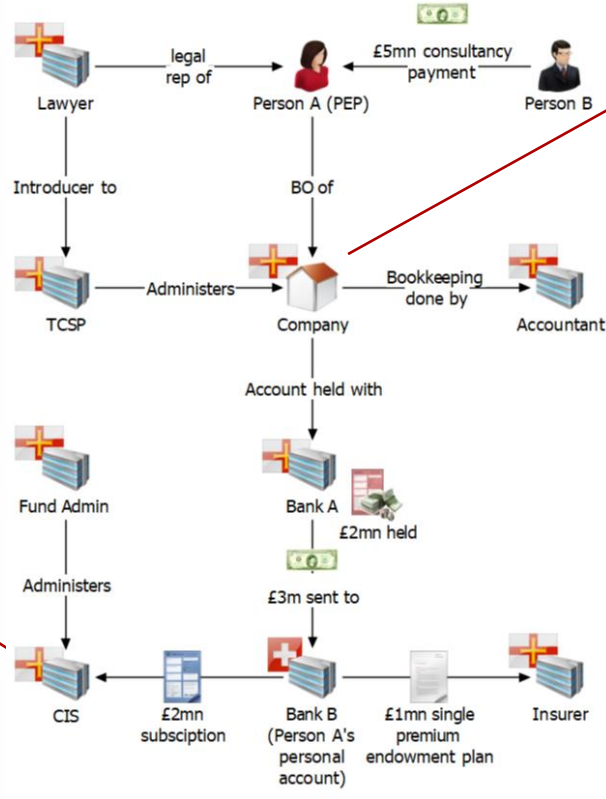
- Open source internet searches can provide further clarity on the level of any PEP connections identified and may also identify PEP connections not identified in commercial databases. The sources of any results should be considered by firms when making a determination on the accuracy of the results.

## Step 2 – Understanding Risk – Peppiness

- Foreign, Domestic or International?
- What is the risk associated with the PEP position?
- Does the PEP jurisdiction have a heightened bribery and corruption risk?
- How does the product and/or service offering impact the risk?

# Step 2 – Bribery and Corruption Risk

**Unknowing Facilitators**  
Lawyer  
TCSP  
Bank  
Accountant



**Guernsey company**  
being used to facilitate  
the payment of the  
bribe.

**Insurer receiving the  
proceeds of crime**

**CIS receiving  
the proceeds  
of crime**

**Repository of Crime**  
Endowment  
CIS

# Step 3 – Corroborate SOF/SOW

- The primary risk of PEPs is that they are in a position of power and bad actors may take bribes.
- Therefore, understanding SOF/SOW is key.
- Is the SOF/SOW plausible and can it be corroborated?
- Not a “one size fits all” approach.



## Step 3 – Failure to Corroborate SOW

- Customer A's ex-husband was a PEP serving a prison sentence for corruption.
- The firm did not know when the divorce occurred.
- Therefore, the firm did not know if Customer A's wealth was tainted by the proceeds of corruption.
- Value of assets was high.
- Only corroboration on file was a CV.



# Step 4 – Document the risks and mitigation

- Record your consideration of the risks posed by the PEP
- Record the mitigation undertaken for the risks identified



# Board Responsibility - PEPs

Identification - both for  
new and existing  
customers

Customer Risk  
Assessment

Due Diligence (including  
Enhanced Measures &  
Enhanced Customer  
Due Diligence)

Approval

Enhanced Monitoring

Periodic Review

PEP Risk Exposure  
(business wide)

Training and Education

# Key Takeaways



ANY QUESTIONS

