

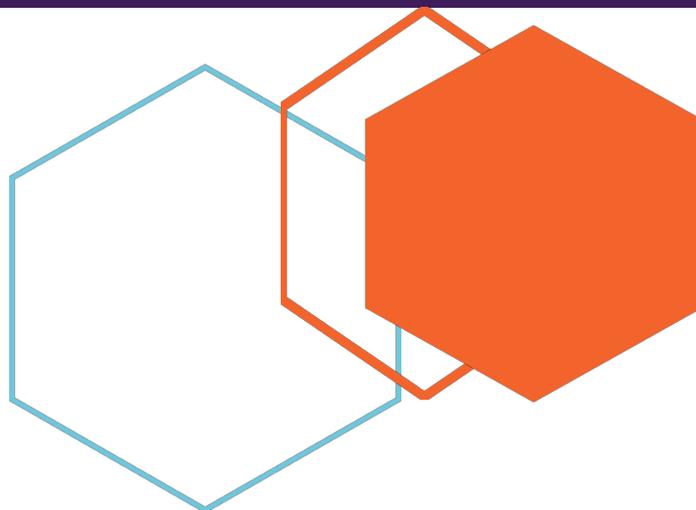


National Risk Assessment

For Anti Money Laundering and the Financing of Terrorism

ST. KITTS AND NEVIS 2019

“As we stand on the brink of the third decade of the millennium, we find ourselves in the midst of an apparent barrage of ever-changing international imperatives and policies. What this translates to for small jurisdictions such as ours is the requirement for a multi Sectoral, consistent approach to financial integrity as well as the need to maintain security on virtually all levels.” *Honourable Vincent Byron Jr., Attorney General & Minister of Justice and Legal Affairs*





Disclaimer



The National Money Laundering and Terrorist Financing (ML/TF) Risk Assessment has been conducted as a self-assessment by the authorities of St. Kitts and Nevis using the National ML/TF Risk Assessment Tool that has been developed and provided by the World Bank Group. The World Bank Group project team's role was limited to delivery of the tool, providing guidance on the technical aspects of the tool, and review/feedback to assist with the accurate use of it. Data, statistics and information used for completing the National ML/TF Risk Assessment Tool Modules, as well findings, interpretation and judgment under the scope of the National ML/TF Risk Assessment completely belong to the authorities of St. Kitts and Nevis and do not reflect the views of the World Bank Group, its Board of Executive Directors or the Governments they represent.



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Vincent F. Byron Jr.
Attorney General
Minister of Justice and Legal Affairs

An essential component of the Fourth Round Mutual Evaluation process of the FATF, is the ability of a jurisdiction to demonstrate that it sufficiently understands its risks of money laundering and terrorist financing activity. An adequate understanding of such risks would mean that a country would be better poised to dedicate appropriate resources and strategies towards mitigating such risks.

In St. Kitts and Nevis, the approach adopted has been to undertake a National Risk Assessment (NRA). The outcome of this process has been arrived at only after a very labour intensive, in-depth examination by the national authorities and other key domestic stakeholders. The objective has been to determine what is a realistic picture of the financial services landscape of the Federation and how robust our systems are in identifying, investigating, and prosecuting the offences of money laundering and terrorist financing. The pursuit of this goal resulted in the collective collaboration of the branches of the Financial Services Regulatory Commission, the Ministry of Finance including the Financial Intelligence Unit, the Customs and Excise Department, the Inland Revenue Department, the White Collar Crime Unit, the Attorney General's Chambers, the Department of Planning, the Legal Department of Nevis, and other government departments and agencies. The NRA process has also demanded outreach and consultation with the various financial institutions and entities of the Private Sector that are heavily involved in or are largely impacted by financial services. The Government of St. Kitts and Nevis owes a sincere debt of gratitude to all those who contributed or assisted in the preparation of this Report.

PREFACE



We are cognizant of the fact that some areas demand more attention than others and our resources have already been employed to that end as we engage in ways of grappling with new and emerging technologies such as crypto-assets.

Work has also been ongoing in solidifying the level of regulation for Designated Non-Financial Businesses and Professions (DNFBPs) and we have sought to consistently encourage and remind our social partners that this is a collective effort. I believe that our prospects for forging greater synergies with the Private Sector have been significantly enhanced by the foundation that we have built through this NRA journey.

Banks, credit unions, insurance companies and DNFBPs all stand to benefit from a Federation that is interested in promoting a secure financial services landscape where all may do business in an atmosphere of certainty, predictability and sustainability.

It is quite obvious that the production of the NRA is only one of many initiatives that would enable us to successfully analyze our strengths and weaknesses in respect of our anti-money laundering/counter terrorist financing framework. It has been critical in shaping the way forward for us as we look ahead to the various ways and means that can be undertaken to fortify this jurisdiction as we seek to not only comply with our international obligations but even more critically, to embrace the changing ethos of comprehensive security within the Financial Services Sector.

PREFACE



Table of Acronyms

AML	Anti-Money Laundering
CBI	Citizenship By Investment
CDD	Customer Due Diligence
CED	Customs and Excise Department
CFT	Countering the Financing of Terrorism
CU	Credit Union
DNFBP	Designated Non-Financial Business and Profession
ECCB	Eastern Caribbean Central Bank
ECSRC	Eastern Caribbean Securities Regulatory Commission
EDD	Enhanced Due Diligence
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit
FSRC	Financial Services Regulatory Commission
GDP	Gross Domestic Product
IBC	International Business Corporation
LLC	Limited Liability Company
MSBs	Money Service Businesses
NFATF	National Financial Action Task Force
NIA	Nevis Island Administration
NPO/NGO	Not for Profit Organization/ Non-Government Organization
NRA	National Risk Assessment
OECS	Organization of Eastern Caribbean States
OFIs	Other Financial Institutions
TCSPs	Trust and Corporate Service Providers
WCCU	White Collar Crime Unit



Contextual Elements of St. Kitts and Nevis

The twin island Federation of St. Christopher (also known as St. Kitts) and Nevis is located in the Northern section of the Leeward Islands in the Caribbean, 17°15 North and 62°40 West. Two (2) miles of Caribbean Sea called the Narrows Channel separate the islands.

The two (2) islands combine for a total area of 104 square miles (St. Kitts 68 square miles and Nevis 36 square miles) and have a total population of 48,011, primarily of African descent. English is the official language spoken throughout the Federation. The capital city of St. Kitts, the larger of the two (2) islands is Basseterre, while Charlestown is the capital city in Nevis.

St. Kitts and Nevis were among the first islands in the Caribbean region to be settled by Europeans. St. Kitts was home to the first British and French colonies in the Caribbean, and was thus named, “The Mother Colony of the West Indies”.

Figure 1 displays the location of St. Kitts and Nevis in the Caribbean Region





Political System of St. Kitts and Nevis

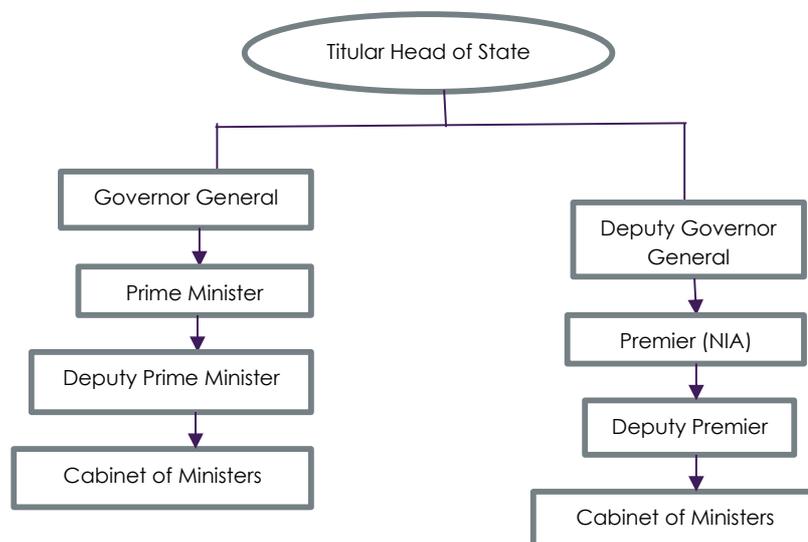
St Kitts and Nevis gained political independence on 19th September 1983 from Britain and has a Democratic System of Government. Federal elections are held every five (5) years while elections for the Nevis Island Legislature are held every five (5) years. The last General Elections were held in 2015 in which the Unity Government was successful. This Administration is an amalgamation of three (3) Political Parties: the People’s Action Movement (PAM), the People’s Labour Party (PLP) and the Concerned Citizens Movement (CCM).

The present Constitution (St. Kitts and Nevis Constitutional Order, 1983) provides for the separation of powers under three (3) distinct arms: the Executive, the Parliament and the Judiciary. It extends autonomy, in certain defined areas, to the smaller island of Nevis through the Nevis Island Administration (NIA) and the appointment of a Deputy Governor General who appoints the Premier.

The Governor General is Her Majesty's representative (Titular Head of State) and acts either in his own deliberate judgment or in accordance with the advice of the Prime Minister under the general authority of the Cabinet of Ministers. All ministerial appointments, including that of the Deputy Prime Minister, are made by the Governor-General, but acting upon the advice of the Prime Minister. The Cabinet consists of the Prime Minister, the Attorney General (ex-officio) and all other Ministers of Government; elected and appointed. The Parliament of St. Kitts and Nevis is tasked with the responsibility of passing laws and comprises 14 members. Eleven (11) of these are directly elected representatives whilst three (3) are senators appointed by the Governor-General (two (2) on the advice of the Prime Minister and the third on the advice of the Leader of the Opposition). The judicial system is modeled on British practice and procedure like its neighbours in the English-speaking Caribbean.

As a member of the OECS, the judiciary of St. Kitts and Nevis forms part of the Eastern Caribbean Supreme Court. The Court consists of a lower court or Magistracy, the High Court and appeals lie to the appellate jurisdiction of the Eastern Caribbean Supreme Court.

Figure 2 below summarizes the Structure of the Political System of St. Kitts and Nevis





Economy of St. Kitts and Nevis

The economy of St Kitts and Nevis is largely reliant on the Tourism Industry as well as the Agriculture, Manufacturing and Financial Services Sectors to facilitate growth. The economy which was traditionally Agriculture based has now been transformed into a service-oriented economy. Priority has been given to the continued diversification of the economy in an effort to achieve sustainable development.

Tourism as an important economic activity in St Kitts and Nevis impacts significantly on several other Sectors within the economy contributing approximately 15% to the Gross Domestic Product (GDP)¹. Emphasis has been placed on the development of this industry in particular, with an objective to improve the value and performance of the country's tourism product, in an effort to stimulate entrepreneurial ventures within and around the various communities in the Federation.

Growth in the Tourism industry continues to be substantial as demonstrated in Table 1 below. Total visitors have increased by an average of 12% over the period under review. Significant growth is also highlighted in total visitor expenditure which increased by approximately EC\$157M from 2014 to 2018.

Table 1: Tourism Statistics for St. Kitts and Nevis.

	2014	2015	2016	2017	2018
Total Visitors	823,284	1,033,816	1,054,900	1,192,966	1,290,635
Cruise Ship Passengers	701,444	909,107	932,230	1,067,412	1,167,647
Stay Over	112,936	116,871	115,765	114,861	116,305
Yacht Passengers	5,441	4,009	2,951	6,733	2,494
Excursionists	3,463	3,829	3,954	3,960	4,189
Number of Cruise Ship Calls	372	440	422	523	540
Total Visitor Expenditure (EC\$M)	339.09	361.34	374.66	431.01	496.52

Source: Central Statistics Office, St Kitts and ECCB Estimates

The Manufacturing Sector is largely based on small to middle scale assembly plants producing mainly electronic parts, beverages and garments for the export market. Though modestly contributing an estimated 6.5% to GDP in 2018², it is a vital component of the economy as it is a major source of employment for the population.

¹ Central Statistics Office, St. Kitts

² Central Statistics Office, St. Kitts



AML/CFT Framework

St. Kitts and Nevis has pledged its continued commitment in the fight against Money Laundering, Terrorist Financing and the Financing of the Proliferation of Weapons of Mass Destruction. Therefore, ensuring the development of a robust risk-based AML/CFT framework is a top priority for the Government. This ensures the continued functioning of our financial system and by association, other Sectors of the economy.

The Government remains cognizant of the serious effects that can result from lapses in AML/CFT compliance and as highlighted throughout the Report, the relevant authorities have sought to collaboratively identify, evaluate and mitigate potential AML/CFT threats to the Federation.

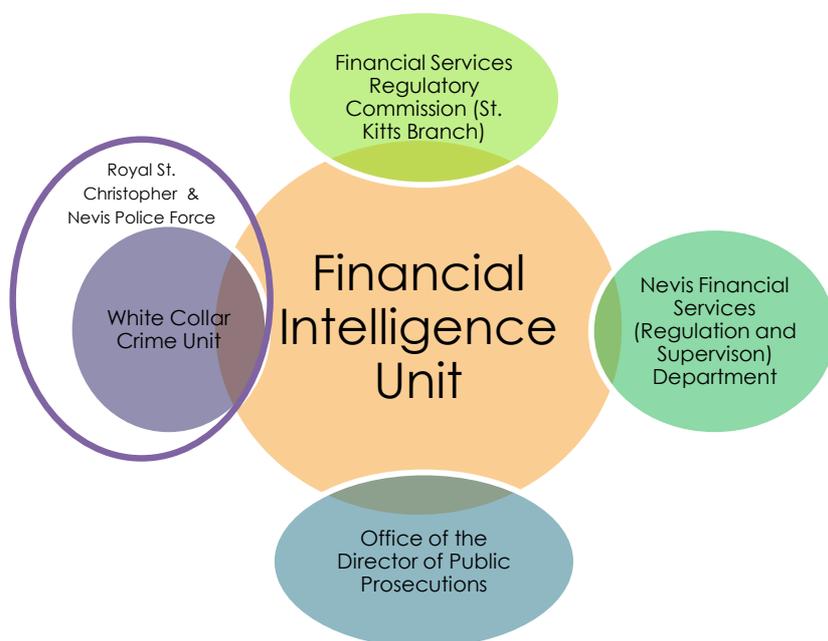


Figure 3: Competent Authorities for AML/CFT

The Federation’s Competent Authorities for AML/CFT, as depicted in Figure 3 above, work cohesively to mitigate the threats posed by the various high risk activities. The AML/CFT framework comprises the following elements:

- i. The Financial Services Regulatory Commission (FSRC), with operations in St. Kitts and Nevis, (Nevis Financial Services (Regulation and Supervision) Department), is the ultimate Regulatory Body for AML/CFT in the Federation. The Commission has a mandate to maintain oversight of the National Framework and effectively collaborate with the Financial Intelligence Unit (FIU) and other law enforcement agencies to ensure compliance with local legislation, international standards and guidelines.
- ii. The FIU is the central national agency responsible for receiving, analyzing and disseminating Suspicious Transaction Reports (STRs) to the White Collar Crime Unit (WCCU) and other law enforcement agencies. The FIU also requests and shares financial information: (i) concerning the suspected proceeds of crime and potential financing of terrorism, or (ii) required by national legislation or regulation, in order to combat money laundering and terrorist financing.



- iii. The Royal St. Christopher and Nevis Police Force (RSCNPF) is the principal Law Enforcement Agency in the Federation. The WCCU is a Department within the RSCNPF which was established in 2008 with a mandate to investigate all Money Laundering and Terrorist Financing offences. The WCCU and the FIU work closely to identify and suppress the incidences of Money Laundering and other associated offences.
- iv. The Office of the DPP is a Department under the Ministry of Justice and Legal Affairs that is responsible for working alongside the RSCPF to prosecute all matters relating to money laundering and terrorist financing.

Other relevant agencies in the Federation's AML/CFT regime include the Customs and Excise Department (CED) and the Office of the Attorney General.

In order to effectively safeguard the economy from ML/TF threats, the competent authorities are guided by the following principal pieces of AML/CFT Legislation and Guidelines:

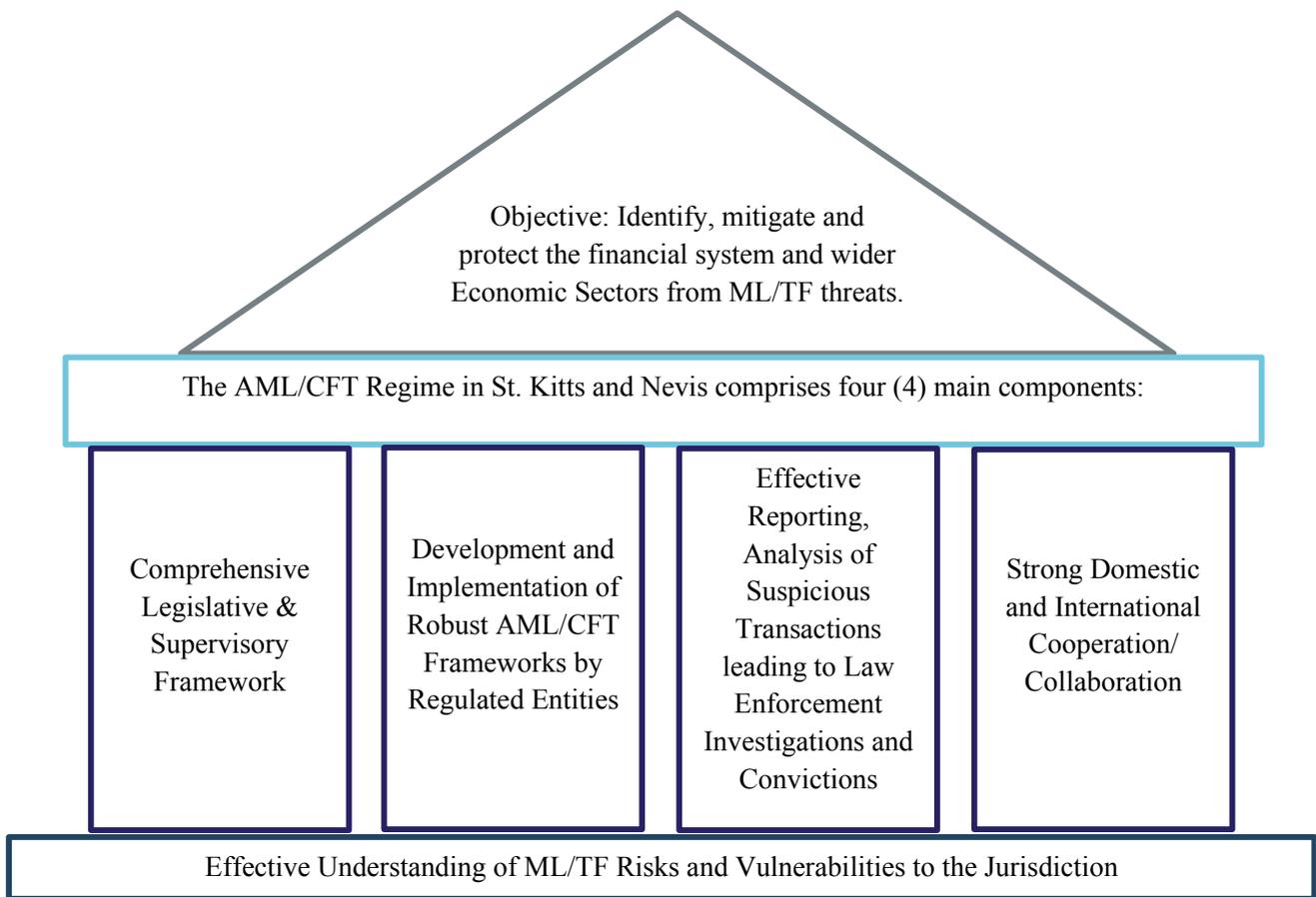
- Proceeds of Crime Act Cap 4.28
- Anti-Money Laundering Regulations, No. 46 of 2011
- Financial Intelligence Unit Act Cap 21.09
- Financial Services (Implementation of Industry Standards) Regulations No. 51 of 2011
- Financial Services Regulatory Commission Act Cap 21 10
- Anti-Terrorism Act Cap 4.02
- Anti-Terrorism (Prevention of Terrorist Financing) Regulations No. 47 of 2011
- Anti-Terrorism De-Listing Procedures Regulations No. 62 of 2011
- Organized Crime Prevention and Control Act Cap 4.22
- Guidelines for Designated Non-Financial Businesses and Professions (DNFBPs)
- Avoidance of Double Taxation and Prevention of Fiscal Evasion Agreement Act Cap 25
- Mutual Assistance in Criminal Matters Act 1993
- Minimum Guidelines for the Role and Appointment of Compliance and Reporting Officers SRO 11 of 2018

Several Working Groups and Committees consisting of representatives from the relevant authorities were established to review the various pieces of legislation with respect to their adequacy, consistency and most importantly, compliance with the Recommendations made by the Financial Action Task Force (FATF), the globally recognized organization for AML/CFT. Considerable progress has been made to date, with respect to the identification and the addressing of gaps. Further ratification of the amended Regulations would be underscored with continuous training for all relevant authorities and regulated entities.



Significant emphasis has been placed on the proper coordination of all relevant authorities in order to improve the timeliness, accuracy and quality of the exchange of AML/CFT information. Additionally, collective supervisory efforts among the authorities have resulted in a more structured and effective approach to address both existing threats and new areas of uncertainty with respect to money laundering and terrorist financing in the jurisdiction.

Figure 4 below summarizes the existing AML/CFT Framework in St. Kitts and Nevis.





National Risk Assessment (NRA) Approach

Recommendation 1 of the FATF Recommendations requires countries to identify, assess and understand its money laundering and terrorist financing risks and take the necessary actions to mitigate these risks effectively. St. Kitts and Nevis chose to address this Recommendation by undertaking a National Risk Assessment (NRA).

Having identified a number of ML/TF risks following the Third Round Mutual Evaluation, St. Kitts and Nevis undertook the NRA process as a vital step to comprehensively and strategically address its approach to risk assessment.

Governance and Oversight

The NRA was organized and led by the St. Kitts and Nevis authorities and involved the collective participation of key AML/CFT stakeholders. This helps to ensure that resources are coordinated to assess risks and the appropriate mechanisms are implemented to prevent and mitigate money laundering and terrorist financing commensurate with the risks identified. The NRA officially commenced on January 29th 2018. The first workshop was held in April 2018 with representatives from the Public Sector. The draft Report was prepared in May 2019 and during the second Workshop in July 2019, representatives from the Private Sector were invited to participate in the process.

An NRA Coordinator was appointed as the project leader to ensure that the NRA was effectively coordinated, implemented and completed within the targeted time frame.

At least two (2) representatives from each AML/CFT agency were identified to establish the NRA Working Group. The NRA Working Group consisted of 54 persons. Representatives from the following Agencies comprised the NRA Working Group:

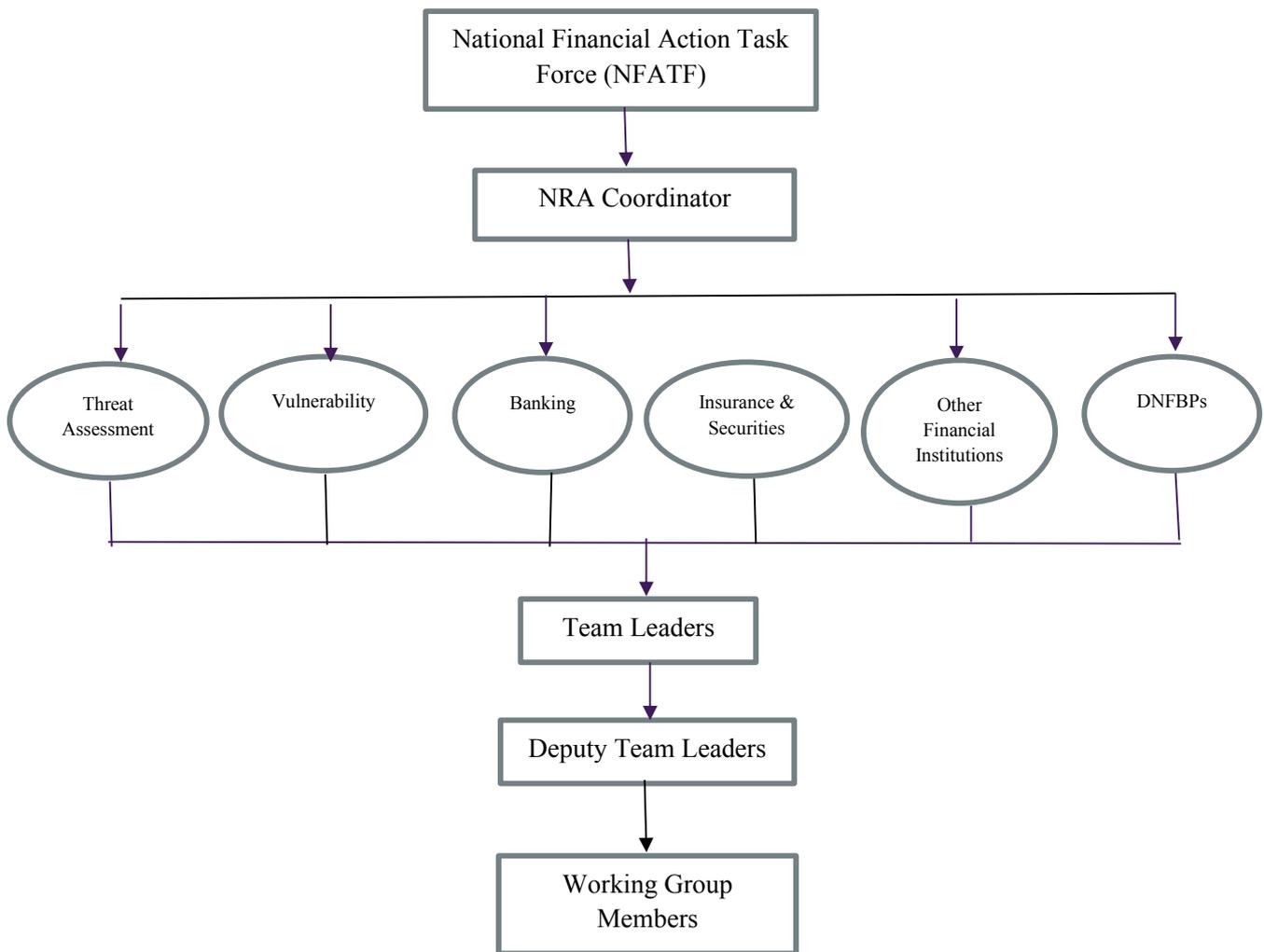
- Financial Services Regulatory Commission (FSRC) St. Kitts Branch
- Nevis Financial Services (Regulation and Supervision) Department
- Financial Intelligence Unit
- Customs and Excise Department
- Inland Revenue Department
- Ministry of Finance
- Office of the Director of Public Prosecutions
- White Collar Crime Unit
- Ministry of International Trade
- Ministry of Sustainable Development
- Royal St. Christopher and Nevis Police Force
- Ministry of National Security
- Office of the Attorney General
- Ministry of Justice and Legal Affairs



Six (6) teams from the NRA Working Group were formed in preparation for the first Training Workshop with the World Bank Team. Each NRA Team was tasked with handling a separate Module of the NRA Tool.

Team Leaders and Deputy Team Leaders were appointed for each NRA team with a mandate to lead the work done by each NRA Team, as well as to analyze the data collected and draft the Sector Reports to be submitted to the NRA Coordinator. Regular Team meetings were held to collect and collate the required data for inputting into the NRA Tool. Team Leaders and Deputies worked closely with the NRA Coordinator through the drafting stage of the NRA Report.

Figure 5 Outlines the NRA Structure used in St. Kitts and Nevis





National Risk Assessment Tool

The World Bank’s Risk Assessment Tool is an excel-based model that provides a methodical process for countries to identify the main drivers of ML/TF based on the understanding of causal relations among money laundering risk factors and variables relating to the regulatory, institutional and economic environment.

This Risk Assessment Tool provided St. Kitts and Nevis with a structured model to enable the collection and collation of all required data and evidence. Teams assigned ratings to each Input Variable in their respective Modules providing ample justification for each rating with quantitative and qualitative information. The Tool then generated a rating based on the inputs from the modules providing a systematic approach to analyze the country’s money laundering and terrorist financing threats and vulnerabilities.

Structure of the St. Kitts and Nevis NRA Report

The Report focused on identifying the threats and inherent vulnerabilities affecting the Federation. Consideration was given to the level of AML/CFT controls in place and the extent to which these threats and vulnerabilities were mitigated by these controls. The data in the Report, for the most part, covers the period 2014-2018, the five-year period under review. Table 2 summarizes the results of the initial Assessment.

High	Medium High	Medium	Medium Low	Low
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Table 2: Summary of Initial Assessment of St. Kitts and Nevis

National ML Threat	
National TF Threat	
National Vulnerability	

The National ML/TF Assessment also took into consideration the following factors relative to each Sector:

-  Size of each Sector with respect to its contribution to GDP;
-  Size of the respective entities;
-  Types of products and services offered
-  Systems of Internal Control and Compliance;
-  AML/CFT Legislation of St. Kitts and Nevis; and
-  The AML/CFT Regime of St. Kitts and Nevis



The Vulnerability Assessment produced the following rating:

High	Medium High	Medium	Medium Low	Low
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Table 3 below summarizes the Vulnerability Ratings identified using the NRA Modules:

Table 3: Summary of NRA Vulnerability Ratings

Commercial Banking	
International Banking	
The Development Bank	
Domestic Insurance	
International Insurance	
Securities	
Money Services Businesses (MSBs)	
Credit Unions	
Trust and Corporate Service Providers (TCSPs)	
Gaming Sector	
Real Estate Sector	



NATIONAL THREAT ASSESSMENT

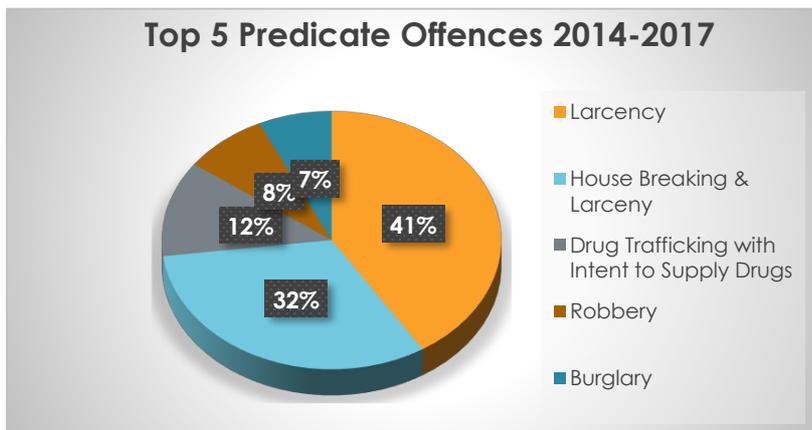
Proceeds of Crime in St. Kitts and Nevis is governed by the Proceeds of Crime Act Cap 4.28, the Anti-Money Laundering Regulations and the Financial Services (Implementation of Industry Standards) Regulations 2011. These Acts are monitored and coordinated through the actions of the Financial Services Regulatory Commission and the Financial Intelligence Unit (FIU).

Law Enforcement actions are undertaken through the FIU, the WCCU, the Royal Saint Christopher and Nevis Police Force and the CED. Prosecution is undertaken by the Office of the Director of Public Prosecutions.

The Proceeds of Crime in St. Kitts and Nevis, based on Figure 6 below, are generated primarily from the following areas:

1. Larceny (including House Breaking)
2. Drug Related Offences (Trafficking and Possession with Intent to supply)
3. Robbery and other Gun Related Offences

Figure 6 below illustrates the incidences of the most prevalent predicate offenses within the Federation.



Source: Royal St. Christopher & Nevis Police Report

The Drug offences are predominantly in respect of locally grown marijuana. The majority of the gun offences involving firearms are local robberies. There was only one (1) case where the defendant was charged with the offence of Money-Laundering, but the matter was withdrawn before the trial was heard. There have been no convictions to date for Money Laundering. Forgery and Fraud related offences amount for less than two percent (2%) of the total volume of crimes committed within the Federation.³

³ Royal St. Christopher and Nevis Police Force Statistics



Typically, prosecution tends to pursue the case that stands a better chance of succeeding from an evidentiary perspective. The work of the WCCU is still largely focused on the predicate offences to Money Laundering.

Over the assessment period, the FIU's activities processed Suspicious Transaction Reports (STRs) mainly from Banks and Money Service Businesses (MSBs). Table 4 summarizes the total number of STRs that was received by the FIU, from the various Sectors, for the period under review.

Table 4: STRs received by the FIU 2014-2018

Sectors Filing STRs	2014	2015	2016	2017	2018	Total
Banks	75	68	84	44	32	303
Insurance	2	0	0	0	1	3
Credit Unions	3	5	6	4	2	20
Money Services Businesses (MSBs)	24	22	18	112	22	198
Lending Institutions	2	7	1	3	0	13
Means of Payment Businesses	4	3	0	0	0	7
Trust and Corporate Service Providers	9	5	15	8	9	46
Real Estate Agents	1	0	0	0	0	1
Lawyers	2	0	0	0	0	2
Pawn Shop (Other)	0	0	1	1	0	2
Total	122	110	125	172	66	595

Source: Financial Intelligence Unit, St. Kitts and Nevis

The highest volume of STR reporting originated from the Banking Sector which traditionally has demonstrated a deeper level of awareness, understanding and compliance in the area of AML/CFT. Notwithstanding this, the overall level of STR reporting, though increasing, is low in some Sectors. This suggests that there may be need for greater awareness raising and capacity building throughout the different Sectors. There may also be need for more work to be done internally by the respective Compliance Officers and AML/CFT Departments.

Law enforcement efforts could be improved primarily in respect of the augmentation of human resources in the FIU, WCCU and on a secondary basis, the Police Force. Consistent and coherent record keeping needs to be improved among the relevant agencies within the Police Force and the Court System as in some instances, records kept by the Police and the Court did not correspond with each other. Additionally, significant gaps still exist in relation to data collection which hindered the risk assessment process and overall results. There was an absence of statistical information on convictions and confiscations across the board. Work continues to address these gaps to present a more holistic representation of the money laundering landscape in the Federation.



Money laundering, as a standalone offence, would need to be more vigorously pursued both from an investigative point of view and in terms of its prosecution. Notwithstanding these issues, there is little evidence to indicate that the incidences of money laundering are high in the jurisdiction. There needs to be a greater focus on the confiscation of the proceeds of crime even in the absence of actual money laundering charges. Extensive work is ongoing on civil forfeiture/ asset-based recovery legislation which is expected to assist in strengthening and expanding the basis on which such measures could be implemented.

Tax Crimes

St. Kitts and Nevis has an effective mechanism for exchange of information for tax purposes. This is supported by the St. Kitts and Nevis (Mutual Exchange of Information on Tax Matters) Act. The jurisdiction has been rated as Largely Compliant in the most recent Peer Review undertaken by the Global Forum on Transparency and Exchange of Information for Tax Purposes.

Efforts are on-going to further develop and operationalize the supervisory framework to clarify the roles and responsibilities of the Competent Authority and more effectively address tax crimes. Tax crimes are a relatively new area of AML/CFT assessment in terms of the on going supervisory work in the Financial Services Sector.

Table 5 summarizes the overall filing compliance level for three (3) of the main tax types. The level of filing for the Value Added Tax is consistently high however the filing of other taxes is less comprehensive. Data was unavailable for the Corporate Income Tax. This suggests that improvement is required in the efficiency of our tax record maintenance and possibly in the levels of tax compliance and collection.

Table 5: Summary of Tax Compliance Levels

TAX TYPE	2014	2015	2016	2017	2018
Unincorporated Business Tax	57%	58%	62%	64%	63%
Value Added Tax	94%	93%	94%	92%	88%
Withholding Tax	65%	61%	62%	66%	61%

Source: Inland Revenue Department

Cross Border Transactions

Generally, the main countries from which goods are imported include the United States, Trinidad and Tobago, Canada and Japan. The importation of high value goods highlights the predominance of jewelry in this category. There is a level of monitoring by the CED with respect to the importation of motor vehicles and jewelry into the Federation. This is evidenced by the processing of these commodities and the detailed level of record keeping by the CED. Research has shown that amongst Automobile Dealers,



less than 1% of imports are high value (EC\$400,000 or more), thus demonstrating **LOW** vulnerability of the Sector to money laundering and terrorist financing.⁴

Recent changes to the Financial Services Regulatory Commission Act have brought these entities more firmly under the regulatory umbrella. The DNFBP Guidelines currently provide guidance to the various Sectors and outreach has been made to increase awareness of AML/CFT concerns. Given the various factors outlined above, including the varied level of STR reporting, the fact that some areas of the DNFBP have traditionally been under regulated and the need to boost the human resources within law enforcement as a whole, it was determined that the overall threat of money laundering is rated as being **MEDIUM**.

These threats are mitigated however by the fact that overall, there is a strong regulatory framework for AML/CFT within the Federation. Financial institutions in particular those affiliated with international groups have generally demonstrated robust and effective internal control systems.

Terrorist Financing

The threat of terrorist financing is perceived to be quite low in the OECS subregion and in particular St. Kitts and Nevis. There have consequently been no STRs and no terrorist financing related investigations in this area. Mutual Legal Assistance Requests over the assessed period were not in respect of suspected terrorists or known terrorist financing related activity. There were no international requests received by the FIU regarding terrorist financing activity within the assessed period.

The Banking Sector and other Financial Institutions are heavily regulated and there is little evidence that terrorist financing activity is occurring. Ongoing efforts are being made to improve legislation to ensure that the targeted financial sanctions relating to proliferation have been fully covered and that the corresponding checks are carried out in this area.

Non- Government Organizations (NGOs)

As at 31 December 2018, there were approximately eighteen (18) NGOs registered in St. Kitts and Nevis.⁵ The regulatory structure of this Sector within the Federation lacks coherence and needs to be reorganized for compliance with Recommendation 8 in respect of AML/CFT. Work has already begun to review the existing policies on NGOs to ensure that they are adequately covered within the legislation and in terms of the practical requirements. Whilst the threat of terrorist financing in this area is likely to be **LOW**, based on the small number of registered entities, the regulatory structure would benefit from enhancement to properly support such a conclusion.

From a federal perspective and pursuant to the provisions of the Non-Governmental Organisations Act, an NGO may register at the Companies Registry and be governed by the provisions of that legislation. Under the NGO Act, all registered Organizations are required to submit accounting information on an

⁴ FSRC Survey 2019

⁵ Statistics from the Registrar of NGOs



annual basis, however, the compliance level is extremely low with only about twelve percent (12%) of registered organizations actively complying with this requirement.

The general administrative structure under the NGO Act needs to be revamped, to identify a clear regulatory structure for these entities. The registration of an NGO also needs to be made mandatory with appropriate penalties for enforcement.

Not for Profit Organizations (NPOs) and Multiform Foundations

In Nevis, Not for Profit Organizations (NPOs) are companies without shares that are registered under the Nevis Companies Ordinance, 1999 with objectives that are either of a “patriotic, religious, philanthropic, charitable, educational, scientific, literary, historical, artistic, social, professional, fraternal, sporting or athletic nature or to the promotion of some other useful object.”

Additionally, multi-form foundations may also undertake charitable activities pursuant to the provisions of the Multiform Foundations Ordinance. As at 31 December 2018, there were 74 Not for Profit Organizations in Nevis and 233 Multiform Foundations⁶ registered in Nevis.

Immigration Related Issues

There have been no reported cases of human smuggling or human trafficking for the period under review.

Economic Factors

The majority of imports are cars and equipment, manufactured goods and food. Whilst there is a reasonable level of scrutiny with respect to the importation of goods and cash declarations, there are shortcomings in respect of outgoing cash and goods and adequate declarations regarding same. Provisions in the Proceeds of Crime Act and the Customs Act partially address this issue however there remains a minimal threat because of the inadequacy of enforcement.

⁶ Multiform Foundations are entities that may be treated as a trust, a company, a partnership or an ordinary foundation. The ‘Multiform’ concept allows for the identity to the entity to be changed during its lifetime.



NATIONAL VULNERABILITY ASSESSMENT

St. Kitts and Nevis' vulnerabilities are largely driven by the following:

1. Offshore Banking Sector;
2. DNFBPs, specifically, Jewelers, Real Estate, Gaming and TCSPs;
3. Citizenship by Investment Programme;
4. Absence of Independent Information Sources;
5. Quality of Border Patrol; and
6. International Insurance Sector;

Offshore Banking Sector

The non face-to-face activity associated with the Offshore Banking Sector creates some level of vulnerability to money laundering and terrorist financing. While the Banking Sector is known to have robust AML/CFT regulations in place, these may still be insufficient to properly mitigate the vulnerabilities posed by international banks and their foreign operations, products, client base and services.

Designated Non-Financial Businesses and Professions (DNFBPs)

The DNFBPs were assessed separately based on the product type and services provided.

TCSPs

The legal arrangements and legal persons associated with TCSPs in the Federation are areas of possible vulnerability for ML/TF. It is commonly understood that TCSPs may be used as vehicles to obscure beneficial ownership information and complicate the trail for tracing the proceeds of crime. Notwithstanding the perceived vulnerability, TCSPs are supervised by the FSRC pursuant to the provisions of the FSRC Act. In that regard, this Sector has been subjected to frequent and rigorous AML/CFT examinations to monitor the systems of control and the effectiveness of risk mitigating measures.

For the Gaming Sector, the high cash intensive nature of the operations may pose a vulnerability to money laundering and terrorist financing. As a significant portion of the clients are tourist based, this may present a challenge in conducting ongoing monitoring and assessment of clients. To minimize the effect of this possible vulnerability, the supervisory authorities have conducted outreach and joint onsite examinations to assist the Sector in identifying its risks and introducing appropriate risk mitigating measures and controls.



There is a possible vulnerability to money laundering and terrorist financing through the Real Estate Sector and the Dealers in Precious Metals and Stones. It is commonly understood that these Sectors may create opportunities for persons to use resources for illicit purposes. A comprehensive regulatory framework has been developed to minimize the associated vulnerabilities.

Citizenship by Investment Program

The Government of St. Kitts and Nevis, in 1984, introduced a Citizenship by Investment (CBI) Programme. This Programme was designed to stimulate investment by providing opportunities to make a contribution to the development of the Federation. Although this type of investment portfolio can be associated with ML/TF risks, applicants to the Programme are subjected to a rigorous level of due diligence checks to mitigate such risks. Additionally, applications in St. Kitts and Nevis should only be made through licensed TCSPs who are subject to AML/CFT oversight by the FSRC.

Absence of Independent Information Sources

The Eastern Caribbean Central Bank (ECCB) in its 2017-2021 Strategic Plan identified the establishment of a Credit Bureau as a way to facilitate more efficient and effective Credit Underwriting and Risk Management; to support better credit pricing; and to deliver broader financial inclusion. In that regard, the Credit Reporting Act No 11 of 2018 was passed in St. Kitts and Nevis. This is supported by the Credit Reporting Regulations No. 13 of 2019. Currently, the ECCB is working assiduously towards the operationalization of the Credit Bureau and the implementation of the Regulations.

Quality of Border Patrols

The Customs Act of 1992 was repealed and replaced by the Customs Act No 19 of 2014 which aids in controlling the illicit movement of money. This legislative framework as well as standard operating procedures at the CED allow for the identification and sharing of cash declarations with the relevant authorities (both domestically and with those who are a part of the Customs Union). There are however possible border control challenges that arise based on the geographical location of the Federation with its open coastal borders. It is commonly understood that this type of terrain may lend itself more readily to potential asset and narcotic smuggling. The ongoing efforts and joint operations of the law enforcement agencies are used to monitor, control and limit the possibility of these occurrences.

International Insurance Business

The type of products offered through international insurance businesses as well as the non-face to face element in their operations may present some vulnerabilities. The reliance on intermediaries and the use of introducers to collect and organize the necessary due diligence documents may also make the Sector vulnerable to ML activity. A comprehensive review of the AML/CFT framework is being undertaken to address vulnerable areas.



Other Vulnerabilities

Legislative Updates

In undertaking the National Risk Assessment, it was recognized that there was a need to update several pieces of legislation. Working groups have been established to review various legislation to ensure compliance with the FATF recommendations. Legislation under review includes the following:

- Proceeds of Crime Act Cap 4.28;
- Companies Act Cap 21.03;
- Anti-Money Laundering Regulations No. 46 of 2011;
- Financial Intelligence Unit Act Cap 21.09;
- Financial Services (Implementation of Industry Standards) Regulations No. 51 of 2011;
- Financial Services Regulatory Commission Act Cap 21.10;
- Anti-Terrorism Act Cap 4.02;
- Anti-Terrorism (Prevention of Terrorist Financing) Regulations No. 47 of 2011;
- Non-Government Organizations Act Cap 20.59;
- Betting and Gaming (Control) Act Cap 17.01;
- Probation and Child Welfare Act;
- Criminal Law Amendment Act; and
- Extradition Legislation.

Human Resource Constraints

Key AML/CFT Authorities, including the WCCU and the FIU have experienced some challenges due to limited staff. Steps have been taken to augment the human resources in these Departments.

Absence of Consistent Training

Consistent and continuous training in AML/CFT strategies should be utilized in all agencies including the Royal St. Christopher and Nevis Police Force and the Immigration Department. Training in the forfeiture and seizure of assets believed to be derived from criminal activities and subsequent successful convictions in relation to money laundering should be made a priority. In that regard, authorities have increased the emphasis in training in areas such as suspicious activity identification, risk management systems and AML/CFT compliance. “Train the Trainer” sessions have been maximized so that information could be effectively shared.

Data Collection Challenges

A number of challenges were experienced by the NRA Working Group in the data collection process. Having recognized this particular issue, the need for improved data collection and record keeping have been identified across the board, to facilitate better analysis.

Given the various vulnerabilities outlined, the National Vulnerability to money laundering and terrorist financing has been rated as **MEDIUM HIGH**.



INSURANCE SECTOR

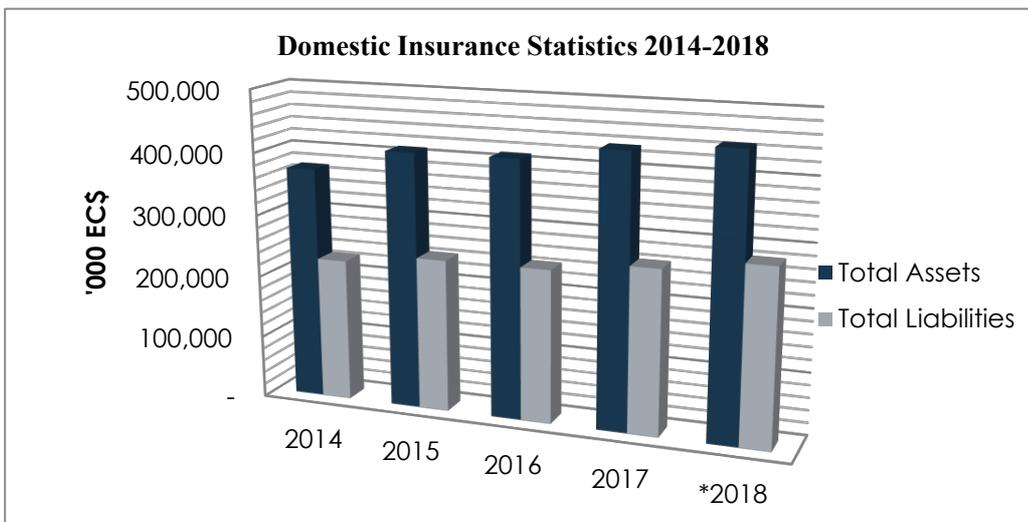
The Insurance Sector in St. Kitts and Nevis has two (2) components: domestic and international insurance which are regulated by the Financial Services Regulatory Commission for AML/CFT purposes as well prudential oversight. Overall, the Insurance Sector is categorized as **MEDIUM LOW** vulnerability for money laundering and terrorist financing.

Domestic Insurance Sector

At the end of 2018, there were 16 registered insurance companies, 3 insurance brokers, 14 insurance agents and 31 sales representatives. The primary legislation is the Insurance Act, Cap 21.11.

For the year 2018, the domestic insurance Sector contributed approximately 1% to St. Kitts and Nevis' GDP⁷. Total assets for the domestic insurance Sector as at 31 December 2018, amounted to approximately EC\$448 Million. Over the five (5) year period 2014 – 2018, there has been steady growth in the assets and liabilities of the domestic insurance Sector as seen in Figure 7 below.

Figure 7: Assets and Liabilities for Domestic Insurance Companies



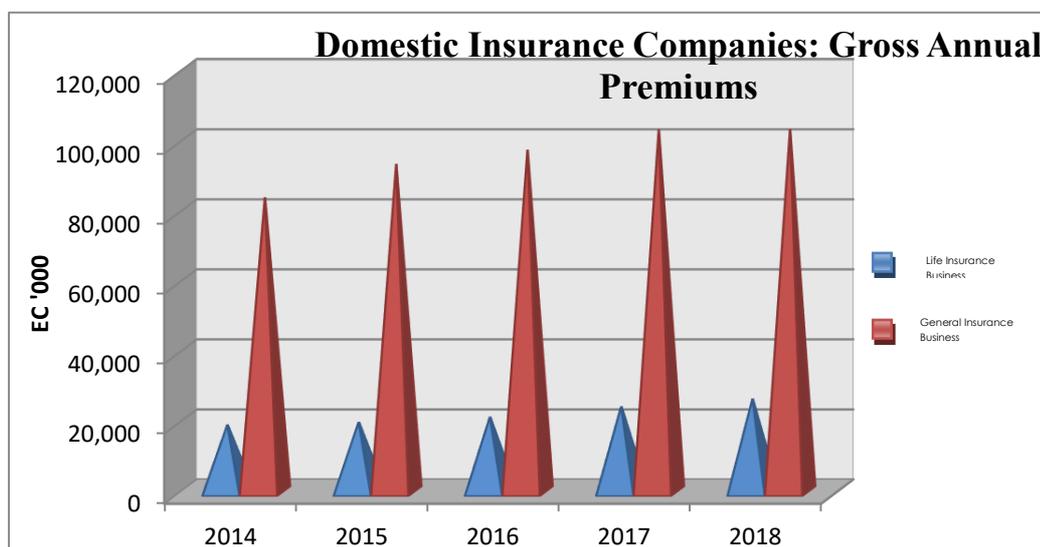
Source: Quarterly Financial Returns, Financial Services Regulatory Commission (St. Kitts Branch)

⁷ Department of Statistics, Ministry of Sustainable Development



General insurance business has consistently recorded higher premium income and growth than life insurance business for the period under review. Figure 8 overleaf depicts gross annual premiums.

Figure 8: Insurance Companies (General) Gross Annual Premiums



Source: Quarterly Financial Returns, Financial Services Regulatory Commission (FSRC) St. Kitts Branch

General Insurance Business includes Property, Motor, Personal Accident, Pecuniary Loss, Liabilities, Medical, Marine, Transport and Aviation. Long-term (Life) Insurance Business includes Ordinary Life, Industrial Life, Annuities, Group Life and Creditor Life. The products offered by the General Insurance companies are commonly associated with low risks of money laundering and terrorist financing; however AML/CFT measures are implemented by all registered insurance companies in St. Kitts and Nevis.

The Domestic Insurance Sector is subject to strong AML/CFT supervision. The FSRC conducts examinations over a five (5) year cycle prioritizing examinations based on risk and systemic importance of the institution. The first cycle of the Domestic Insurance Sector would have commenced in 2010 and culminated in 2015 with all of the insurance companies being examined. The FSRC generally aims to conduct two (2) to three (3) onsite examinations in this Sector on an annual basis.

The following table shows the number of onsite examinations conducted over a five (5) year period:

Table 6: Domestic Insurance Sector Onsite Examinations Conducted

	2014	2015	2016	2017	2018
No. of onsite examinations (companies)	2	3	1	1	1
No. of onsite examinations (Broker)	0	0	0	0	1
No. of Follow-up Examinations (companies)	0	1	0	1	0
Total	2	4	1	2	2

Source: Financial Services Regulatory Commission (FSRC) St. Kitts Branch



All insurance companies have been subjected to an AML/CFT review although some were completed prior to 2014. In addition, the FSRC conducts off-site analysis and produces quarterly risk assessments for each registered insurance company. This risk assessment is an analysis of compliance with legislative and statutory requirements.

There were two (2) STRs filed for the Sector, none of which required further investigation by Law enforcement. This is consistent with the low level of suspicious activity of the Sector and is also reflective of the effective implementation of the strong AML/CFT regime for the Insurance Sector.

The reviews conducted during first cycle identified the following weaknesses:

- i. Lack of on-going monitoring procedures;
- ii. Inadequate compliance manuals;
- iii. Inadequate record keeping practices; and
- iv. Incomplete risk assessments.

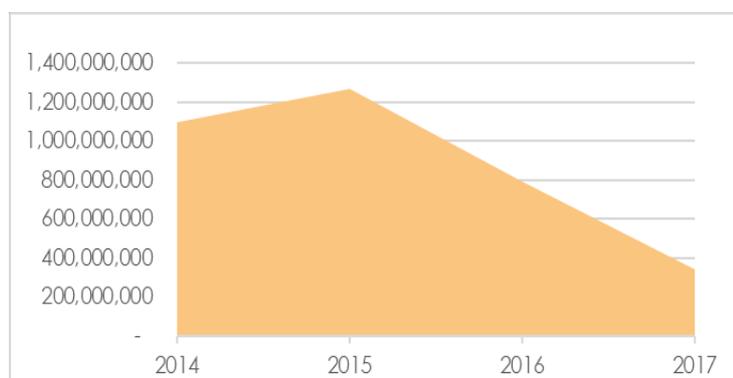
Corrective measures have since been implemented by all companies and have been assessed through the submission of revised documents to the FSRC. The frequency of follow-up onsite examinations is determined by the assessed risk rating of each Company, subsequent to the initial inspection, to ensure that efforts are being made to address deficiencies. Work on improving the legislative sanctions and administrative penalties to ensure dissuasiveness has been ongoing. A subcommittee was established to review and make recommendations for improvements to the sanctions regime.

Based on the size of the Domestic Insurance Sector, the number of registered insurance companies and the products offered, the level of vulnerability associated with the Sector is **LOW**.

International Insurance Sector

At the end of 2018, there were 260 (228 in Nevis; 32 in St. Kitts) licensed international insurance companies in the Federation which underwrite offshore risks. The primary legislation for the Sector are: (i) the Nevis International Insurance Ordinance Cap 7.07 and (ii) the Captive Insurance Companies Act, Cap 21.20. The international insurance companies operate through insurance managers which are licensed by the FSRC. There are nineteen (19) licensed insurance managers – seventeen (17) in Nevis and two (2) in St. Kitts. There are also three (3) licensed brokers in Nevis. The insurance managers are required to implement AML/CFT controls, such as maintaining updated beneficial ownership information in order to minimize ML/TF threats.

As at the end of 2017, the registered international insurance companies have total assets of approximately USD\$ 387,763,803 (EC\$1,046,962,268.10). As shown in Figure 9 below, there has been a significant decrease in total assets over the four (4) year period largely due to the reduction in the number of licensed entities.

Figure 9: International Insurance Assets⁸

Source: Annual Tax Return Form

The international insurance companies licensed in St. Kitts and Nevis offer:

1. General Insurance (3 as at 31 Dec 2018)
2. Long-term (Life) Insurance (2 as at 31 Dec 2018)
3. Reinsurance (19 as at 31 Dec 2018)

There are also 218 Captive insurance companies as at 31 Dec 2018 and 18 Allied Reinsurance Companies.

Information on Beneficial Ownership (BO) is available for all licensed international insurance companies. As a result of the vulnerabilities presented by non-face to face transactions as well as the common use of intermediaries, due diligence is included as a necessary component of the licencing process. In addition, insurance managers are required to submit updated information on beneficial owners annually for the renewal of licences and also in preparation for an onsite examination. The international insurance companies do not maintain a physical office in St. Kitts and Nevis and records of their operations are available for examination at the office of the Insurance Manager and Registered Agent.

For the period under review, there were 16 onsite and follow up examinations of insurance managers/registered agents. There were onsite examinations of the two (2) insurance managers licensed in St. Kitts. Deficiencies highlighted included the following:

- i. Absence of Documented Policies and Procedures including Compliance Manuals
- ii. Absence of ongoing Customer Identification Procedures
- iii. Failure to verify Professional Service Intermediaries
- iv. Lack of Risk Assessments

Timeframes for the completion of corrective measures were given for all deficiencies which were generally met.

Captive Insurance, which is predominantly self-insurance, carries low AML/CFT risk given the low level of insurance cover offered to unaffiliated risks. As the international insurance companies underwrite off-

⁸ Data for 2018 was unavailable at the time of the NRA



shore risks, the Sector has been assessed as **MEDIUM** vulnerability. There are a number of AML/CFT controls put in place by the FSRC to mitigate risks. These include the submission of annual financial reports, on-going due diligence for directors and shareholders and on-going monitoring of cash distributions to ensure that there are no unauthorized withdrawals.

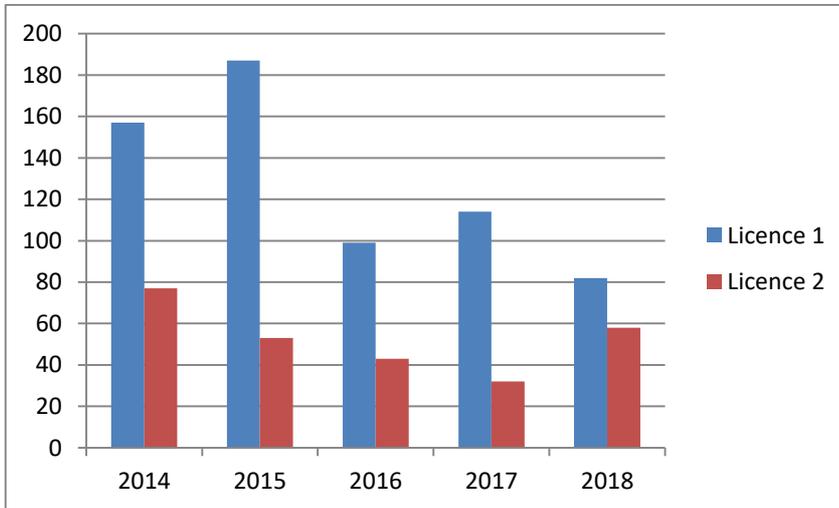


SECURITIES SECTOR

The Securities Sector is governed by the Securities Act, Cap 21.16, which provides for the regulation and supervision of the Sector and related matters while ensuring protection for investors. The Eastern Caribbean Securities Regulatory Commission (ECSRC) is the Regional body which regulates Securities business including the market exchange and persons engaged in Securities business within the Eastern Caribbean Currency Union. Supervision relating to Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) is provided for in the Proceeds of Crime Act, Cap 4.28 (POCA) which lists participation in Securities issues and the provision of services related to such issues as regulated activity. The Financial Services Regulatory Commission (FSRC) is the ultimate regulatory body for AML/CFT supervision in St. Kitts and Nevis, which includes the Securities business.

There are two (2) licensed banking institutions in the Federation of St. Kitts and Nevis that offer services in the Securities industry. The Securities business constitutes a small portion of each bank’s operations and presents minimal exposure to the institutions. This is depicted in Figures 10 below and 11, overleaf which show (i) the No. of Trades over the five (5) year period (2014-2018) and (ii) the Volume of Trades (EC\$) over the same period.

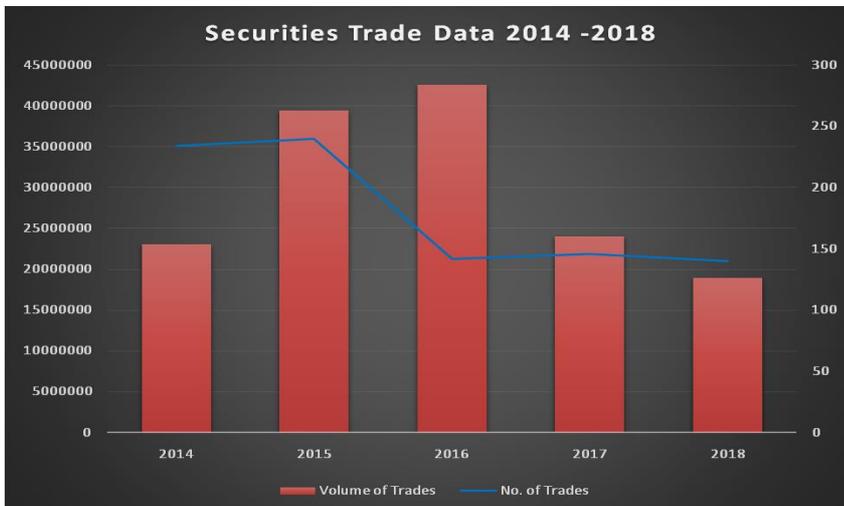
Figure 10: Number of Trades from 2014-2018



Source: FSRC Onsite Examination Data



Figure 11: Volume of Trades between 2014-2018



Source: FSRC Onsite Examination Data

Over the period under review, the ECSRC did not conduct any prudential onsite examinations of the Sector in St. Kitts and Nevis. The licensed institutions, however, submit quarterly returns in accordance with Regulation 15 (3) of the Securities (Conduct of Business) Regulations, 2001 which detail customer transactions. During the review period, the FSRC conducted an AML/CFT compliance examination of each licensed institution which assessed the AML/CFT internal controls and risk mitigating measures. This resulted in heightened awareness and renewed commitment by each entity.

The employees of the Banking institutions, that are licensed to offer services in the Securities industry, receive annual AML/CFT training and are aware of AML/CFT requirements. Some improvement is required in the on-going monitoring of clients and the application of customer due diligence requirements, in an effort to limit breaches of AML/CFT procedures. This was especially apparent in the reliance on other licensed financial institutions in verifying customer information when accepting payments.

The risks associated with the type of individuals accessing Securities services was assessed as relatively low as the client base was essentially made up of citizens of St. Kitts and Nevis domiciled locally and internationally. A review of the documented policies and procedures of the licensed institutions revealed that there are existing mechanisms to monitor Politically Exposed Persons (PEPs). There were no known cases of foreign PEPs or persons from high risk jurisdictions conducting trades or other similar activities. There were also no Suspicious Transaction Reports (STRs) submitted by the licensed institutions to the Financial Intelligence Unit for the period under review.

Following the on-site examination by the FSRC, it was determined that the level of vulnerability posed by the Sector is minimal given the low level of trade activity and the low risk associated with customers.



There was no enforcement action for non-compliance with AML/CFT requirements, however it is expected that upon completion of the follow-up examination process, an assessment of the remedial actions will determine what actions will be taken.

Generally, the licensed institutions in the Securities Sector have adequate AML/CFT policies and procedures; however, there is need for improvement in customer due diligence and on-going monitoring. Improved collaboration between the prudential and AML/CFT Regulators is required to enhance supervision of the Sector. Overall, the activities in the Securities Sector do not present significant AML/CFT vulnerability given the small size of the Sector, the limited trade activity and the number of licensees in the jurisdiction. Consequently, the Securities Sector is assigned **MEDIUM LOW** vulnerability.

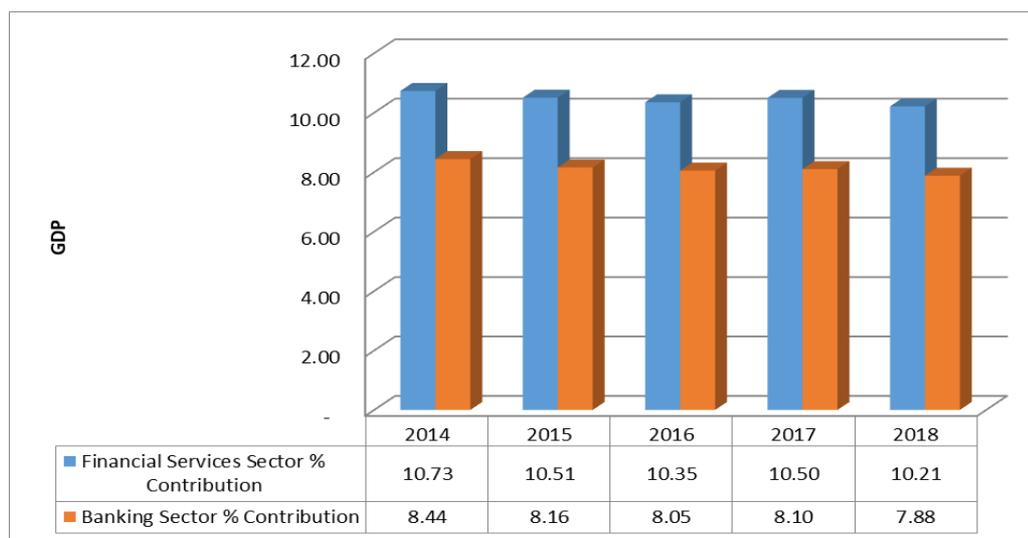


BANKING SECTOR

The Banking Sector is a significant pillar in the Financial Services Sector and an important economic driver within the Federation of St. Kitts and Nevis. During the period under review, the Sector comprised six (6) Commercial Banks, one (1) Finance company, one (1) International Bank and one (1) Development Bank. An International Bank was newly licensed in 2019 and was therefore not included in the scope of this risk assessment.

The Banking Sector contributes approximately 8% to the Federation's GDP⁹. This represents a significant portion of the Financial Services Sector which contributes approximately 10.5% to GDP identifying the Banking Sector as a major contributor to the financial services industry and by extension, the economy. Figure 13 overleaf illustrates the Financial Services Sector's Contribution and the Banking Sector's Contribution respectively for the period, 2014 – 2018.

Figure 12: Financial Services Sector's Contribution and the Banking Sector's Contribution to GDP 2014 – 2018.



Commercial Banks, Finance Company and International Bank

Regulated Entities in the Banking Sector are subject to two (2) licensing regimes. Commercial Banks and the Finance Company are licensed by the Eastern Caribbean Central Bank (ECCB) under the Banking Act, 2015, while international banking activities are licensed by the Ministry of Finance, NIA, under the Nevis International Banking Ordinance, 2014.

⁹ Ministry of Finance National Statistics



All Entities operating within the Banking Sector must establish adequate AML/CFT policies and procedures in accordance with the Anti-Money Laundering Regulations (AMLR), the Anti-Terrorism (Prevention of Terrorist Financing) Regulations (ATR), Financial Services (Implementation of Industry Standards) Regulations (FSR), and the Proceeds of Crime Act, Cap 4.28 (POCA). The FSRC is the ultimate body for AML/CFT within the Federation of St. Kitts and Nevis. The ECCB supervises the Commercial Banks and the Finance Company to ensure that the policies, procedures and practices are in line with prudential standards such as capital and liquidity pursuant to the authority contained in Section 184 of the Banking Act, 2015. Currently, the International Banks operating in Nevis are regulated by the Nevis Financial Services (Regulatory and Supervision) Department for AML/CFT matters and prudential requirements.

Four (4) of the six (6) Commercial Banks are part of international financial groups with Head Offices, subsidiaries and branches in jurisdictions with similar AML/CFT Regimes. Additionally, the international financial groups have AML/CFT internal programs which have been developed based on the FATF Recommendations and adopted within the local banking operations of the St. Kitts and Nevis branches and subsidiaries. The Finance Company and the International Bank are locally incorporated entities.

Products and Services

The Banking Sector offers a wide variety of products and services which, due to their nature, are inherently exposed to high ML/TF risks. Products and services offered by the Banking Sector include the following:

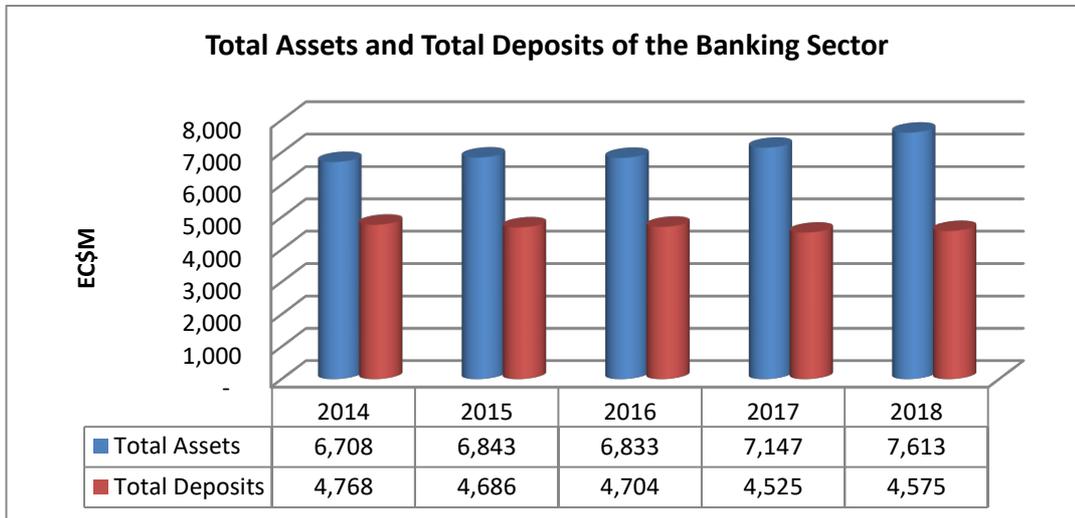
- Loans;
- Deposits;
- Insurance;
- Wire Transfers;
- Foreign Currency Accounts;
- Credit Cards, Debit Cards;
- Escrow Accounts;
- Trust and Custodial Services;
- Investments;
- Bank Drafts;
- Mobile Banking;
- Online Banking;
- Safety Deposit Boxes;
- Overdrafts; and
- Letters of Credit.

Owing to the large volumes of cash involved in providing most of these products and services, the Banking Sector is more susceptible to financial crime and therefore, the Banking Sector is deemed to be inherently high risk.



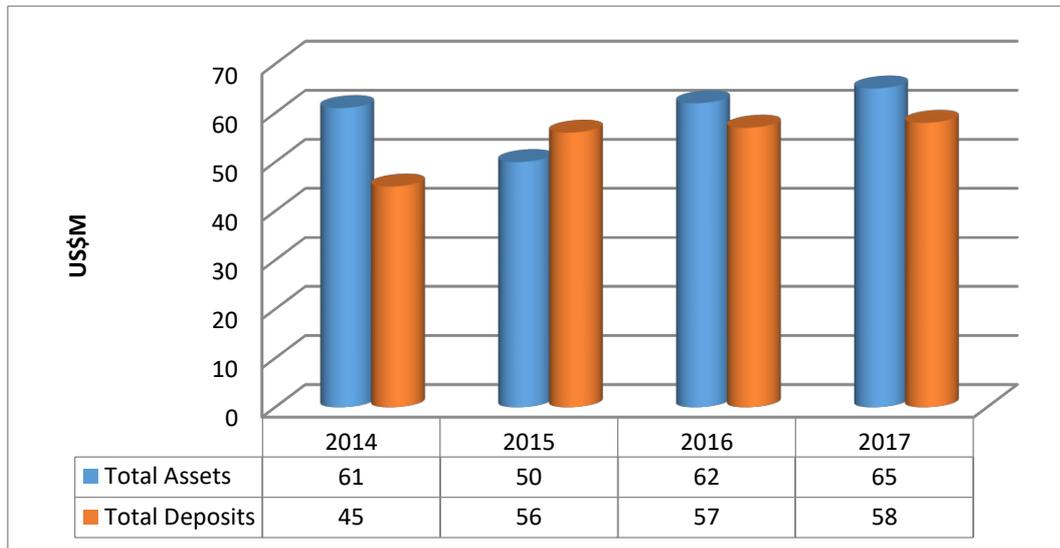
Figures 13 and 14 below depict the Total Assets and Total Deposits respectively for the years, 2014 – 2018 for the Entities licensed under the Banking Act and 2014-2017 for the International Bank.

Figure 13: Total Assets and Deposits of the Banking Sector 2014-2018



Source: Eastern Caribbean Central Bank Statistics

Figure 14: Total Assets and Deposits of the International Bank 2014-2017¹⁰



Source: Financial Statements of International Bank

As illustrated in Figure 14, over the four-year period, the Deposits represent more than 50% of the Entities’ Total Assets depicting the cash intensive nature of the Sector.

¹⁰ Data for 2018 was unavailable at the time of the NRA



Across the products and services segments, the assessment considered the volume of transactions and specific delivery channels utilized to determine the level of ML/TF risk to the Federation. As a consequence of the cash intensive nature of this group and cross border elements (such as wire transfers), this group poses a high risk to money laundering and terrorist financing.

The assessment reflects a broad range of vulnerability factors associated with the provision of the abovementioned products/services especially where there are instances of non-face to face transactions and where products/services are being utilized by higher risk customer types such as Politically Exposed Person (PEPs). Consideration was also given to the international nature of transactions through such products/services as wire transfers, escrow accounts and debit/credit cards which pose high vulnerability due to the cash intensity and the risk associated with some international jurisdictions.

Notwithstanding the existence of these vulnerability factors, Entities within this group continue to strengthen their risk management frameworks to detect, assess and monitor the use of their products, services and delivery channels in money laundering and terrorist financing activities. The Banks and Finance Company have established Risk and Compliance Committees and/or Risk Management Committees within their oversight structures to determine their respective entity's risk appetite and establish internal policies, procedures and controls to mitigate risks associated with money laundering and terrorist financing.¹¹ Additionally, the Banks and the Finance Company have an established AML/CFT Compliance Program implemented by their Compliance Departments.¹²

This group of six (6) entities comprises 415 employees of which 23 are involved in the implementation of the Compliance Function. The Entities also utilize the following to mitigate and reduce risks associated with money laundering and terrorist financing:

- Risk assessment programs to determine the high-risk customers and apply Enhanced Due Diligence (EDD) measures accordingly;
- Risk based approach to customer due diligence and on-boarding new customers and monitoring of existing customers;
- An AML/CFT Compliance Program inclusive of a detailed AML/CFT Policies and Procedures Manual approved by the Board of Directors;
- Training programs for new and existing employees;
- Senior Management approval for high risk customers including PEPs;
- Screening and Monitoring systems such as World Compliance, Risk Screen and Yellow Hammer; and
- Screening procedures to monitor new and existing employees.

¹¹ NRA Banking Sector Questionnaire and Onsite Examinations conducted by the FSRC 2014-2018.

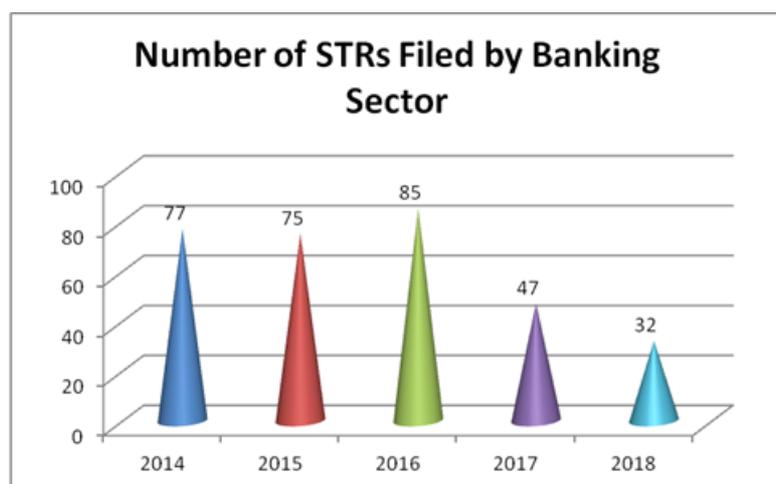
¹² NRA Banking Sector Questionnaire and Onsite Examinations conducted by the FSRC 2014-2018.



This group has Compliance Officers who have been approved by the FSRC as these individuals have met the Minimum Guidelines for Compliance Officer/Reporting Officer.

Over the assessment period, a total of 303 Suspicious Transactions Reports (STRs) were filed with the Financial Intelligence Unit (FIU) by this group. *Figure 15* below illustrates the STRs reported by this group for the years, 2014 – 2018.

Figure 15: Number of STRs filed by the group 2014-2018



Source: *Financial Intelligence Unit Statistics*

There was a marked decrease in the number of STRs filed: 47 and 32 in 2017 and 2018 respectively. This decrease is the result of increased outreach and awareness by the FIU and advancements in the internal controls the financial institutions. Additionally, as persons within the Compliance Departments of this group have increased their knowledge base and experience, it has resulted at times, in the reduction of over-reporting.

Through greater regulation of the group and regular onsite inspections by the FSRC, the entities have worked towards implementing well established customer due diligence and supervisory controls geared towards complying with international AML/CFT standards, preserving international banking networks and maintaining correspondent banking relationships.

Over the past few years, the banking entities have allocated the necessary resources to¹³:

- Acquire suitable investigative and monitoring systems and software;
- Develop an AML/CFT Compliance Program which includes written policies and procedures;
- Develop training programs for employees; and
- Hire experienced and qualified individuals to implement the entity’s Compliance function.

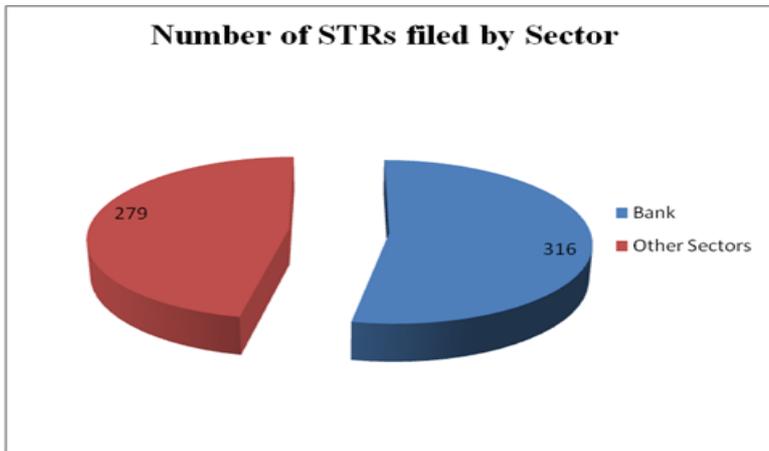
¹³ On-site Examination Findings conducted by FSRC, 2014 - 2018



These mechanisms contribute to developing an effective and efficient Compliance regime for the entity which reduces its risks and exposure to financial crime. Additionally, having an efficient and effective regime allows the entity to conduct appropriate investigations to determine whether a suspicion would warrant filing an STR to the FIU.

This group, being the most significant contributor to the financial services industry, is highly susceptible to financial crime and overall, has filed the most STRs for the period, 2014 – 2018¹⁴.

Figure 16: Number of STRs filed by the Group versus Other Sectors



Source: Financial Intelligence Unit Statistics

While certain vulnerabilities may still exist, increased awareness within the group, in conjunction with a strong regulatory framework help to mitigate the misuse of these entities for illicit activities.¹⁵

The identification of vulnerabilities and assessment of the internal controls, products and services and legislation produced a vulnerability rating per entity type as follows: Table 7 below summarizes the overall vulnerability rating by type of entity.

Entity	Overall Vulnerability Rating
Commercial Banks & Finance Company	Medium (M)
International Bank	Medium High (MH)

¹⁴ FIU Statistics

¹⁵ On-site Examinations conducted by FSRC, 2014 – 2018

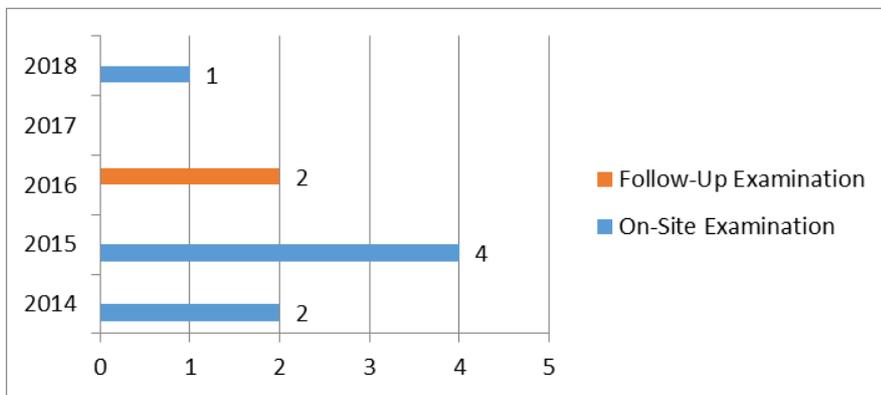


The overall ML/TF vulnerability for Commercial Banks and Finance Company was assessed as Medium while the International Bank was assessed as Medium High. For the Commercial Banks, there are some inherent vulnerability in products, services, delivery and customer types. The existence of strong AML/CFT control frameworks however, have proven effective in reducing the effects of these vulnerabilities¹⁶. The inherent risk factors associated with the International Bank such as the nature of its business activities and high volume of cross border transactions tends to increase the level of vulnerability. Notwithstanding this consideration, the robust nature of the AML/CFT regime is largely able to contain the possible exposure.

Supervisory and Enforcement Actions

The FSRC examined 100% of the entities in the group during the period under review.

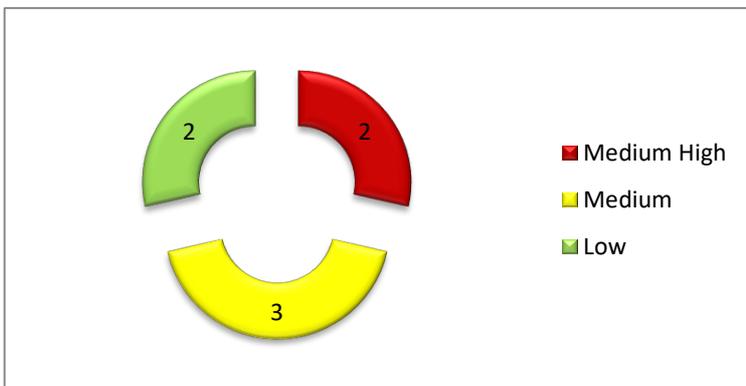
Figure 17: Number of Onsite Examinations and Follow Up Examinations for the Banking Sector



Source: FSRC Statistics

The FSRC conducts on-site and follow-up examinations using a Risk Based Supervisory Model Framework. Based on this Framework, the group received the following overall ratings as outlined in Figure 18.

Figure 18: Group Risk Ratings



¹⁶ NRA Banking Sector Questionnaire and Onsite Examinations conducted by the FSRC 2014-2018

National Risk Assessment for St. Kitts and Nevis



Over the assessment period, 2014 - 2018, the following enforcement actions were taken within the group:

Action	No. of Actions Administered
Warning Letters	-
Suspension/ Termination of staff	1

The Banking Sector participated in the following training sessions organized by the Regulatory Authorities.

	2014	2015	2016	2017	2018
Number of Training Sessions	1	2	4	3	4

The most notable area identified for improvement during the on-site examinations was the need for consistent data collection and retention of records. The FSRC continues to utilize its supervisory powers to foster greater compliance by the group.



The Development Bank of St. Kitts and Nevis

The Development Bank of St. Kitts and Nevis (The Development Bank), also forms part of the Banking Sector, however, unlike the classic commercial banking activities, its primary focus is to provide lending opportunities to nationals and residents of St. Kitts and Nevis. The Development Bank, which is a special purpose financial institution, was established in 1981 by an Act of Parliament under the Development Bank of St. Kitts and Nevis Act, Cap 21.05.

Products and Services

As per its mandate, 98% of the Bank’s Services are concentrated on loans granted to residents of St. Kitts and Nevis. Loans are primarily geared to:

- advancing education (student);
- small businesses;
- mortgages; and
- agriculture, industry and commerce.

The remainder of the Bank’s activities is Deposit Taking, representing approximately 2% of the Development Bank’s Total Assets. This is relatively low in comparison to the amounts held as Deposits by the Commercial Banks¹⁷. Based on the assessment of these services, the Development Bank was deemed to have Medium Low vulnerability.

Figure 19: Total Deposits, Loans, and Assets of the Development Bank 2014-2017



Source: The Development Bank Financial Statements

¹⁷ Financial Statements for the years 2014 – 2017. Data was unavailable for 2018 at the time of the NRA



Vulnerabilities and Threats

Generally, the Development Bank's products and services are only offered to residents of St. Kitts and Nevis. This is expected to reduce the Entity's exposure to money laundering and terrorist financing risks as the Bank engages its customers in face to face transactions.

Despite the low risk nature of its business, there are some deficiencies in the Entity's AML/CFT Framework. The most recent on-site examination of the Development Bank revealed that its AML/CFT Framework lacked the following elements:

- Approved Compliance Officer based on the established Guidelines;
- AML/CFT Policies and Procedures Manual;
- Training Program; and
- Appropriate KYC procedures.

There is need for improvement in the Entity's allocation of financial and human resources to strengthen its internal controls to comprehensively combat money laundering and terrorist financing. The Development Bank has received similar training to the other entities in the Banking Sector however their progress with the implementation of a robust AML/CFT Framework has been inconsistent. Enforcement action may be enhanced by the introduction of more dissuasive penalties for non compliance.

The ML/TF vulnerability for the Development Bank was assessed as **MEDIUM HIGH** given the factors outlined above. The FSRC continues to work with the Development Bank to improve its AML/CFT Framework and provide adequate training and support.



OTHER FINANCIAL INSTITUTIONS

The Other Financial Institutions (OFIs) Sector in St. Kitts-Nevis is subject to specific licensing requirements which contain “fitness and propriety” criteria for the evaluation of principal officers of the operation that must be met prior to licensing.

The Sector is comprised of two (2) groups - Money Services Businesses (MSBs) and Credit Unions (CUs). CUs contributed an average of 1.21% to the Federation’s GDP¹⁸ over the period under review. At the time of the National Risk Assessment, the direct contribution of MSBs to GDP was not available.

Both the MSBs and CUs fall within the regulated business activities listed in Schedule 1 of the Proceeds of Crime Act (POCA) and are subject to the supervisory and regulatory oversight of the FSRC.

Money Services Businesses (MSBs)

The Money Services Business Act, Cap. 21.21 (‘MSB Act’) provides for the licensing and supervision of Money Services Businesses (MSBs) by the FSRC. MSBs must adhere to the requirements of the MSB Act and AML/CFT laws and regulations of St. Kitts and Nevis.

Two (2) classes of MSBs operate in St. Kitts and Nevis: i) Money Transmitters and ii) Payday Advance Lenders. The class of licence and number of licensees during the period 2014 to 2018 are shown in **Table 8**.

Table 8: MSBs Class of Licence and Number of Licensees

Class of Licence	Description	Number of Licensees				
		2014	2015	2016	2017	2018
Class A	Transmission of money or monetary value in any form; the issuance, sale or redemption of money orders or traveler’s cheques; cheque cashing; currency exchange.	6	5	3	8	9
Class E	Payday Advances	4	3	8	8	9
Total	Total	10	8	11	16	18

Source: FSRC MSBs Database

¹⁸ Department of Statistics, Ministry of Sustainable Development



Payday Advance Lenders' Vulnerabilities

The number of Payday Advance Lenders doubled in 2016 when compared to 2015. As a result, the supervisory framework for the MSBs was strengthened with the implementation of quarterly Reporting Forms in 2016 for Class E licensees. The Reporting Forms capture aggregated transactions and financial information. As at 31 December 2018, the total assets and total liabilities of the Payday Advance Lenders were EC\$8.2 million and EC\$6.1 million respectively.

Payday Advance Lenders do not engage in cross-border services but are highly cash intensive. The level of inherent product vulnerability and overall vulnerability of Payday Advance Lenders was assessed as Medium Low which reflects the medium size and the predominant domestic customer base of these institutions.

Money Transmitters' Vulnerabilities

During 2017, five (5) new Class A licences were issued. Three (3) of these licensees were e-payment operators that were granted 'restricted' Class A licences. These institutions were also designated as payment systems by the ECCB in accordance with the Payment System Act. As at 31 December 2018, six (6) of the Class A Licensees operated under agency agreements with licensed international money transmission companies.

Table 9: MSBs Inbound and Outbound Transactions (2014 to 2018)

	2014		2015		2016		2017		2018	
	Inbound	Outbound								
No. of Transactions	30,545	44,656	34,698	64,819	44,836	88,680	46,123	93,037	47,642	77,215
Amount (EC\$'000)	24,430	30,142	33,412	77,022	32,277	63,027	36,817	69,353	41,149	63,774

Source: MSB Reporting Forms – Class A



MSB Overall Vulnerabilities

Traditionally, the inherent vulnerability associated with MSBs has been assessed as being high. The perceived challenges within the Sector are however adequately managed through an appropriate system of AML/CFT controls. In that regard, the Commission has consistently implemented policies and procedures in accordance with the AML/CFT laws of St. Kitts and Nevis. In areas where deficiencies were identified, the Commission has brought these matters to the attention of the entities and in all cases; remedial actions has been embarked upon to improve their operations.

As at 31 December 2018, 12 MSBs had appointed a Compliance Officer (CO) while the nominees for the remaining institutions required additional AML/CFT training. Based on the onsite examinations conducted during the period under review, several deficiencies were highlighted which included inadequate implementation of AML/CFT policies and procedures with respect to customer due diligence (CDD), Risk Assessment Policies and Procedures and Independent Audit Function. These shortcomings reflected a need for improvement in the effectiveness of the compliance function. Consequently, the regulatory authorities have provided AML/CFT training to staff members of these institutions.

Table 10: Number of AML/CFT Training Sessions for MSBs 2014-2018

Year	MSBs
2014	1
2015	2
2016	9
2017	6
2018	5
Total	23

Source: MSBs Data



Credit Unions (CUs)

CUs are subject to the standards and requirements of the Co-operative Societies Act, No. 31 of 2011 and AML/CFT laws of St. Kitts and Nevis. The services provided by the CUs are Savings, Loans, Investments (Fixed Deposits, Common Shares) Electronic Services and Family Indemnity Plan.

There are four (4) CUs registered in St. Kitts and Nevis and they provide loans and deposit/savings products to their membership. CUs in St. Kitts and Nevis do not process international transactions. The CUs realized growth in areas such as assets, loans and deposits during the five (5) year period 2014 to 2018. **Table 11** details the consolidated prudential statistics of the CUs.

Table 11: Prudential Statistics for CU (2014 to 2018)

Details	2014	2015	2016	2017	2018
Total Assets (\$000's)	243,152	272,072	308,269	341,429	379,421
Total Loans (\$000's)	167,209	189,151	208,915	229,551	258,340
Total Liabilities (\$000's)	193,135	216,116	241,007	264,806	295,815
Total Deposits (\$000's)	190,456	215,659	238,530	261,185	290,126
Members' Share Capital (\$000's)	12,712	15,187	18,306	20,797	23,128
Institutional Capital (\$000's)	25,131	32,741	30,042	35,843	44,758
Net Income (\$000's)	7,756	4,011	5,537	7,768	5,607
Interest Income (\$000's)	16,669	17,186	19,486	22,351	23,802
Total Membership	22,436	23,229	23,594	27,175	29,028
Number of Employees	72	72	81	91	94
No. Credit Unions	4	4	4	4	4

Source: OFIs-CU Audited Financial Statements 2014 to 2017 and Credit Union Reporting Forms 2018



The commitment and leadership of management of the CUs to ensure high quality of operations is reasonably sound. This is evidenced by the appointment of a Compliance Officer for each institution.

The level of vulnerability associated with the CU was assessed as Medium based on the following factors:

- the size of the Sector;
- 1.21% contribution to the Gross Domestic Product (GDP) of St. Kitts and Nevis;
- high volume of transactions;
- absence of international business activity; and
- the level of AML/CFT controls.

The required actions to address the vulnerabilities included the bolstering of the AML/CFT framework, the improvement of the compliance function, continuous AML/CFT training and the enhancement of administrative sanctions.

Table 12 below summarizes the number of training opportunities afforded to CUs over the review period.

Table 12: Number of AML/CFT Training Sessions for CUs 2014-2018

Year	MSBs
2014	1
2015	5
2016	7
2017	3
2018	15
Total	31

Source: CUs Data



DESIGNATED NON-FINANCIAL BUSINESSES AND PROFESSIONS

The DNFBPs Sector is the vehicle whereby non financial businesses and professions are accommodated. They are referred to and captured in the first Schedule of POCA and defined in the FSRC Act where the Commission has overall responsibility for the supervision of the Sector. The DNFBPs include the following categories: Casinos and other Gaming Entities, Real Estate Agents, Jewelers and Dealers in Precious Metals and Stones, Lawyers, Notaries, Other Independent Legal Professionals and Accountants, Car Dealers and Car Rental Agencies, Trust and Corporate Service Providers providing the following services: Acting as a formation agent of Legal Persons, Acting as or arranging for another person to act as a Director or Secretary of a Company, a Partner of a Partnership, or a similar position in relation to other legal persons; providing a registered office, business address or accommodation, correspondence or administrative address for a company, a partnership or any other legal person or arrangement; acting as or arranging for another person to act as a Trustee of an Express Trust or performing the equivalent function for another form of legal arrangement; Acting as or arranging for another person to act as a nominee shareholder for another person.

In the initial stages of the Assessment, the objective was to capture all of the categories of DNFBPs however this process encountered some challenges such as:

- The unavailability of complete data for some categories;
- Limitations in human resource capacity for the supervisory authority; and
- Absence of a comprehensive supervisory framework

For the purpose of the NRA Report, the focus was predominantly on the following categories:

1. TCSPs;
2. Gaming Sector;
3. Real Estate Sector; and
4. Dealers in Precious Metals and Stones

Outreach was also made to Automobile Dealers where based on information gleaned, it was determined that the likelihood of the money laundering and terrorist financing activity was low.

Guidelines in relation to the DNFBPs have been promulgated for the Sector since 2012 and are posted on the FSRC's website.



Trust and Corporate Service Providers

Trust and Corporate Service Providers (TCSPs) are a vital component of the Federation's financial system because they provide an important link between financial institutions and the legal persons and arrangements which they establish.

Trust Business includes the provision of services in relation to the following:

1. Undertaking or executing trusts;
2. Providing trustees or protectors for trusts;
3. Maintaining the office for service of trusts; and
4. Managing or administering trusts

Corporate Business includes the provision of the following services in relation foundations, companies and limited partnerships:

1. Incorporation or establishment;
2. Providing nominee shareholders;
3. Maintenance of registered office;
4. Management or administration; and
5. Acting as a local representative person for foreign ships registered on the St. Kitts and Nevis International Ship Registry.

TCSPs in the Federation comprise mainly, legal and accounting professionals. TCSPs, in St. Kitts, during the period under review, were governed by the Financial Services Regulations Order Cap 21.03 (Seventh Schedule). In 2019, these Regulations were repealed and replaced by the Financial Services (Trust and Corporate Business) Regulations 2019. The new legislation has now clearly stipulated and instituted more stringent registration and reporting requirements for companies and individuals operating as Service Providers. In accordance with the FATF Methodology, TCSPs are categorized as Designated Non-Financial Businesses and Professions (DNFBPs). Recommendation 24 speaks to the implementation of effective monitoring systems to ensure AML/CFT compliance.

TCSPs have been traditionally viewed as having inherently high vulnerability based on the following factors:

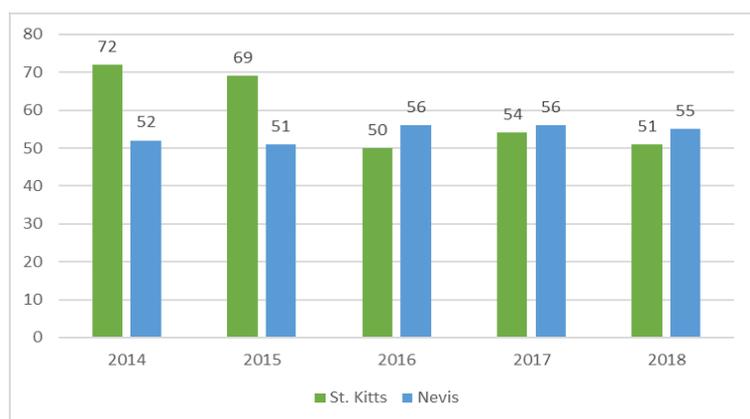
- i. TCSPs could be used as corporate vehicles in money laundering activities. These include:
 - a. Formation of Companies to layer illicit proceeds of crime;
 - b. Obscuring the activities of an entity; and
 - c. Concealing the identity of business owners and/or directors.



- ii. TCSPs play a key role as the gatekeepers for the Financial Sector and therefore maybe susceptible to the misuse and abuse by the perpetrators of financial crimes.
- iii. The variety and scope in the nature of the business and the complex structure of legal persons and arrangements create a challenge for Regulators to effectively monitor their business activities.
- iv. Involvement in international transactions across multiple jurisdictions which may have deficient AML/CFT regimes.

Fifty-two percent (52%) of the TCSPs are registered in Nevis and consist mainly of International Business Corporations (IBCs) and Limited Liability Companies (LLCs). The Nevis Corporation Business Ordinance speaks to the registration of International Business Companies (IBCs) and the Nevis Limited Liability Company Ordinance (NLLCO) outlines the registration requirements for LLCs. Figure 20 shows the number of registered/incorporated TCSPs in the Federation for the period under review.

Figure 20: Total Registered/Incorporated TCSPs in St. Kitts and Nevis 2014-2018



Source: Financial Services Regulatory Commission

The FSRC has conducted a number of onsite examinations of the TCSPs registered. The level of the TCSPs’ risk management framework was assessed as inadequate due to the fact that the majority of the entities had not dedicated sufficient resources to ensure that there are appropriate mechanisms in place to mitigate the high AML/CFT risks involved with the associated activities. The findings from the 134¹⁹ onsite inspections conducted over the period under review highlighted the following deficiencies:

- i. Inconsistency in the Maintenance of KYC Documents;
- ii. Inadequate AML/CFT Policies and Procedures;
- iii. Absence of Professional Service Agreements with introducers or intermediaries;
- iv. Absence of Independent Audit Function; and
- v. Absence of Risk Assessment Policies

¹⁹ Financial Services Regulatory Commission

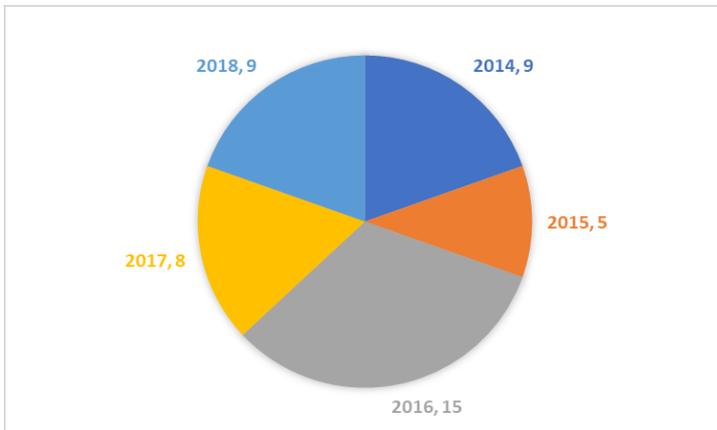


Table 13 summarizes the number of onsite inspections conducted from 2014-2018.

Year	St. Kitts	Nevis	Total
2014	8	7	14
2015	8	11	17
2016	19	14	25
2017	17	21	29
2018	12	17	22
Total	64	70	134

The St. Kitts and Nevis authorities are aware of the threats posed by this Sector and have therefore increased outreach and awareness activities training and supervision efforts to ensure compliance with AML/CFT standards. Improvements have been noted over time where most of the TCSPs have approved Compliance Officers who are responsible for developing an AML/CFT Compliance Program. The FSRC continues to work assiduously with those remaining entities without approved Compliance Officers to ensure that applicants receive adequate training.

With respect to the reporting of suspicious transactions to the FIU, reporting by the TCSPs Sector was relatively low. For the period under review, a total of forty-six (46) STRs were filed with the FIU, an average of nine (9) per year. Figure 21 summarized the number of STRs filed by the TCSPs.



Source: FIU

Notwithstanding the high inherent vulnerability of TCSPs, when this is taken in conjunction with the introduction of the improved licensing and registration system, the level of vulnerability yielded an overall rating of **MEDIUM HIGH**.



Gaming Sector

Entities in the Federation's Gaming Sector are licensed under the St. Christopher and Nevis Betting and Gaming (Control) Act Cap 17.01 by the Ministry of Finance. There are approximately fourteen (14) entities registered under this legislation.

In the global network, Gaming has been traditionally understood to pose a **HIGH** vulnerability to AML/CFT due to the following factors:

- i. The cash intensive nature of the business with large amounts of cash transactions taking place in a short period of time;
- ii. These entities may provide additional financial services such as remittance, foreign exchange and cash issuances;
- iii. The movement of funds associated with gaming-related tourism is complex and may pose particular money laundering risks; and
- iv. Staff turnover within this type of Sector tends to be high, sometimes due to seasonal factors, which can lead to weaknesses in staff training and AML/CFT competencies.

Three (3) onsite examinations of Gaming entities have been conducted by the FSRC. The deficiencies identified during these examinations underscored the need for more AML/CFT training, awareness and supervisory oversight.

The main deficiencies included the following:

- i. Inconsistent Maintenance of KYC Documents
- ii. Insufficient AML/CFT Training
- iii. Inadequate AML/CFT Policies and Procedures
- iv. Absence of Approved Compliance Officers
- v. Absence of Mechanisms to Report STRs
- vi. Absence of Risk Assessment Procedures

FATF Recommendation 28 outlines that Casinos (Gaming Businesses) should be licensed and effectively supervised to ensure compliance with AML/CFT Guidelines. In order to be fully compliant with Recommendation 28, a Committee was established to review the current legislation and make recommendations for a more comprehensive AML/CFT based framework to properly supervise the Sector. In addition, training sessions have been conducted with specific outreach to the Gaming Sector. This has provided AML/CFT training for all of the employees of the land based Casino.

Considering the inherent vulnerability posed by this Sector to the financial system and the inadequate AML/CFT supervisory framework in place, the Gaming Sector has been assessed as **HIGH**.



Real Estate Sector

Real Estate is generally known as a popular vehicle to convert proceeds of crime into legitimate assets.

The Federation's Real Estate Sector has experienced consistent growth over the period under review.

There are currently Guidelines outlining the best AML/CFT practices for DNFBPs which are available to assist with the development of policies and procedures for Real Estate Agents. These Guidelines have been used to develop Regulations to govern the registration, licensing, and supervision of DNFBPs in the Federation.

There is communication with the Sector as the FSRC disseminates its monthly Newsletters, guidance and advisories. There is room for improving the framework governing the registration and supervision of the Real Estate Sector. Overall, the level of vulnerability associated with the Real Estate Sector has been rated as **HIGH**.

High Value Dealer Sector (Jewelers)

The FATF has expressed concern globally that money laundering and financing of terrorism activities may be linked to the trade in precious metals and stones, particularly gold and diamonds. This Sector has therefore been identified as one of **HIGH** vulnerability owing to the intrinsic value of these items, since precious metals and stones could more easily be concealed and converted to cash in most areas of the world.

Work in this area has been ongoing as the Commission has sought to regularise the AML/CFT based supervision framework for jewelers. Amendments to the FSRC Act have now mandated the registration of jewelers as DNFBPs.

In that regard, the FSRC has conducted outreach and awareness with the jewelers licensed to carry on business in the Federation with respect to vulnerabilities and threats posed to AML/CFT. No onsite examinations have been conducted for the Sector for the period under review.

Most High Value Dealers in jewelry operate as Duty Free Stores and are registered by the CED, Ministry of Finance. Under this system, there were forty-three (43) jewelers registered as at 31 December 2018. It is anticipated that new Regulations on DNFBPs would be put in place before the end of first quarter 2020. It is expected that with the introduction of these new Regulations, that the Sector would be supervised under a more comprehensive regime. In the interim, the authorities will continue to conduct outreach and awareness with jewelers licensed in the Federation.



THE WAY FORWARD

The Federation of St. Kitts and Nevis remains committed to ensuring that it conforms to international standards as they relate to AML/CFT. Areas where controls need to be strengthened have been noted and work is ongoing to ensure that the recommendations submitted by the NRA Working Group are understood and addressed. Emphasis continues to be placed on furthering the collaboration and cooperation between Regulators, relevant authorities and other stakeholders operating in the various Sectors, which are critical to achieving a high level of effectiveness in complying with international AML/CFT standards. This collective approach would not only help to facilitate the comprehensive exchanges of views but should allow for a more consistent approach in the assessment of money laundering and terrorist financing risks. It should also enhance the supervisory oversight of each Sector going forward.

Our journey in completing this Assessment has provided a solid foundation for charting the course ahead as we work towards the ultimate refinement of our AML/CFT construct. The relevant authorities will continue to work assiduously in this ongoing process. The supervisory structure will continue to focus on promoting synergies amongst regulated entities. The emphasis on effective partnership through specific targeted actions will feature in the outreach, examination and follow-up process.

As the Federation continues to advance in the fortification of its financial network and systems, it will seek to bolster and sustain its cooperation with other critical Regulators. These would include its domestic and regional partners.

Figure 22 below summarizes the areas where increased resources are required on a National Level for combatting money laundering and terrorist financing.

Figure 22: Anti Money Laundering/Countering the Financing of Terrorism Priority Areas

