National Risk Assessment

Terrorist financing

Jersey Financial Services Commission

Agenda

Background and why the assessment is important

Risk assessment methodology and findings

FIU statistics

Recommended actions

Questions

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Background

George Pearmain, Director of Financial Crime Strategy, Government of Jersey

Background

FATF Recommendation 1 calls on countries to <u>identify, assess and understand</u> their ML and TF risks, **and to take action to effectively mitigate those risks.**

In order to protect its finance industry and reputation as a highly co-operative and transparent jurisdiction that seeks to lead the fight against financial crime, Jersey needs to <u>understand its risks</u>.

Demonstrating understanding of risks involves both communication directly with the finance industry public facing reports to raise awareness and maintain credibility as a jurisdiction willing to challenge and improve its regime.

The NRA is a tool that allows all stakeholders to <u>better understand the risk</u> of Jersey being used by criminals to facilitate the financing of terrorism and money laundering.

This work forms part of a larger strategy of developing risk understanding by Jersey in ML/TF:

September 2020:
NRA of Money Laundering

April 2021:
NRA of Terrorist Financing

Ongoing risk assessment work on a rolling basis:
- ➤ Funds (specific focus on JPFs)
- ➤ Legal Persons and Arrangement
- ➤ Family Offices
- ➤ High risk 3rd country threat reports

International Focus on Terrorist Financing

FATF Report to the G20 Leaders' Summit

June 2019

- Despite COVID, FATF focus on Terrorist Financing remains a very high priority

- The G20 recognise that developing understanding here requires more urgent work than ML:

- *"Terrorism continues to pose a substantial threat to global peace and security, from which no region is immune. Despite the territorial defeat of ISIL in Iraq and Syria, it continues to pose a threat by inspiring and potentially conducting attacks around the world. Disrupting the financial flows of ISIL, Al Qaeda and other terrorist organisations and individual terrorists, remains one of the most effective ways to detect and disrupt terrorist activity."*

Significant focus of the MONEYVAL evaluation

- The Isle of Man evaluation focussed on this – one of the first IFCs in MONEYVAL to go through evaluation.

- Major conclusion:

- *"The IoM draws upon the policies and work of the competent authorities in the UK with respect to combatting terrorism and FT issue. Despite good relations with its UK counterpart authorities, as explained under IO 1, the IoM's understanding of foreign FT risks is not yet comprehensive enough, as it does not monitor high-risk situations (such as transactions to high-risk jurisdictions) at a national level."*

- A major conclusion for Jersey is the need to further evaluate financial flow data and focus on higher risk jurisdictions.

How are we taking proactive action?

FATF REPORT

Terrorist Financing Risk Assessment Guidance

July 2019

- It is widely recognised that IFCs face particular challenges in respect of detecting Terrorist Financing, due to the absence of common indicators.

- However, it is equally recognised that IFCs are not immune from Terrorist Financing risk and can be misused for cross-border movement of terrorist funds, including: flow-through of terrorism funds; service provision; use of complex structures, abuse of philanthropy; and use of funds generated domestically by illicit activities.

- Therefore, a complex challenge for IFCs around the world, is to better understand the risks that they face in respect of Terrorist Financing.

- Jersey works with other IFC partners to continue to study this area and produce more specific guidance and common indicators – it is important to recognise how different the TF indicators are when compared to ML.

Risk assessment methodology and findings

What is risk in a terrorist financing context?

Risk = Threat + Vulnerability

Threat

A person or group of people with the potential to cause harm by raising, <u>moving</u>, <u>storing</u> or using funds and other assets for terrorist purposes

- e.g. domestic or international terrorists or terrorist organisations as well as individuals sympathetic to their cause

Vulnerability

Weaknesses or gaps in the defence against TF that can be exploited by the threat or that may support or facilitate its activities

- Characteristics of products and services available in the sector (inherent)
  e.g. ability to move funds easily cross-border

- Strength of controls applied at national and sector level (control)
  e.g. regulatory oversight, industry systems and controls

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Working group

- Co-chaired by States of Jersey Police and the Law Officers' Department
- Representatives from:
  - Government of Jersey
  - JFSC
  - Jersey Overseas Aid
  - Jersey Customs & Immigration Service
  - Office of the Jersey Charity Commissioner

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Methodology

- World Bank NRA tool
  - augmented by the "Monaco (MONEYVAL) guidance"
- First World Bank Workshop May 2018
- 18 months of regular meetings
- Second World Bank Workshop November 2019

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Methodology

- Monaco (MONEYVAL) guidance
  - Due to the high volume and cross-border nature of assets managed and transferred, IFCs are at risk of being used to facilitate the cross-border movement of terrorist funds by:
    - flow-through of terrorism funds
    - service provision
    - use of complex structures
    - abuse of philanthropy
    - use of funds generated domestically by illicit activities

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Methodology

- Identified 21 "target jurisdictions" split into two tiers based on risk level

- Identified through:
  - publicly available terrorism risk indices
  - augmented with intelligence information
  - weighted to reflect the frequency with which a particular jurisdiction featured in the analysis

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Methodology

- As far as possible data utilised reflects the period to the end of December 2019

- Considered various aspects of data, (with a focus on target jurisdictions), including the:
  - level of fund flows
  - number of reported customers and beneficial owners and controllers
  - number of Politically Exposed Persons

NRA Report

- Working group produced initial research paper – subject to review by World Bank staff and external experts who:
  - Suggested the TF report stand-alone from the ML report
  - Challenged our thinking
- Resulted in:
  - Two reports
  - A final risk rating of medium low with recommended actions

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Findings - threat

- Jersey is not immune from TF risk
  - face particular challenges in detecting TF due to absence of common indicators
- Non-profit organizations
  - Small number of Jersey NPOs operate overseas, including in target jurisdictions
  - No evidence to suggest overseas activities of Jersey NPOs are linked to terrorist activities
- Low threat of grantees inadvertently assisting/making sub-grants to terrorist organisations

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Findings - threat

- Greatest TF threat is from those that either move funds through, or store funds in Jersey, to finance overseas terrorist operations

- TF not always dependent on large sums of money – **think destination**:
  - Incoming funds reported from 212 jurisdictions
  - Payments reported to 217 jurisdictions.
  - Outgoing payments: 0.47% by value (0.13% by number), to target jurisdictions
  - However, over 90% of the volume of payments were to/from the UK - accounting for 48% of the funds received and 37% of the outgoing payments

- Reported residence of beneficial owners and controllers
  - 1.3% in target jurisdictions, includes PEPs

Not automatic indicators of TF but increases the need for "knowing your customers"

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Findings - vulnerabilities

- Number of areas where adequate systems and controls are in place to mitigate TF risk

- However, areas where additional focus and action is required to both test and strengthen existing controls and further develop understanding

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Findings - vulnerabilities

- Challenging to obtain experts with suitable levels of understanding and qualifications in TF

- Consideration of TF preventative measures separately from ML has not been completed – working group unable to form a view on compliance

- Terrorists becoming increasingly familiar with new technology – virtual assets and their service providers are not yet fully regulated

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FIU statistics

Michael Fitzgerald - Detective Sergeant, Financial Intelligence Unit (JFCU)

SAR Data 2019/2020

- 2019/2020 – Total SARS – 3,000 Terrorist Financing - 30
- = 1% of total SARS
- 29 Submitted under TF legislation
- 24 Submitted where criminality suspected is TF
- One SAR submitted under proceeds of crime legislation where TF criminality was suspected!

Sharing of SARS

- SB (Special Branch) SOJP present at borders liaison with UK agencies MI5/MI6/SIS name checks against UK terror lists
- NTFIU – National Terrorist Financial Investigation Unit
- SWTC – South West Terrorist Command
- Share with target jurisdiction
- Seven of the high risk jurisdictions not Egmont Group members
- RFA = Request for assistance N/T = No trace

Typologies (Random Selection)

- Subject provided ransom to TF group in Iraq. Shared with five agencies or jurisdictions- No responses received
- Subject indirect link to another who has connection to NPOs linked with Hamas – DB (declined business)
- Investment in Jersey product where investor has link to 3rd party subject – No response to share
- Transfers to subjects in high risk jurisdictions – Romance scams
- Jersey Holding company links to subsidiary connected to TF financing
- Breaches of sanctions for jurisdictions linked to TF

Review of SAR Template

- Review of SAR template 2020/2021
- Legislation changed to remove template from schedule
- Working Group formed – Progress ongoing
- Expect finalised template ready by end of 2021
- Improved data sets including TF collection

Recommended Actions

Alex Rowse, Associate Director of Financial Crime Strategy, Government of Jersey

Government *of* JERSEY

Recommended Actions

| Capacity and understanding | Data/Information | Risk Assessments |
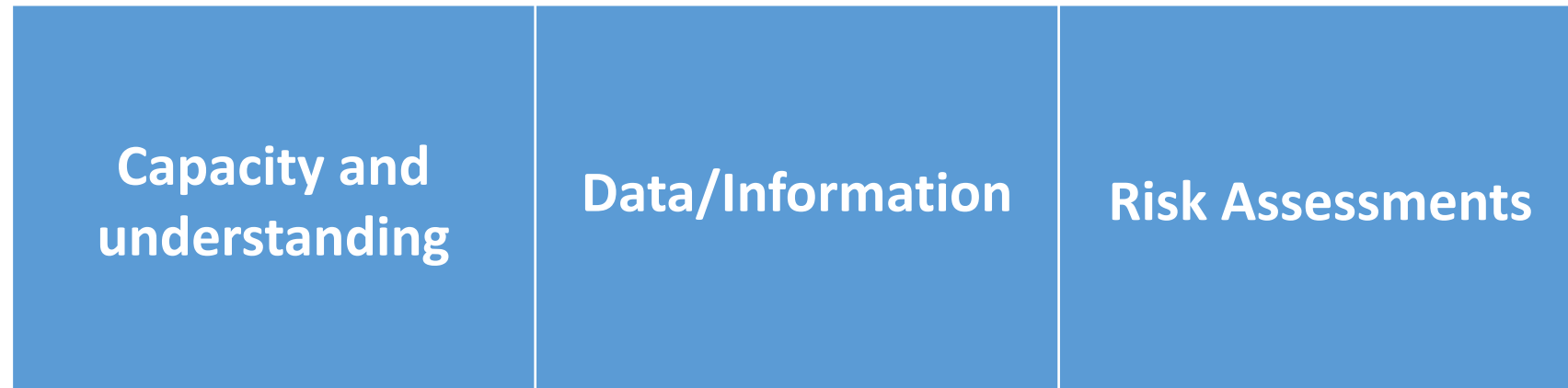
Recommended Actions (1/3)

TF Capacity and Understanding

1. Further develop **TF capacity and understanding** across both the Public Sector and the Private Sector

2. Better understand **TF threats** posed by Fintech, virtual and crypto currencies

3. Fully understand how the Island interacts with the **UK authorities** in relation to TF

4. Introduce a mechanism whereby **industry is informed** of the jurisdictions that are believed to present a greater risk

Recommended Actions (2/3)

Information Required

1. **Wire Transfers** – What is the purpose of the transfers? How long do the funds remain in Jersey?

2. **Investments -** Where is foreign direct investment coming from? Where is it going?

3. **Beneficial Ownership -** information on legal persons/legal arrangements <u>administered in Jersey</u> should be made available to a group of competent authorities

4. **Compliance with preventative measures** – What information can we show to evidence compliance with the TF preventative measures?

5. **Cross-border cash movement -** What is the source of the Jersey currency returned to the island every year?

Recommended Actions (3/3)

Risk Assessments

1. **Non –Profit Organizations** (FATF Recommendation 8)

2. **New products/new business practices/use of new or developing technologies** (FATF Recommendation 15)

Regulatory frameworks to be implemented as a result – which will include <u>focused and proportionate</u> measures for regulation, registration and supervision

Questions?

Thank you

Caroline Morgan
International and Industry Engagement Co-ordinator
c.morgan@jerseyfsc.org

Michael Fitzgerald
Detective Sergeant, Financial Intelligence Unit (JFCU)
M.Fitzgerald2@jersey.pnn.police.uk

George Pearmain
Director of Financial Crime Strategy,
Government of Jersey
G.Pearmain@gov.je

Alex Rowse
Associate Director of Financial Crime Strategy,
Government of Jersey
A.Rowse@gov.je

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