



---

# DNFBP ANNUAL SUPERVISORY REPORT 2021

---

This report summarizes supervisory activities carried out by the **Department of Commerce & Investment (DCI)** in 2021 for businesses falling under the category of Designated Non-Financial Business and Professions (DNFBPs).

Unauthorised use or distribution of this report is strictly prohibited without the expressed permission of the **Department of Commerce & Investment**

133 Elgin Avenue George Town, 2nd Floor, Government Administration Building PO Box 126 Grand Cayman KY1-9000 Cayman Islands  
Telephone: (345) 945-0943

## Table of Contents

<b>Introduction</b> .....	4
<b>Supervisory Profile</b> .....	4
<b>2021 Supervisory Overview</b> .....	5
<b>Compliance Inspections</b> .....	6
<b>Method of Assessment</b> .....	7
<b>Risk Rating Methodology</b> .....	9
<i>Figure 1</i> .....	9
<b>Summary of Findings and Observations</b> .....	10
<b>Inspection Overview</b> .....	10
<i>Figure 2</i> .....	10
<b>Compliance Rating Overview</b> .....	10
<i>Figure 3</i> .....	10
<b>Summary of Key Onsite Inspection Findings and Observations</b> .....	11
<i>Figure 4</i> .....	11
<i>Figure 5</i> .....	12
<i>Figure 6</i> .....	13
<b>AMLRs PART II: Compliance Programme, Systems and Training Obligations</b> .....	13
<i>Figure 7</i> .....	14
<i>Figure 8</i> .....	14
<b>AMLRs PART III: Assessing and Applying a Risk-Based Approach</b> .....	14
<i>Figure 9</i> .....	15
<i>Figure 10</i> .....	16
<b>AMLRs PART IV, V, VI: Applying Customer Due Diligence (CDD), Simplified Customer Due Diligence (SDD) and Enhanced Customer Due Diligence (EDD)</b> .....	16
<i>Figure 11</i> .....	17
<i>Figure 12</i> .....	17
<b>AMLRs PART VII: Provisions of a system to identify PEP</b> .....	18
<i>Figure 13</i> .....	18
<i>Figure 14</i> .....	19
<b>AMLR PART VIII: Record Keeping Procedures</b> .....	19
<i>Figure 15</i> .....	20
<i>Figure 16</i> .....	20

---

<b>AMLRs PART IX: Appointment of MLRO and Deputy MLRO</b> .....	20
<i>Figure 17</i> .....	21
<i>Figure 18</i> .....	21
<b>Education and Support Outreach Interventions</b> .....	22
<b>Internal Capacity Development</b> .....	23
<b>Sector Assessment Overview</b> .....	24
<b>Sector Risks – Real Estate Agents (RE) and Property Developers (PD)</b> .....	24
<i>Figure 19</i> .....	24
<i>Figure 20</i> .....	24
<i>Figure 21</i> .....	25
<b>Sector Risks – Dealers in Precious Metals and Stones (DPMS)</b> .....	26
<i>Figure 22</i> .....	26
<i>Figure 23</i> .....	27
<b>Enforcement Measures</b> .....	28
<b>Conclusion</b> .....	28

## Introduction

The Department of Commerce and Investment (DCI) as the designated regulator for Real Estate Agents / Brokers, Property Developers and Dealers in Precious Metals and Precious Stones, report annually on our activities to the Anti-Money Laundering Steering Group by way of the Annual Report.

This report covers the period 1 January 2021 to 31 December 2021 and provides information and data on the supervisory activity of the department to provide enhanced clarity around our regulatory, supervisory and enforcement activities for the period covered.

We are committed to being open and transparent about our approach and activities to enable stakeholders, including customers within the regulated space, to understand the regulatory framework and its perimeter; and regulated and registered entities and individuals to appreciate what we expect from them.

Effective communication with the regulated and registered sectors and consumers is a cornerstone of our work which provides support and collaboration with our regulated entities. The ultimate goal of the department as a regulator is to promote public confidence in the Cayman Islands financial system through the enactment and implementation of controls and powers to detect, deter and disrupt money laundering, terrorism financing and other serious crimes and to fulfil the islands' international obligations and address matters of international concern in combating money laundering and terrorism financing.

## Supervisory Profile

The DCI is the designated Supervisory Authority for real estate agents and brokers, property developers, and dealers in precious metals, and stones. In addition, the DCI performs the role of the licensing body of specific entities conducting business within the Cayman Islands. As at 31st December 2021, there were 164 businesses registered as DNFBPs and fall within the scope of supervision of the DCI, 116 of this number are Real Estate Agents/Brokers, 28 are Property Developers and 20 are Dealers in Precious Metal and Precious Stones.

Every person who carries on, or intends to carry on business as a DNFBP in or from within the Islands is required to submit a registration to the DCI that the person carries on, or intends to carry on business as a DNFBP, and also submit the registration information required under section 55E (2) of the Anti- Money Laundering Regulations (2020 Revision) ("AMLRs").

The DCI regulates DNFBPs through powers granted under section 55B of the AMLRs. The AMLRs (Section 55D) also imposes a duty for the DCI to supervise compliance by DNFBPs with relevant AML/CFT laws in the Cayman Islands. These duties include the responsibility to:

- (a) Effectively monitor each registrant designated as a DNFBP deemed to be conducting relevant financial business;
- (b) Take necessary measures to ensure compliance by DNFBPs with the AMLRs; and
- (c) Issue guidance, directives, and procedures to be followed by DNFBPs to promote compliance with the AMLRs.

In executing its supervisory duties, the AMLRs grants the DCI the authority and power to obtain information, conduct inspections and investigations into possible non-compliance, and to execute enforcement actions due to non-compliance.

## 2021 Supervisory Overview

The Covid-19 pandemic, which has carried over from 2020 into 2021, led to unprecedented global challenges and significant disruptions to local commerce. The closure of local borders to tourism, which commenced on 22 March 2020, had a significant impact on the activity of dealers in precious metals and dealers in precious stones (“DPMS”), this impact continues to date due to the phased reopening of borders. In contrast to this, the real estate and property development market has boomed since the start of the pandemic, with 2021 outperforming 2020.

The continued measures to suppress COVID-19 impacted DCI’s supervision program for 2021, however, through our experiences in 2020, the department modified its procedures to be more adaptable and to embrace the new normal that has become the reality. DCI was able to increase its supervisory activity from twenty-six desktop inspection and twelve onsite inspections in 2020 to sixty desktop inspections in 2021 which all culminated into onsite inspections. The department’s business continuity plans enabled employees to work remotely and continue the inspection interviews virtually, after the COVID-19 outbreak struck the Islands in 2020. Out of the sixty (60) onsite inspections, thirty-six (36) were conducted in person leading up to September 2021 and the remaining twenty-four (24) virtually thereafter.

The department assisted entities to complete their DNFBP registrations via the online portal. This is an ongoing exercise since new entities register on a monthly basis and some businesses were introduced to the portal for the first time when they renew their business license. Currently all entities regulated by the DCI are registered on the portal.

The department issued 25 enforcement notices for deregistration in 2021. These entities were deregistered for not meeting the requirements of the AMLRs to operate as a DNFBP.

The DCI conducts onsite inspections to test the AML / CFT regime of its DNFBP registrants and should any deficiencies be found in the framework, the entities are placed on a remedial action plan. Sector participants must be aware of possible fines due to non-compliance and they must respect the consequences when held accountable for willful non-compliance.

The continued threat of COVID-19 and the fear of community transmissions together with the restriction of gatherings in public places, have made it challenging for in-person industry outreach to take place. This has made it difficult for certain registrants to maintain ongoing training requirements, as several DNFBPs, especially those in the DPMS sector, rely on the complementary training offered by the DCI to stay abreast of industry developments and meet continuing professional education requirements.

The Cayman Islands maintains a low risk tolerance and continuously reviews local and international developments that could result in criminals finding ways to bypass customer due diligence measures, conceal the identities of ultimate beneficiaries and use legitimate businesses to launder criminal proceeds.

Since the start of the health and economic crisis, DCI have not observed any noticeable trends or typologies among our 164 registered local sector participants emerging from COVID-19, except for the increased activity in the real estate sector, as noted above.

Lessons learned through monitoring are shared with registrants to strengthen communication, encourage the use of a Risk Based Approach, and to build capacity and knowledge within the sector. The industry regularly engages with the DCI and there is a general sense of awareness and desire to meet compliance requirements. The Department's website acts as a central source of information providing virtual training, resource material and general guidance for DNFBPs. The Department encourages its registrants to access and make full use of these resources.

The 2021 inspections observed greater compliance levels for the appointment of nominated officers, the quality of AML Manuals used, and the general knowledge base of the principles at the businesses interviewed. The industry exhibits a sense of appreciation for the relevance of the AML regime, however, a small percentage of registrants continue to struggle with the development of appropriate risk-based assessments, and the maintenance of ongoing subscriptions to databases used for international client due diligence searches. There have also been some challenges with registrants failing to conduct independent audit on their AML regime, but these registrants were given a timeline in order to remediate this.

From inspection feedback received, industry has indicated it is challenged by the relatively high cost of compliance. These costs range from those related to database subscription for due diligence validation to the initial development of policy manuals and other compliance documentation. To assist these entities, the DCI remain engaged through training support, the provision of advice, continued monitoring and the sharing of information.

The Department anticipates continued improvement in compliance levels in future years as our local regime matures and more DNFBPs under the remit of the department are directly engaged through the onsite inspection process.

### Compliance Inspections

In 2021 ("the period"), the DCI conducted both onsite and off-site reviews of the operations and records of sixty (60) DNFBPs. This report shows the analysis of the DNFBPs whose inspection reports were completed during the period.

Four (4) Dealers in Precious Metals and Precious Stones; fifty (50) Real Estate Agents/ Brokers; and six (6) Real Estate & Property Development sector participants were selected for onsite inspection reviews in 2021.

The AMLRs requires anyone carrying on business as a DNFBP or a connected person in relation to the DNFBP to allow DCI officers, agents and or employees, on producing evidence of authority, to have access at any reasonable time to any premises being used in connection with the business of the DNFBP, and shall allow the officer, agent or employee to:

- a) Enter and inspect the premises;
- b) Observe the carrying on of business;
- c) Inspect any recorded information found on the premises, and to make copies of, or extracts from, any such information; and
- d) Ask any person on the premises for an explanation of any recorded information or to specify the

### DCI Inspection Findings | 2021

location of specific records.

The objectives of the onsite inspections are to assess the Anti Money Laundering (“AML”), Counter Terrorist Financing (“CTF”), Targeted Financial Sanctions (“TFS”), and Counter Proliferation Financing (“CFP”) compliance control environment of the companies selected.

The DCI conducted the onsite inspections according to powers and duties under section 55B of the AMLRs as the designated Supervisory Authority.

The inspections sought to identify and assess the respective companies’ risk management processes, controls, and compliance with legislation and regulations. In particular, compliance with:

- Proceeds of Crime Act (2020 Revision);
- Anti-Money Laundering Regulations (2020 Revision);
- Terrorism Act (2018 Revision);
- Proliferation Financing (Prohibition) Act (2017 Revision);
- Financial Action Task Force 40 Recommendations;
- Guidance Notes for Real Estate, Property Developers and Dealers in Precious Metals and Stones;
- Internal Policies and Procedures and industry’s best practices in conjunction with the requirements of the above.

The desktop and onsite inspections assessed specific areas that the sector needs to comply with to be compliant with the relevant legislation, these included:

- The level of customer due diligence measures employed;
- Internal AML/CFT policies, procedures & controls;
- Policies & procedures for sanctions screening implemented;
- Record-keeping procedures;
- Internal reporting procedures;
- Screening procedures when hiring employees; and
- Employee training programmes.

The onsite inspections were conducted for supervisory purposes only and DNFBPs selected for inspection were chosen based on an internal risk assessment matrix.

### Method of Assessment

DNFBPs are responsible for developing and administering a programme to provide reasonable assurance, and to monitor compliance with domestic AML, CFT and CFP legislation as well as regulatory guidance issued by the DCI or other competent government authority.

The DCI is responsible for regularly reviewing AML/CFT/CFP programmes, communicating identified deficiencies and apparent violations, and taking supervisory actions to address associated risks.

DNFBPs are assessed for technical compliance in relation to the implementation of specific provisions under the AMLRs using the Anti-Money Laundering and Counter Financing of Terrorism Inspection Guide issued by the DCI ([DCI Guidance Notes](#)).

The inspection process includes a request for the provision of relevant documents from the DNFBP, interviews of principals and personnel in key roles relating to AML/CFT/CFP, and the inspection of records.

The DCI carried out advance reviews and assessments of Company documents, which include the AML manual and Business Risk Assessment, when they were made available. This process constituted the desktop review phase of the inspection and sought to determine the adequacy of the Company's policies and procedures against the requirements under the AMLRs.

The Inspection Teams use interviews to determine the level of understanding by the respective MLROs and AMLCOs regarding the legislation governing their area of work, and their statutory responsibilities. Interviews are also utilized to determine, *inter alia*, the understanding of senior management, process for identifying and reporting "suspicious activities," monitoring for unusual patterns and behaviours, and for vetting and recruiting employees. The inspections resulted in a set of findings based on the scope of work executed. Each finding sets out the specific legal obligation, and the Inspection Team's assessment on the level of compliance (which represent those elements that should be present to demonstrate full compliance with the mandatory elements of the obligations), and a conclusion. Reports were subsequently issued to the DNFBP on the inspection findings, including, where applicable, a list of requirements to be addressed based on deficiencies and non-compliance identified. Each report states the inspection findings for each legal obligation and the extent to which the DNFBP complied (or not) with the requirements. There were four possible levels of compliance issued for each requirement: Compliant, Largely Compliant, Partially Compliant, and Non-Compliant. A rating of "Not Applicable" is specified in exceptional circumstances.

---

### Compliance Ratings

Compliant	<b>C</b>	There are no shortcomings
Largely Compliant	<b>LC</b>	There are only minor shortcomings
Partially Compliant	<b>PC</b>	There are moderate shortcomings
Non-Compliant	<b>NC</b>	There are major shortcomings
Not applicable	<b>NA</b>	A requirement does not apply due to the structural, legal or institutional features of the Company

---

## Risk Rating Methodology

The DCI adopted a risk-based approach for the supervision of DNFBPs in promoting an environment that deters ML/TF/PF activities. The risk-based approach is to ensure that DCI's AML/CFT/CFP supervisory measures are proportionate, and that reasonable levels of resources are deployed towards high-risk and high priority areas. Regulatory measures are then applied to supervised entities based on their risk and context – no two regulated entities have the same risk and context. DCI's AML/CFT/CFP engagement model requires a graduated approach. This means that higher intensity supervisory measures (i.e., onsite inspections) are used to monitor supervised entities that are deemed to present higher risks, whilst other less intensive supervisory measures (such as desktop reviews, thematic assessments, AML/CFT Risk Evaluation questionnaires and outreach activities), are used to monitor those rated as “medium low” or “low” risk. The risk-based regime recognizes that there can never be a zero-risk situation. Therefore, supervised entities are required to conduct a Business Risk Assessment to determine their individual ML/TF/PF risk appetite and document the response to each level of risk it encounters.

The frequency and intensity of AML/CFT supervisory engagement model for individual RE's, PDs and DPMS are dependent on the ML/TF risk rating identified as a result of the inspection conducted by the DCI as set out in the table below:

Figure 1

<b>Table: DCI AML/CFT Minimum Supervisory Plan</b>				
	<b>High</b>	<b>Medium-High</b>	<b>Medium Low</b>	<b>Low</b>
	<b>ML/TF/PF Risk</b>	<b>ML/TF/PF Risk</b>	<b>ML/TF/PF Risk</b>	<b>ML/TF/PF Risk</b>
<b>Inspection Cycle</b>	1 year	1year	Strategic, spot check & responsive	Strategic, spot check & responsive
<b>AML/CFT review meetings</b>	Bi-Annually	Annually	Strategic, spot check & responsive	As required
<b>AML/CFT Risk Evaluation Questionnaires</b>	Annually	Annually	2 years	Strategic, spot check & responsive

Source: DCI Supervisory Plan 2020-2022

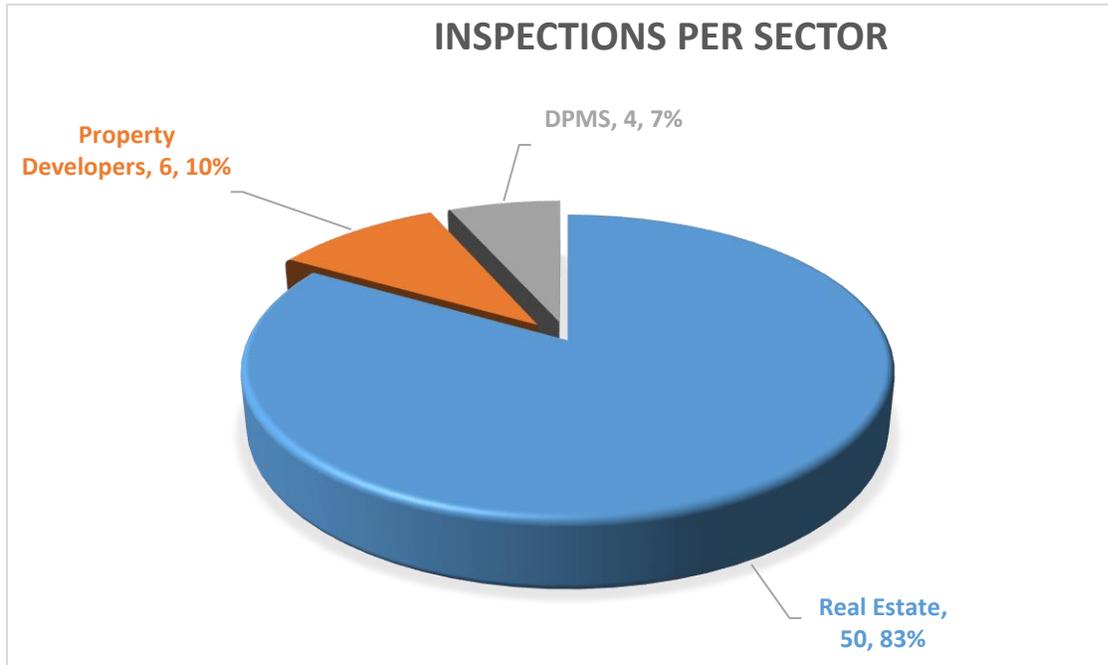
Risk ratings assigned by the DCI are based on sound evidence gathered through industry knowledge; information collected from DNFBPs as part of the registration process, intelligence and monitoring reports from open source and partner agencies such as the Financial Reporting Authority.

Risk ratings are not static. They are reviewed relative to intervention measures adopted by the DNFBP following inspection reports (implementation of manual, staff training, improved CDD, record management, etc.) and adjusted accordingly.

## Summary of Findings and Observations

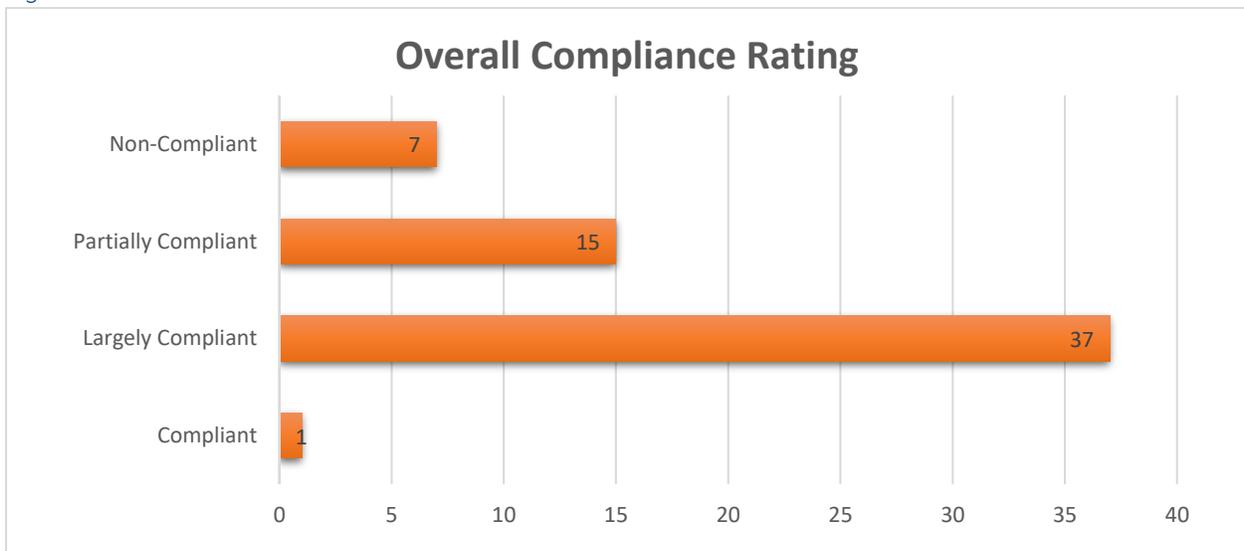
### Inspection Overview

Figure 2



### Compliance Rating Overview

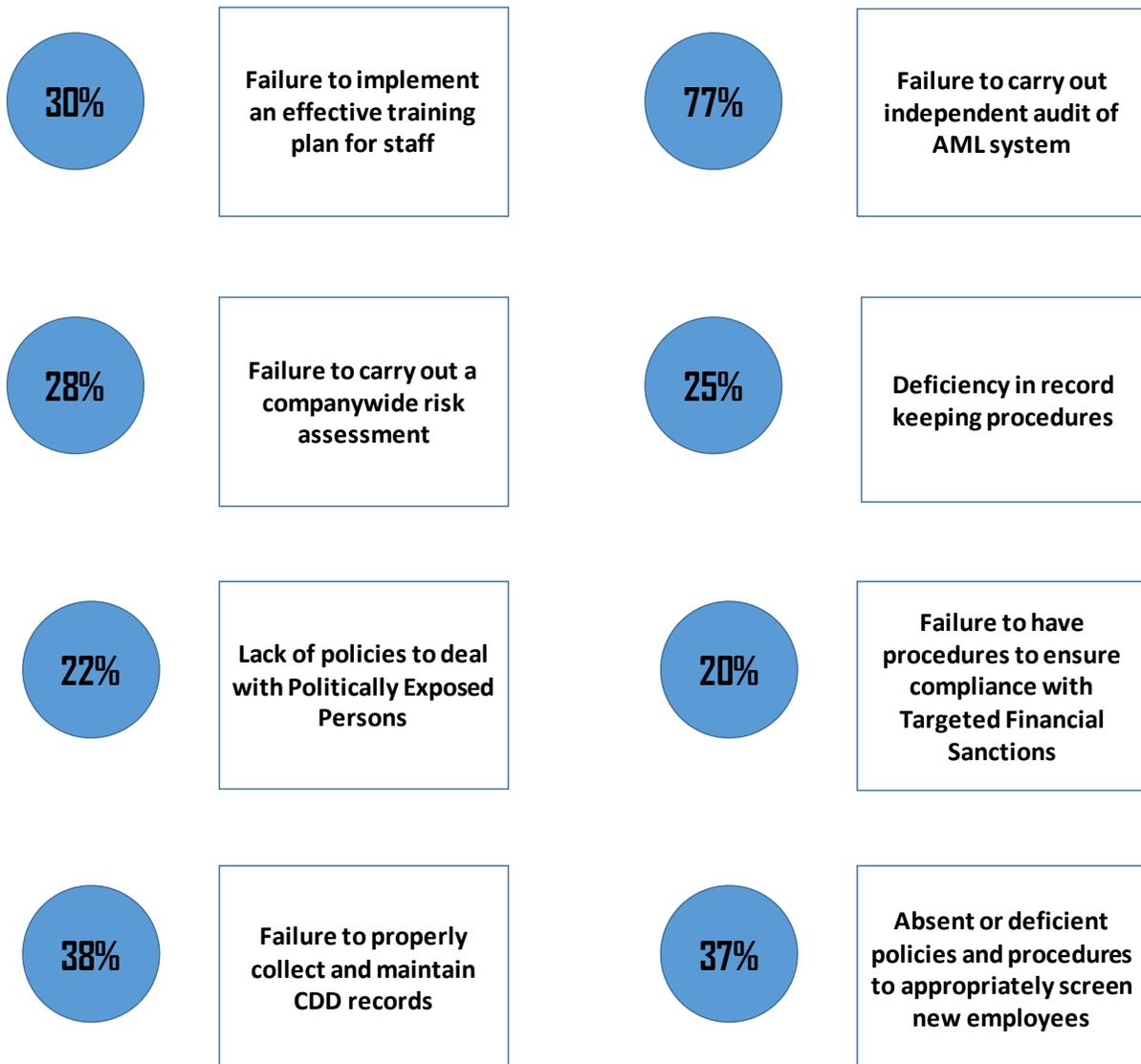
Figure 3



## Summary of Key Onsite Inspection Findings and Observations

The main areas of non-compliance for the inspected registrants were as follows:

Figure 4



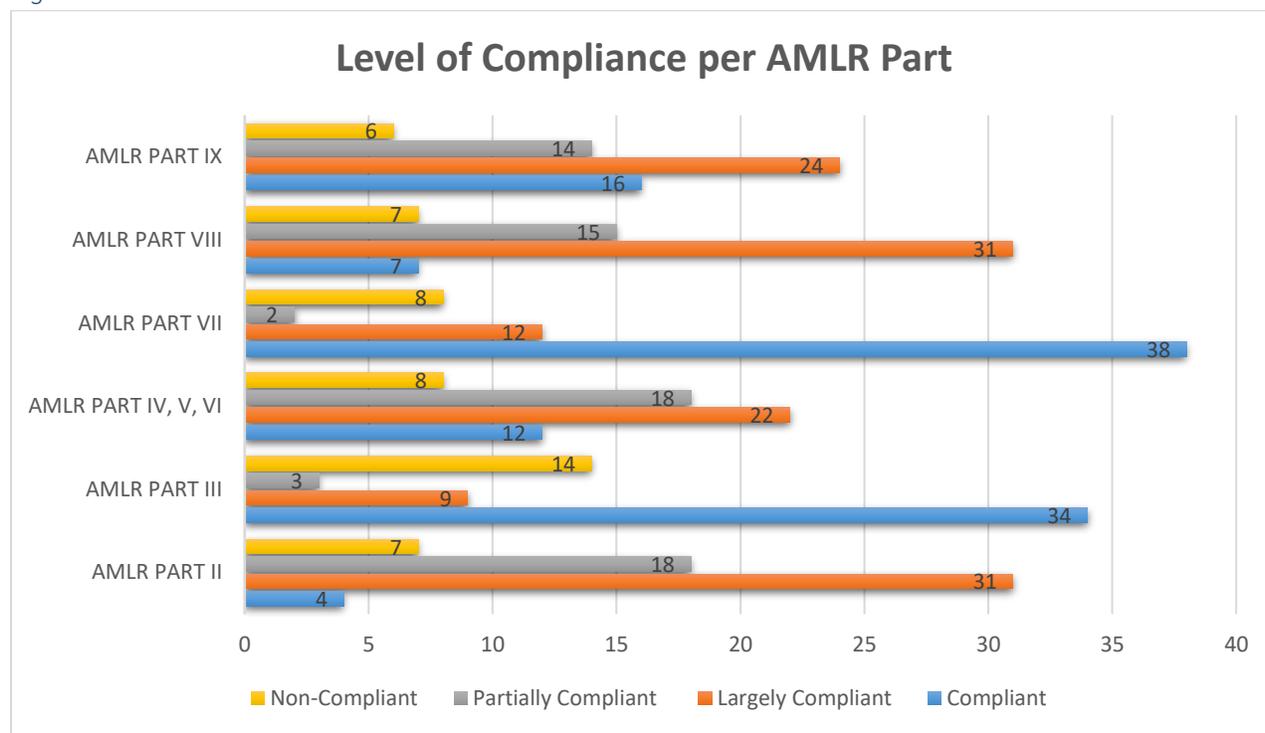
The main issues noted:

Figure 5

MAIN ISSUES	COUNT
Failure to implement an effective staff training plan	18
Failure to carry out a companywide risk assessment	17
Lack of policies to deal with Politically Exposed Persons	13
Failure to properly collect and maintain Customer Due Diligence records (CDD)	23
Failure to carry out independent audit of AML system	46
Deficiency in record keeping procedures	15
Absent or deficient policies and procedures to appropriately screen new employees	22
Lack of policies to ensure proper vetting of clients against sanctions lists	12
Failure to appoint MLRO / DMLRO	15
Failure to formally appoint an AMLCO	5
Failure to have procedure for ongoing monitoring of AML/CFT/CPF/TFS	19
Lack of procedure to advise employees of legislative updates	17
Failure to have internal reporting procedures	12

Figure 6 below represents the level of compliance by DNFBS for the various requirements of the Anti-Money Laundering Regulations. These are explained in greater detail in subsequent sections of the report.

Figure 6



### AMLRs PART II: Compliance Programme, Systems and Training Obligations

Regulation 3 requires a person carrying out relevant financial business to designate a person at the managerial level as the Anti-Money Laundering Compliance Officer (AMLCO). The AMLCO is responsible for ensuring the adoption of measures set out in the AMLRs. This person also functions as the point of contact with competent authorities. Regulation 5 (a) (iii) requires the DNFBS to implement procedures to screen employees to ensure high standards when hiring; and to have adequate systems to identify risk in relation to persons, countries, and activities, which shall include checks against all applicable sanctions lists.

#### Key findings and implications:

The Inspection Teams continue to find some deficiencies in relation to Part II of the AMLRs. The most significant of these being in relation to the lack of procedures to onboard employees and the failure to have conducted an independent audit of the AML/CTF/CPF programme. In some instances, registrants failed to formally appoint an AMLCO, or to document systems to deter and prevent money laundering and terrorist financing. The teams also identified instances where registrants were unable to implement appropriate systems to vet customers against sanctions lists.

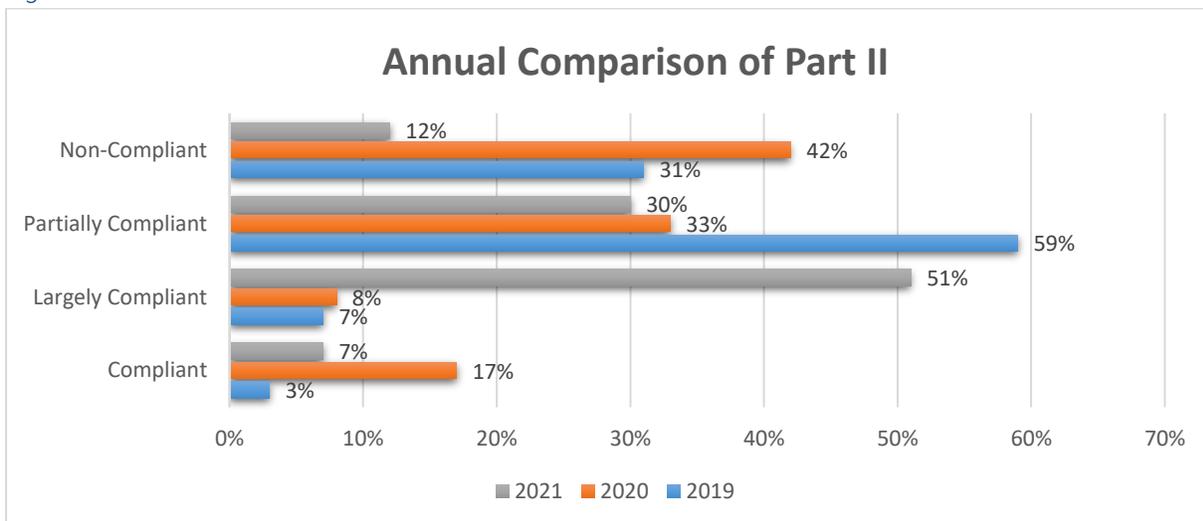
During the 2021 inspection cycle it was found that 58% of the entities were found to be either compliant or largely compliant with Part II of the AMLRs. The partially compliant entities totaled 30% and 12% were non-compliant. This shows significant improvement from 2020 where 25% were either compliant or

largely compliant. This compared to 2019 when 3% were compliant; while 7% were largely compliant, 59% were partially compliant; and 31% were non-compliant shows progression towards higher levels of compliance. The Non-Compliant registrants remain a concern and improvement plans have been implemented.

Figure 7



Figure 8



### AMLRs PART III: Assessing and Applying a Risk-Based Approach

Regulations 8 and 9 requires a person carrying out relevant financial business to take steps appropriate to the nature and size of the business to identify, assess, and understand its money laundering and terrorist financing risks in relation to customers; the country or geographic area in which the customer resides or operates; the products, services and transactions of the person; and the delivery channels of the person. It further requires new products, business, delivery mechanisms, and new or developing technology to be appropriately considered from a risk perspective.

The section also requires documentation of the risk assessment; mitigation to be applied; maintenance of mechanisms to provide an assessment of risk information to competent authorities and self-regulatory bodies; implementation of policies, controls, and procedures to manage and mitigate risks; and the execution of customer due diligence (including enhanced due diligence) as appropriate.

Key findings and implications:

Some registrants continue to struggle with the development and documentation of a company-wide risk assessment. The DCI has offered significant guidance on this as well as training outreach. For 2020, 17% of registrants were Compliant, 50% Partially Compliant and 33% Non-Compliant. This compares to 2019 where, of the twenty-nine registrants inspected, only 3% were Compliant; 17% were Largely Compliant, 21% were Partially Compliant, while 59% were Non-Compliant. A significant improvement has been shown with the 2021 inspected entities whereby 72% are either compliant or largely compliant and 28% being either partially compliant or non-compliant.

Figure 9

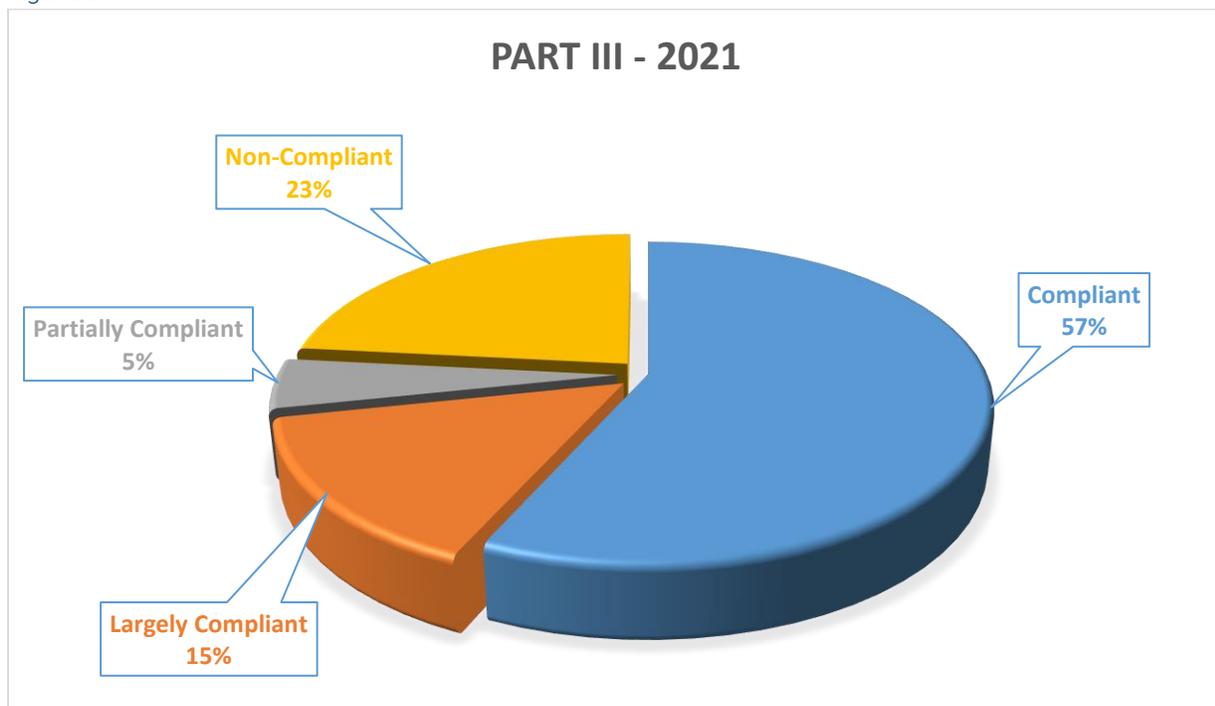
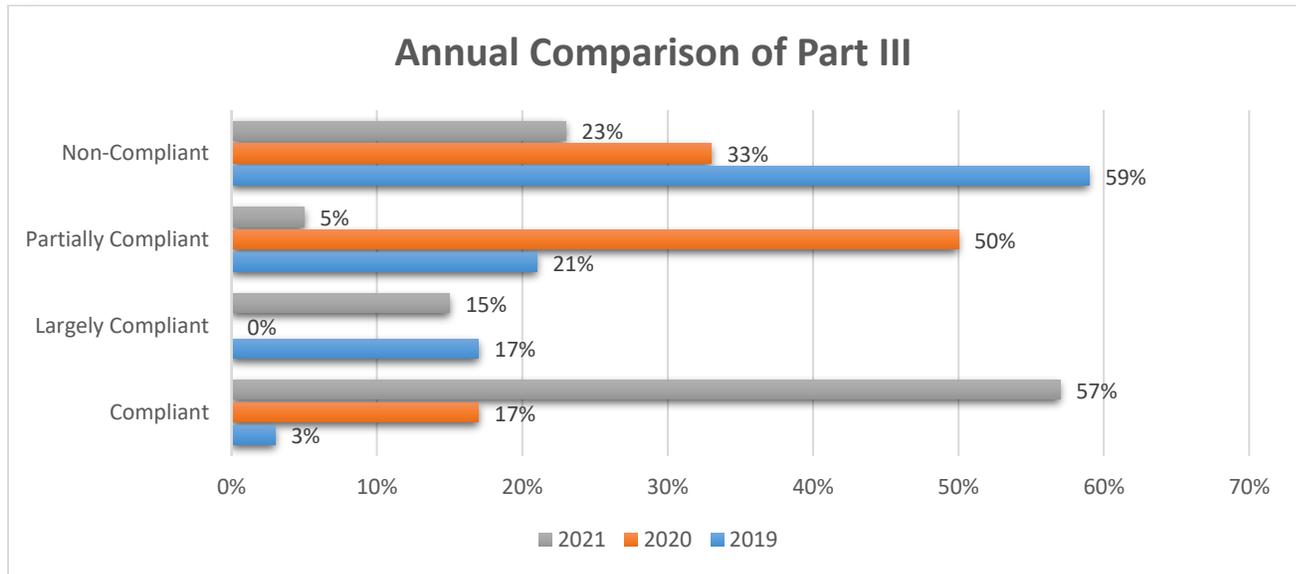


Figure 10



### AMLRs PART IV, V, VI: Applying Customer Due Diligence (CDD), Simplified Customer Due Diligence (SDD) and Enhanced Customer Due Diligence (EDD)

Regulations 10-20 require a person carrying out relevant financial business to undertake customer due diligence measures when:

- a) Establishing a business relationship;
- b) Carrying out a one-off transaction valued in excess of ten thousand dollars, including a transaction
- c) carried out in a single operation or in several operations of smaller value that appear to be linked;
- d) Carrying out a one-off transaction that is a wire transfer;
- e) There is a suspicion of money laundering or terrorist financing; or
- f) The person has doubts about the veracity or adequacy of previously obtained customer identification data.

This includes the requirement to identify and verify the customer, their authority to conduct the transaction; beneficial owners (in the case of corporate entities); understand the purpose and intent of the business relationship; and to conduct ongoing due diligence. The AMLRs also includes procedures for the applications of SDD where the risk is lower and EDD where the risk is higher.

#### Key findings and implications:

In 2020 25% of registrants inspected were unable to provide evidence of appropriate CDD when establishing a business relationship, or when carrying out a one-off transaction valued in excess of ten thousand dollars. The other nine registrants were either fully compliant or partially compliant. In 2019, of the twenty-nine registrants inspected, only 4% were compliant; 4% were largely compliant, 41% were partially compliant, while 48% were non-compliant, and 3% were not-applicable.

This contrasts with 2021 which shows a significant improvement in the compliance with the AMLRs. Of the DNFBPs inspected, 57% were compliant or largely compliant; 30% were partially compliant and only 13% were non-compliant. Action plans and deadlines for remediation have been put in place for the non-compliant DNFBPs.

Figure 11

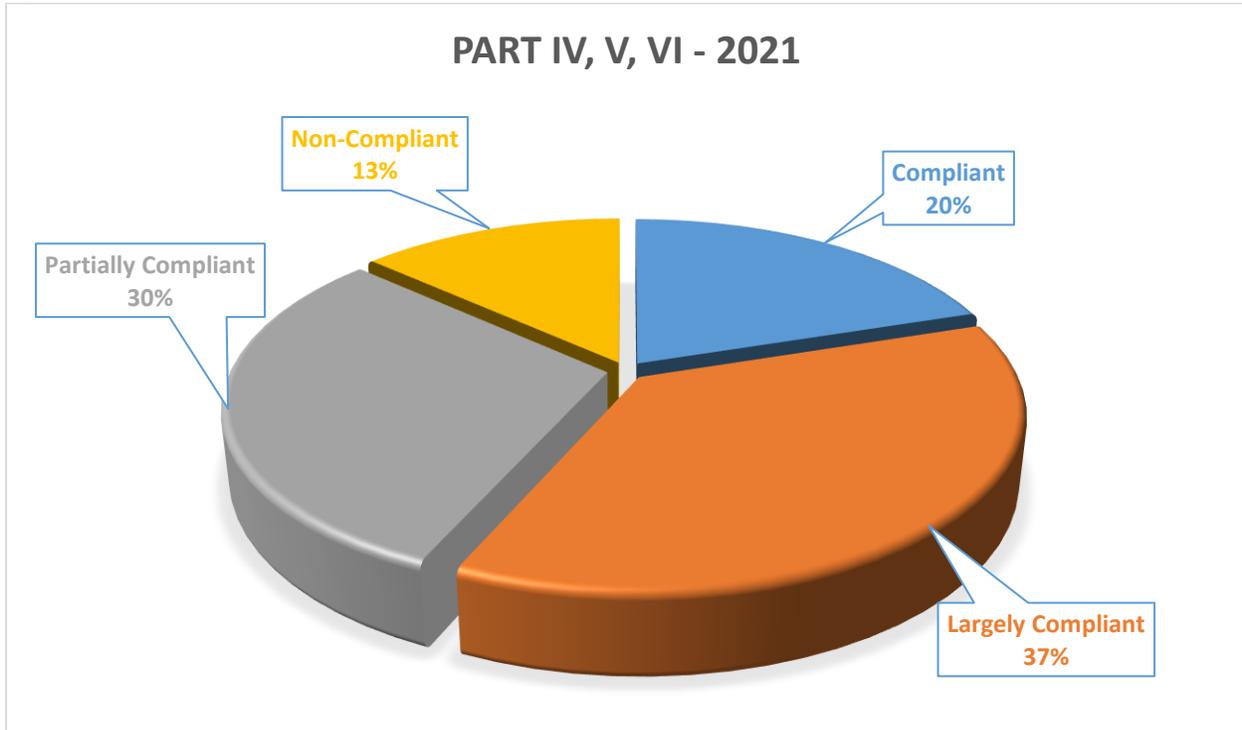
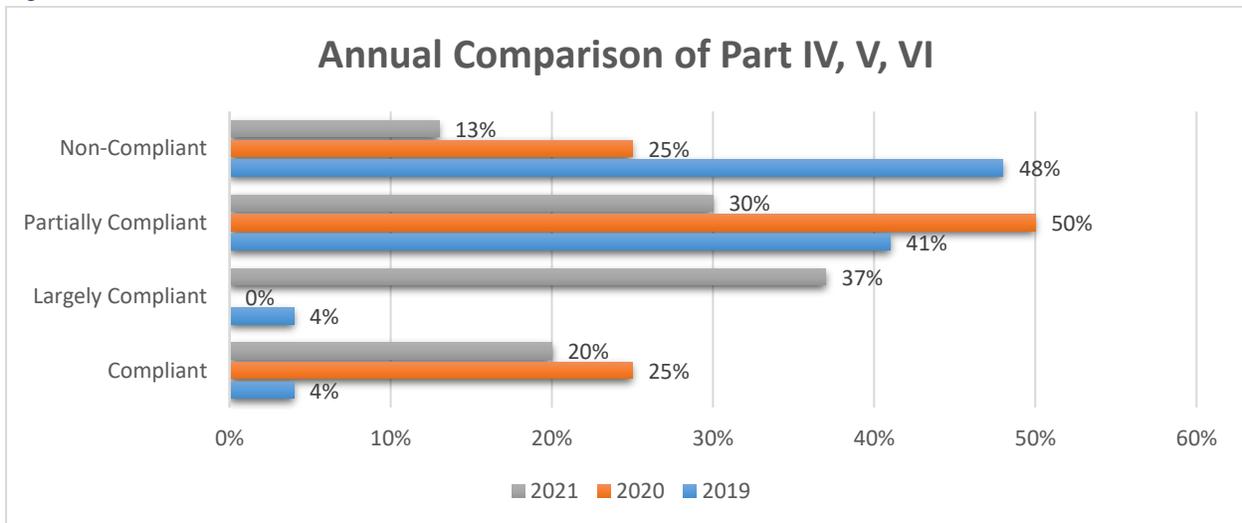


Figure 12



### AMLRs PART VII: Provisions of a system to identify PEP

Regulation 30 requires a person carrying out relevant financial business, in addition to satisfying the customer due diligence requirement, to put in place risk management systems to determine whether a person or beneficial owner with whom that person has a business relationship is a Politically Exposed Person (PEP), family member, or close associate.

Where a proposed transaction involves a PEP, policies, and procedures should ensure that Senior Management approval is obtained, source of wealth and source of funds are to be established, and there is a mechanism for ongoing monitoring of the business relationship.

#### Key findings and implications:

In 2020, two out of every three regulated entity registrants inspected did not have a formal system to identify PEPs. In 2019, of the twenty-nine DNFBPs inspected, only 10% were compliant; 10% were largely compliant, 35% were partially compliant, while 45% were non-compliant.

This contrasts with 2021 which shows a significant increase in compliance. Of the inspected DNFBPs 84% were compliant or largely compliant, 3% were partially compliant and 13% were non-compliant.

Figure 13

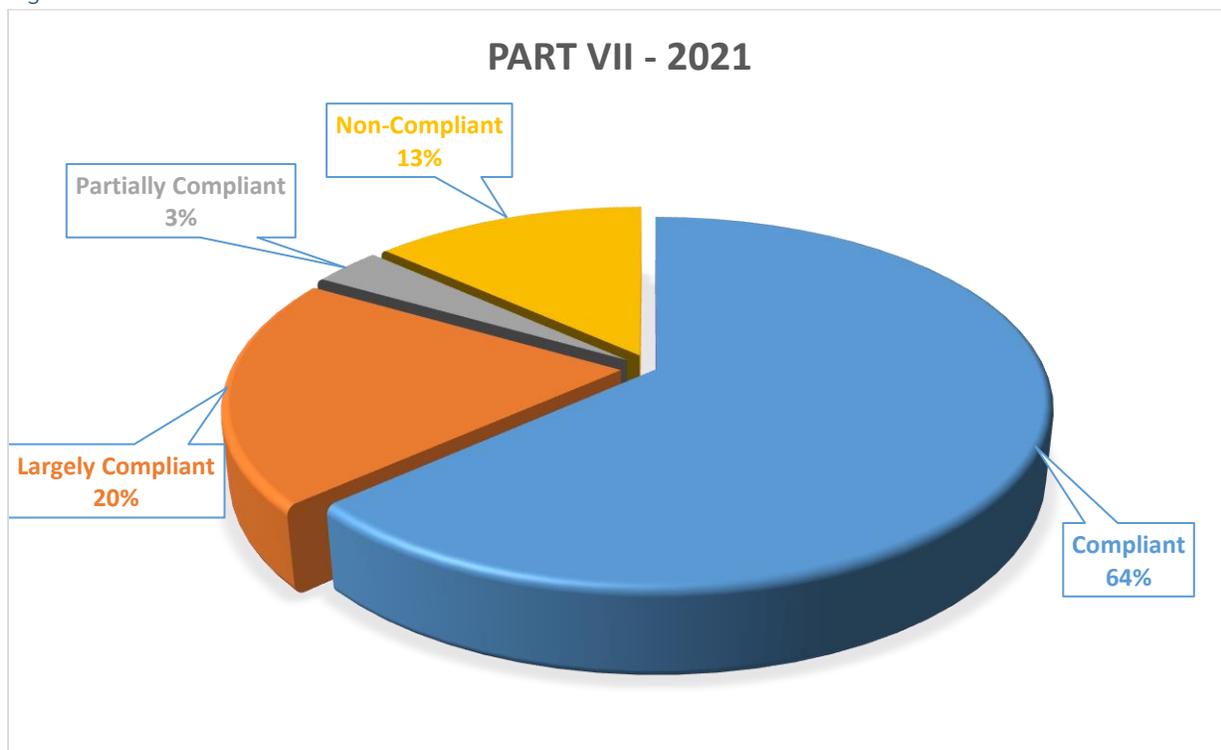
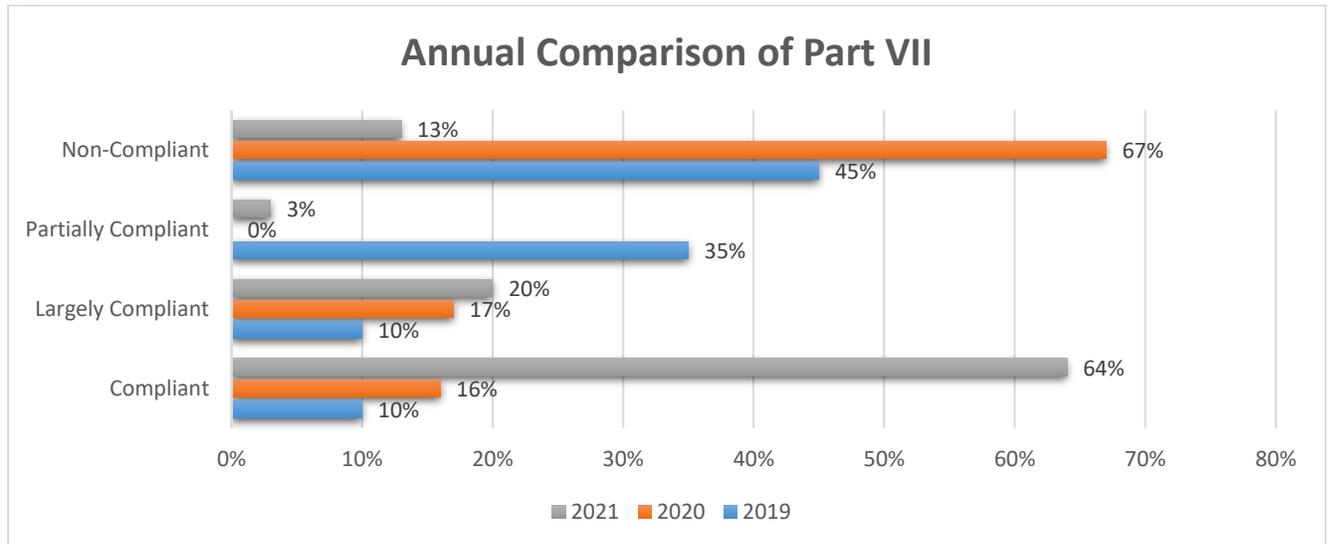


Figure 14



### AMLR PART VIII: Record Keeping Procedures

Regulations 31 and 32 require a person carrying out relevant financial business to implement procedures to ensure that records:

- a) are maintained in relation to a business relationship that is formed, or one-off transaction that is carried out, indicating the nature of the evidence of customer due diligence obtained under procedures maintained in accordance with Part IV;
- b) include account files and business correspondence, and results of any analysis undertaken, for at least five years following the termination of the business relationship or after the date of the one-off transaction;
- c) contain details relating to all transactions carried out by the person carrying out relevant financial business, which should be sufficient to permit reconstruction of individual transactions so as to provide, if necessary, evidence for the prosecution of criminal activity; and
- d) of wire transfers are maintained.

#### Key findings and implications:

Incidences of poor record keeping among inspected entities have fallen dramatically compared to the inspections conducted in 2019 and 2020 and the trend has progressively improved. In 2019 inspected registrants showed non-compliance of 41% and only 21% showed compliance. This improved in 2020 to 33% compliant and 50% partially compliant.

In 2021 this further improved with 63% of the inspected entities being either compliant or largely compliant, 25% being partially compliant and 12% non-compliant.

Figure 15

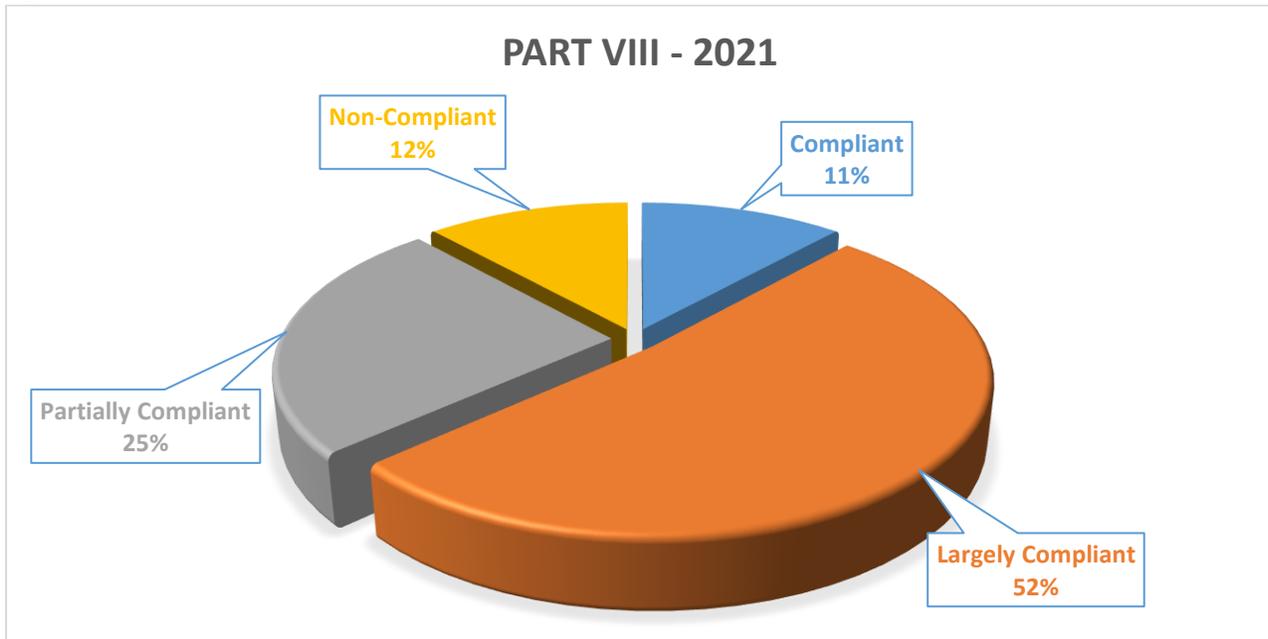
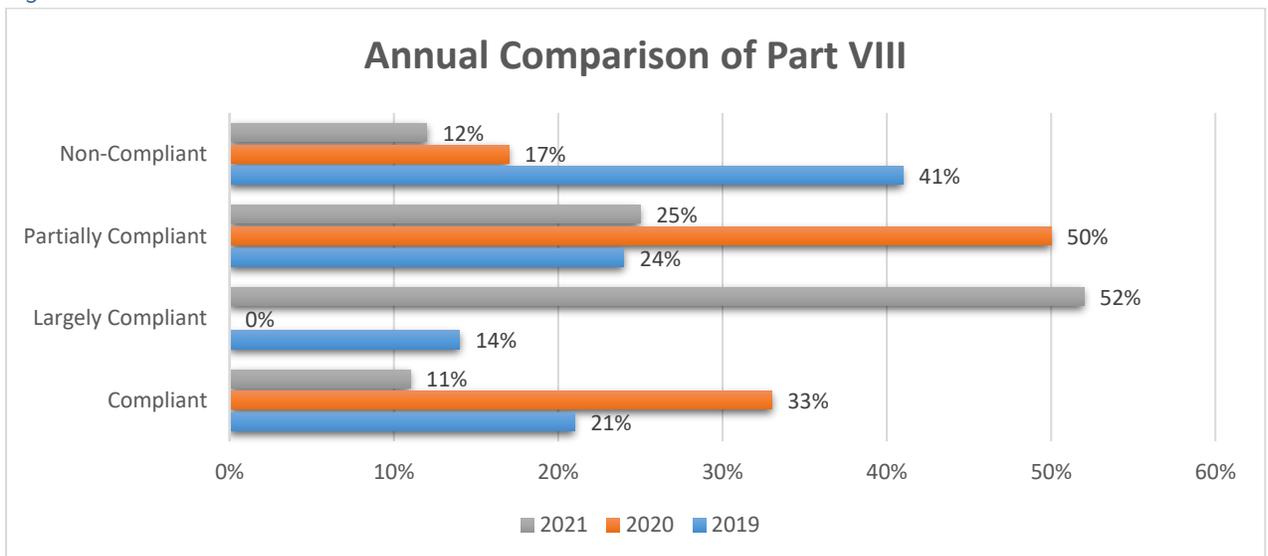


Figure 16



### AMLRs PART IX: Appointment of MLRO and Deputy MLRO

Regulations 33 and 34 require a person carrying out relevant financial business to designate a person employed at a managerial level as the Money Laundering Reporting Officer (MLRO). Separately, a person at a managerial level should also be designated as the Deputy Money Laundering Reporting Officer (DMLRO) who shall, in the absence of the MLRO, discharge the functions of said MLRO.

In accordance with Regulation 34, provisions should be made to ensure the MLRO is known, and the types of information that is to be brought to his/her attention. There is also a requirement to ensure disclosure to the Financial Reporting Authority, any information or other matter contained in a report where the MLRO:

- a) Knows or has reasonable cause to suspect that another person is engaged in money laundering or terrorist financing.

Key findings and implications:

Compliance improvements have been noted over the past 3 years with respect to the appointments of MLROs and Deputy MLROs by DNFBPs. In 2019 of the twenty-nine registrants inspected, 24% were compliant; 14% were largely compliant, 17% were partially compliant, while 41% were non-compliant. For the 2020 inspections, 41% were compliant or largely compliant, and only 17% fell in the non-compliant category.

This, compared with 2021, shows significant improvement with 67% of registrants being rated as compliant or largely compliant; 23% as partially compliant and only 10% as non-compliant.

Figure 17

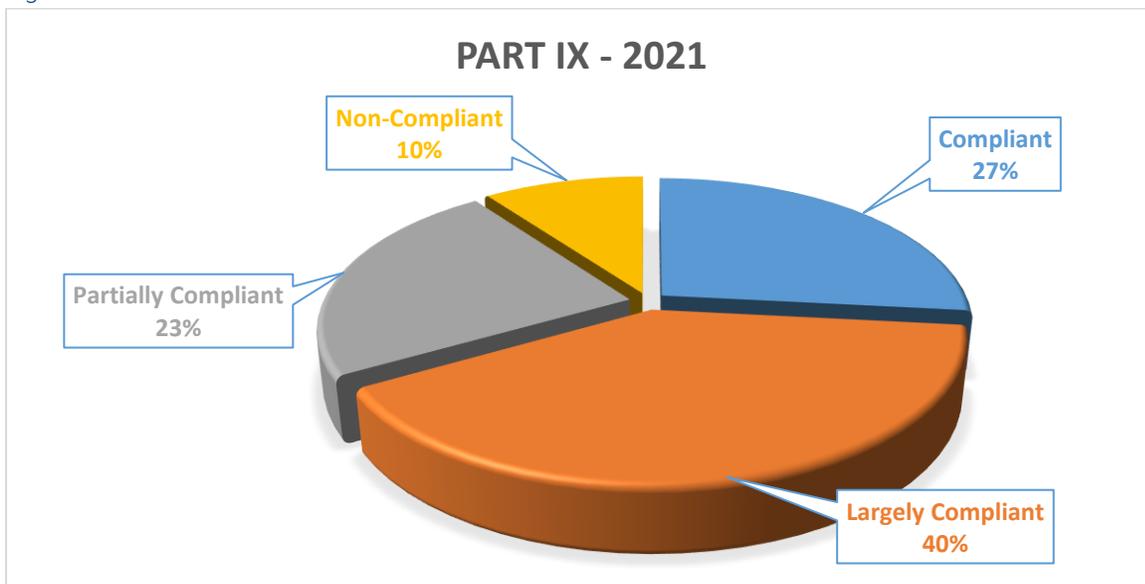
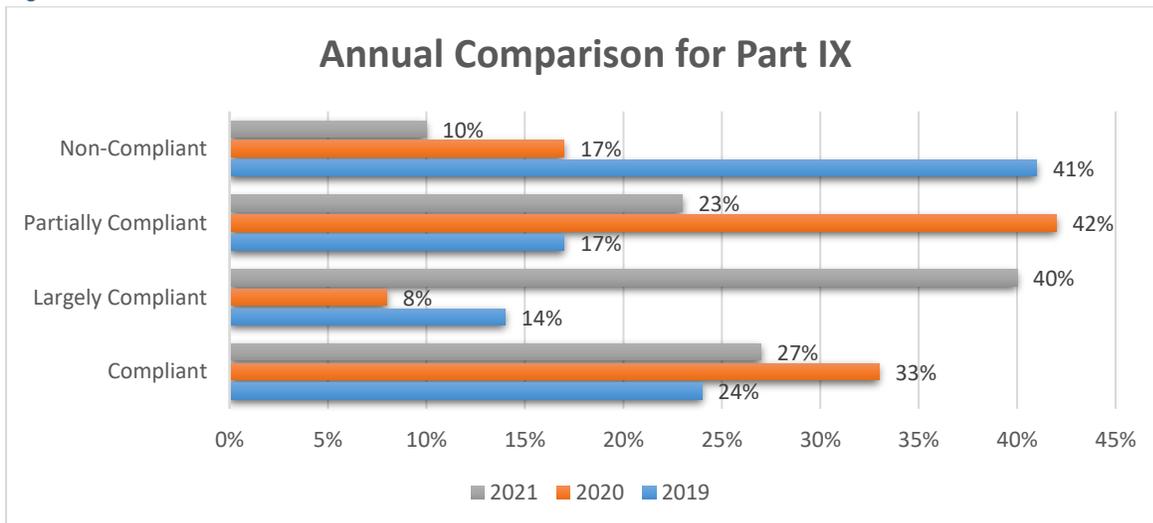


Figure 18



## Education and Support Outreach Interventions

Due to the extended impact of the COVID-19 Pandemic and measures in relation thereto, in-person training remained affected especially due to the limitation on gatherings.

The following outreach was conducted with the DNFBP sector during 2021:

- Designated Non-Financial Business and Profession Workshop held on 30 March 2021
  - This outreach session was co-hosted by the Cayman Islands Centre for Business Development (CICBD) and the DCI. This training was very comprehensive and covered a number of different topics from various industry experts.
  - The Director of the AMLU spoke to the attendees on an overview of the Financial Action Task Force (FATF) and the National Risk Assessment (NRA).
  - The Director of the Financial Reporting Authority (FRA) spoke about the filing of Suspicious Activity Reports (SARs).
  - A private sector expert presented on an overview of what an AML / CFT framework would look like for a business.
  - The Head of Compliance and Enforcement at DCI presented on the topic of what to expect during an inspection.
  - Eleven registrants attended in person and three attended virtually.
- AML Risk Management – Realtors and Developers Seminar held at Grand Cayman Marriott Beach Resort on 22 June 2021.
    - This was an in-person event that was hosted by FTS Management Consulting and Training Solutions (FTS).
    - The Director of FTS spoke on the economic impact of money laundering and a refresher on recent typologies in AML risks in real estate development.
    - The Head of Compliance and Enforcement at DCI spoke on the trends and lessons learned from onsite inspections and what you can do to minimize your risk exposure.
    - Representatives from HSM spoke about managing your legal and AML risks in real estate transactions.
    - There were sixty-two individuals in attendance of which forty-eight attendees took part in an online assessment. Out of the forty-eight attendees who took part in the assessment 81% scored 70% or higher.
  - Training and other educational workshops have been recorded and uploaded to the DCI's website as a knowledge repository and for future reference to persons who may not have been able to attend trainings in person.
  - The Government, with support from Cayman Finance, introduced online learning modules relating to anti-money laundering, countering terrorist financing, and countering proliferation financing (AML/CTF/CPF). The objective is to reinforce Cayman's effective practice of the FATF global standards, by facilitating the cascading of knowledge of AML/CTF/CPF throughout all levels of industry. The platform also allows easy access to information by anyone who works with the Cayman

Islands' AML/CFT/CPF framework whether locally based or overseas and is regularly updated with the most current information.

<https://training.cayman.finance/login/index.php>

- The Regulatory team at DCI is in continuous contact with its regulated entities and provides support via telephone and email on a regular basis, should any DNFBP require assistance.

## Internal Capacity Development

The DCI onboarded one (1) Senior Compliance and one (1) Compliance Officer in 2021. The recruitment for these two positions were to replace capacity which had been lost due to staff members moving on as new opportunities become available. The replacement of these resources was necessary to maintain an effective supervisory regime.

In 2021, staff availed themselves of several developmental opportunities through formal training, conferences and workshops. This training for the year culminated into thirty-seven (37) webinars relating to various topics in the AML/CTF/CPF sphere. Two (2) staff members obtained their CAMS Certifications (Certified Anti-Money Laundering Specialist) one (1) obtained the ACAMS Advanced Certificate in Risk Management.

The experience of directly engaging DNFbps through onsite and offsite inspections, developing, and delivering industry training programmes, and the constant review of evolving legislation has also served as important catalysts for growth and development. The 2021 inspection programme was built on the experience gained during 2019 and 2020, which was the DCI's first two years for onsite inspections. The experience gained by the team has been invaluable and the lessons learnt will be incorporated into further developing internal capacity and streamlining processes.

## Sector Assessment Overview

### Sector Risks – Real Estate Agents (RE) and Property Developers (PD)

Figure 19 and 20 below provide an overview of the risk rating which was the result of the 2021 onsite inspections for each sector from the inspected registrants:

Figure 19

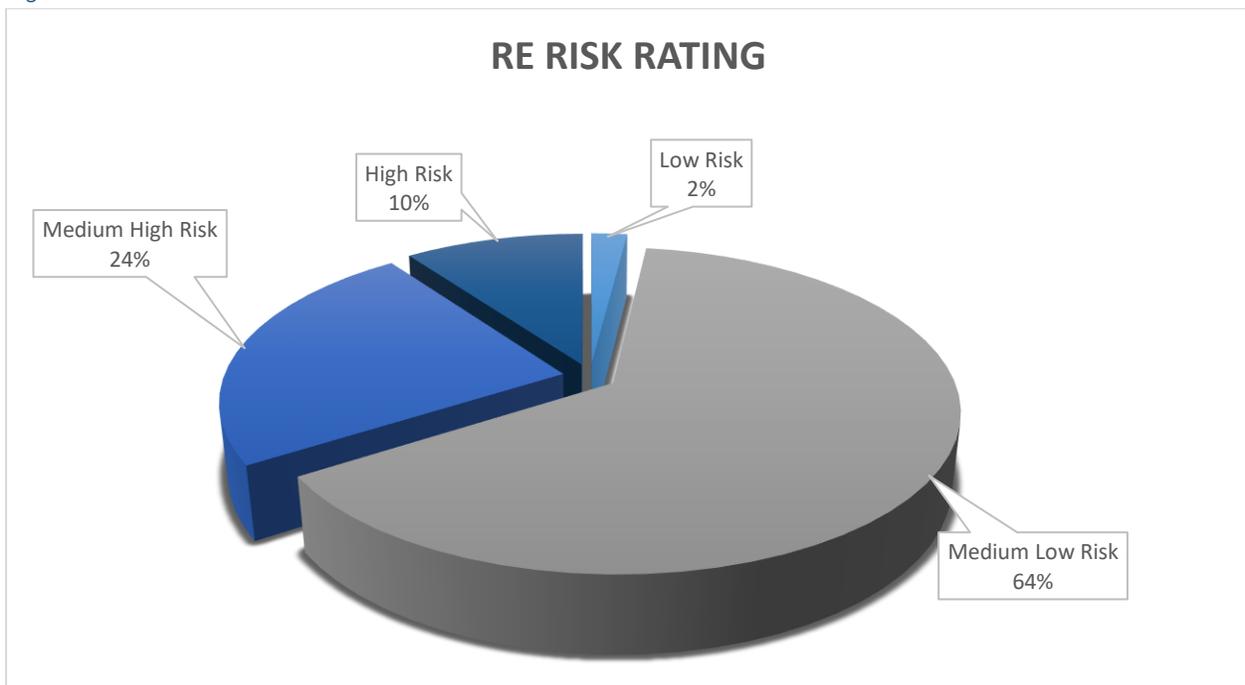
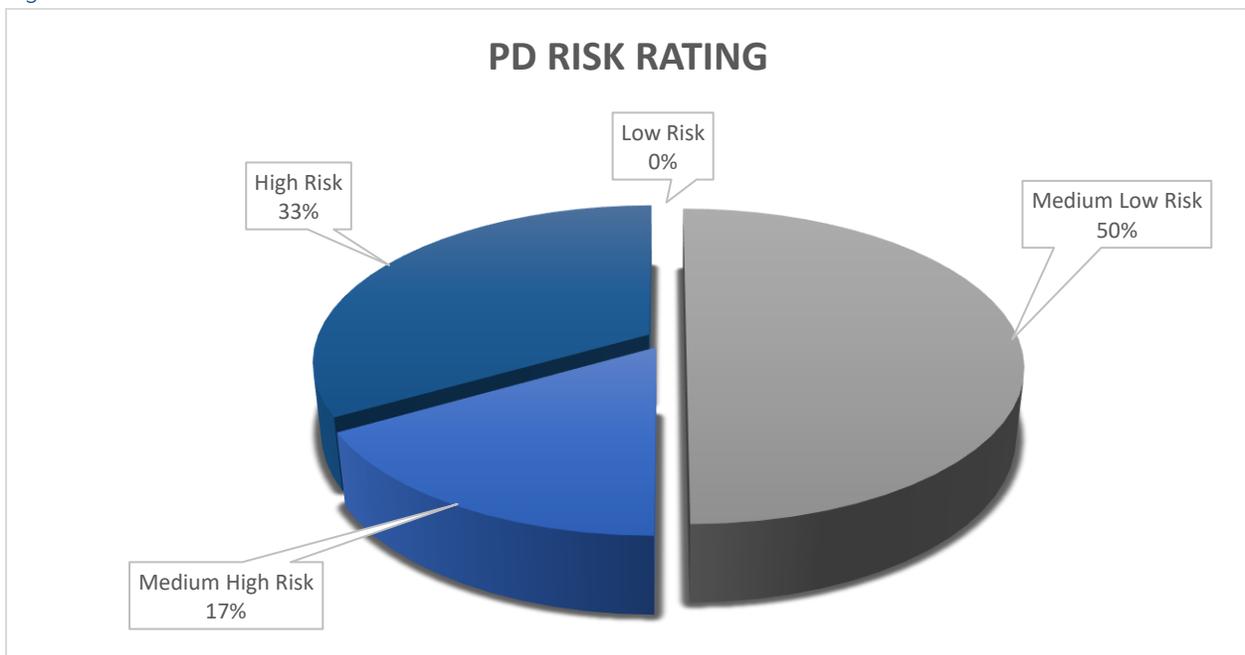


Figure 20



The Cayman Islands has an active real estate market with significant annual volumes in commercial and residential real estate transactions. Properties are developed and traded for the purposes of a primary residence, vacation homes, and short and long-term rentals.

For 2021 the Cayman Islands real estate market was as active as it has ever been. With the borders being closed for most of the year and traveling being limited it could have contributed to locals and residents spending their money locally by investing in the property market. With the rising of property prices many people are also doing anything they can to get on the property ladder.

Government has implemented initiatives like the Global Citizen Concierge programme, designed to attract digital nomads and their families and the granting of residency rights through real estate investment has been contributory factors to the performance of the real estate market.

The DCI's Risk Assessment considers the real estate sector's vulnerability to money laundering to be moderate based on inherent risk questionnaires and inspections done to date.

The professional services provided by the RE sector are attractive to money launderers because:

- They are widely available, and they can give the impression of respectability, legitimacy, or normality;
- They can create additional steps in the ML/ TF chain to hinder detection and investigation;
- Offenders can move large amounts of illicit funds in a single transaction without raising suspicion;
- The duration of the relationship with a real estate agent is also often short-lived.

A summary of the risk assessment for this sector is shown in the table below:

Figure 21

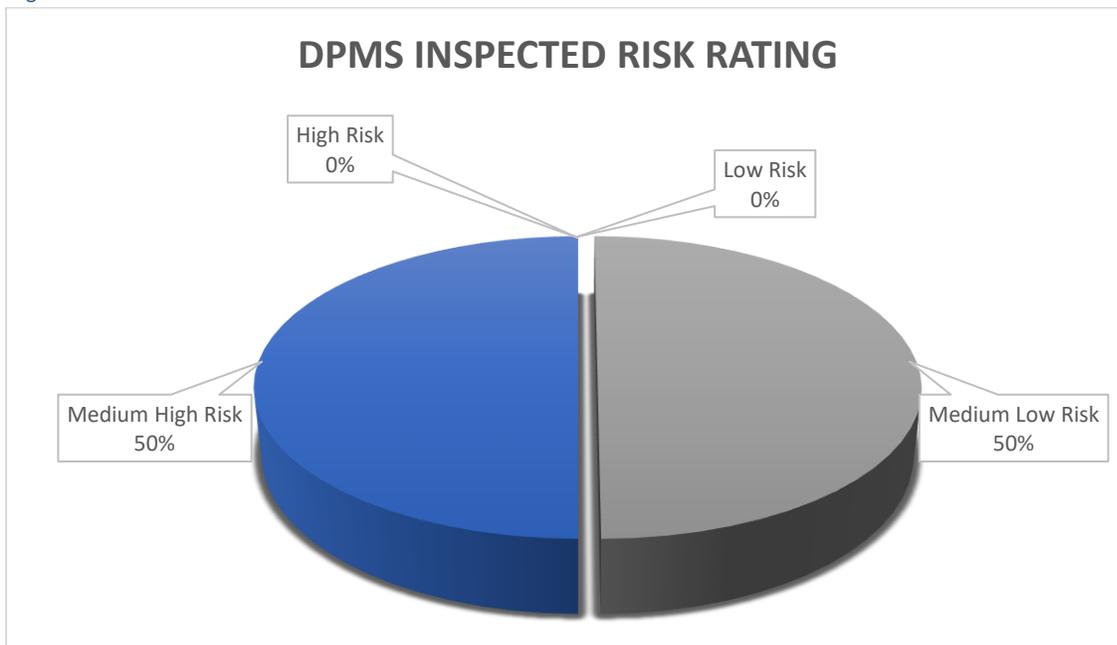
<b>Real Estate Inherent Risk</b>		
<b>Variable</b>	<b>Assessed risk</b>	<b>Rationale</b>
Nature, size, and complexity of business	High	Overall sector profile based on local and international assessments. Active local market with high volumes and value. Potential for real estate agents to provide money launderers with the impression of respectability and normality, especially in large transactions, and is a further step in the ML/TF chain that frustrates detection and investigation.
Products/services	Medium high	Real estate agents provide a more limited range of products and services than some other gatekeepers. However, real estate is a very high-value commodity that is attractive for both ML and the investment of criminal proceeds. Real estate agent involvement can obscure the identity of the person(s) behind the criminal dealings and effectively cleans illicit funds when the property investments are later realized.
Methods of delivery of products/services	Medium high	Real estate agents offer their products and services mostly through face-to-face channels, but often also utilize non-face-to-face channels.

Customer types	Medium high	Customers are generally low-risk Cayman-based individuals. Higher vulnerability observed for international buyers and corporate structures.
Geographical risk	Medium-high	This sector has an overwhelmingly domestic customer base but does have significant and high-value business with International customers, globally.
Institutions dealt with	Medium Low	Real estate agents have limited exposure to dealing with institutions identified as presenting ML/TF risk.
Overall inherent risk	Medium high	The overall summary of the preceding factors resulted in a Medium overall rating for this sector.

### Sector Risks – Dealers in Precious Metals and Stones (DPMS)

Figure 22 below provides an overview of the risk rating which resulted from the 2021 onsite inspections for DNFBPs inspected in the DPMS sector:

Figure 22



The purchase and sale of high-value commodities such as precious metals and precious stones have acute vulnerabilities to ML/TF/PF activities. These commodities are attractive based on the one-off nature of many transactions, their ease of transport, and the potential for ownership to be disguised.

With the banking and border cash systems being progressively tightened around the world, small, transportable high-value commodities are commonly transported across borders and traded or sold.

Cruise visitors to the Cayman Islands are a significant source of trade for local dealers for precious metals and stones. This increases the Cayman Islands' vulnerability to money launderers in this sector to a moderate level. This dynamic changed in 2020 with local border closures for cruise tourism and this has continued into 2021.

DPMS are required to register as a dealer in precious metals and stones with DCI and have statutory reporting obligations under specific circumstances. DPMS are also required to submit SARs where there is suspicion; and threshold transaction reports (TTR) based on the value of the transaction.

DCI recognizes that in the Cayman Islands context, DPMS are mostly unique, and the activities they carry out are diverse. A summary of the risk assessment for this sector is shown in the table below:

Figure 23

DPMS Inherent Risk		
Variable	Assessed risk	Rationale
Nature, size and complexity of business	Medium-low	DPMS are widely spread and easy to access with smaller enterprises having less awareness of ML/TF risks and limited capability to meet AML/CFT obligations. In addition, anonymity and concealment of beneficial ownership have traditionally been associated with this sector. However, with the significant improvement of the AML/CFT compliance framework within these entities, the culture has notably shifted
Products/service	High	The products offered by DPMS are attractive for many reasons – they can be of high-value, easily transportable, easily converted into funds, and can be used to pay for goods/services in kind.
Methods of delivery of products/services	Medium high	DPMS offers their products and services via both face-to-face and non-face-to-face channels (including telephone or online purchase). Concealment of the identity of criminals enjoying beneficial ownership of these commodities is common. The ability to source high-value products via intermediaries presents ML/TF risk.
Customer types	Medium low	The customer profile for this sector consists of both residents and visitors. Visitor transactions have greater vulnerability to ML/TF activities.
Geographical risk	Medium	Higher vulnerabilities noted from our cruise and overnight visitor markets due to the varied geographic origin of customers.
Institutions dealt with	Low	DPMS has limited exposure to dealing with institutions identified as presenting ML/TF risk.
Overall inherent risk	Medium low	The sector has been assessed as having a medium risk level due to the factors outlined above.

## Enforcement Measures

Where a DNFBP conducting relevant financial business has been deemed non-compliant with the AMLRs, the DCI may terminate or suspend the registration, impose administrative fines, or recommend prosecution for the contravention to the Director of Public Prosecutions (DPP).

The DCI can also recommend to the Trade and Business Licensing Board that the business license of a non-compliant DNFBP be suspended or not renewed.

All inspected entities were provided with a report identifying the deficiencies in their AML regime along with recommendations for remediating those deficiencies within defined periods. Periodic updates are also required to be filed at defined intervals regarding their progress toward full compliance.

Those requirements and recommendations are also intended to assist registrants in strengthening their internal controls to become compliant with statutory obligations.

## Conclusion

The Cayman Islands anti-money laundering and counter-terrorist financing supervisory regime seek to regulate and supervise DNFBPs that are vulnerable to money laundering and terrorist financing. The DCI works within the local regulatory framework for the supervision of real estate agents and brokers, property developers, and dealers in precious metals and stones who fall within the DNFBP classification. The 2021 initiatives were carried out based on risk sensitivity with frequency and intensity adjusted for the characteristic of the relevant DNFBP, understanding of risks, and the size of the sector being supervised. The work programme included 60 desktop reviews which resulted in onsite inspections, training workshops, sensitization sessions, and interviews with senior management personnel.

On an ongoing basis we assist new DNFBPs to be onboarded onto the digital registration platform and they are required to submit documented evidence of their AML framework as a condition of registration. The 2021 approach ensures appropriate supervisory focus on areas where it will have the most impact on detecting, deterring, and disrupting criminals while minimising unnecessary burdens to legitimate businesses. The Cayman Islands experience demonstrates a general willingness to comply, and acceptance of the regulatory regime instituted to prevent registered entities from becoming unsuspecting partners in money laundering and the financing of terrorism.

Powers afforded by the legislation were responsibly used in carrying out sixty (60) inspections in 2021 (onsite and offsite) with one administrative fine issued between 2019 and 2021. In addition, 25 enforcement notices were issued in 2021. The inspections enabled the gathering of information to assess the overall compliance status of the DNFBPs under supervision, and the steps required to address identified deficiencies and gain compliance with international standards and obligations for AML and CFT.

This report provides qualitative and quantitative data offering insights regarding the AML/CFT readiness of entities identified for inspection. Inspected entities were chosen following DCI's internal risk rating methodology.

The 2021 inspection experience demonstrates a general trend toward greater compliance and awareness among sector participants when compared to the experience in the prior year. Increased compliance was observed for the appointment of nominated officers, the quality of AML Manuals used, and the general knowledge base of the principals at the businesses interviewed.

Results of the 2021 inspections were also used in developing the overall sector assessments, and in guiding the internal capacity developmental needs of the DCI.

The year's achievements illustrate the resilience of the supervisory regime and its ability to continually function under challenging circumstances.

