



Isle of Man Financial Intelligence Unit
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Annual Report 2016/2017



ISLE OF MAN FINANCIAL INTELLIGENCE UNIT

ANNUAL REPORT 2016/17

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Foreword

I am pleased to present the Annual Report 2016/17 for the Isle of Man Financial Intelligence Unit ("FIU"). The Report outlines the exercise of the functions of the FIU since its establishment in April 2016 and provides an assessment of the extent to which the FIU's annual plan, as set out in its Strategic Delivery Plan for 2016/17 (GD 2016/0030) has been carried out.

2016/17 has been a very demanding year for the FIU, with its staff having had to deal with the transition from being members of the Isle of Man Constabulary's Financial Crime Unit to being part of a newly established statutory body, with a new Director, new colleagues and new governance procedures. In addition, the FIU has had to continue to implement the recommendations identified by the National Risk Assessment 2015 and the Moneyval 5th Round Mutual Evaluation Report. Despite these challenges I am pleased to report that the FIU has been able to carry out the aims and objectives set by the FIU Board in the FIU's Strategic Delivery Plan for 2016/17.

It is hoped that this Report will be of value to all of the FIU's stakeholders and to the public to enable all to better appreciate the nature and value of the work the FIU does. The FIU and the FIU Board are committed to the FIU continuing to make the improvements required in order that the FIU may play its role in pro-actively combatting global financial crime and both terrorist and proliferation financing and protecting the Island's future.

John L M Quinn

H.M. Attorney General

Chair of the FIU Board

Introduction – the Establishment of the FIU

The FIU was established as a statutory body on 20 April 2016 by the Financial Intelligence Unit Act 2016 (the "Act"). Whilst the Island's financial intelligence function had previously been carried out by the Isle of Man Constabulary, the FIU was created following recommendations made by a Financial Crime Working Group established by the Council of Ministers, reflecting priorities identified within the National Risk Assessment 2015 and the Government's National Strategy document.

The strategic priorities of the FIU are determined by the FIU Board which is made up of H.M. Attorney General (Chair), the Chief Constable and the Collector of Customs & Excise. The functions of the FIU are exercised by its Director, subject to any directions given by the Board. The staff of the FIU includes persons with wide ranging experience, including experience gained in the Isle of Man Constabulary, the Treasury (the Customs & Excise Division and the Income Tax Division), the Gambling Supervision Commission, the finance sector (the banking and trust and corporate service provider sectors), the legal profession and the military.

The primary aims of the FIU Board as set out in the Strategic Delivery Plan 2016/17 are to ensure the FIU undertakes its functions in line with common international standards and practice, primarily the FATF 40 Recommendations, and to address areas of risk identified in the National Risk Assessment 2015 so as to improve the performance and effectiveness of the FIU thereby ensuring that the necessary focus on identifying serious financial crime is prioritised. It is also the FIU's aim to ensure that criminals do not profit from crime, either within the Island or internationally by detecting financial crime, countering money laundering and detecting both the financing of terrorism and proliferation. Where criminals have made material gain, the FIU will support all legitimate actions to restrain and ultimately confiscate the resulting proceeds and other crime related assets.

The Role of the FIU

The FIU plays a key role in the global fight against terrorism, proliferation and financial crime with the FIU's statutory functions, as set out at section 5 of the Act, being –

- Receiving, gathering, analysing, storing and sharing information about financial crime (whether in the Island or elsewhere);
- Assisting with the prevention and detection of crime, and in particular, financial crime (whether in the Island or elsewhere);
- Cooperating with law enforcement agencies;
- Contributing to the reduction of crime, and in particular, financial crime and to the mitigation of its consequences.

In considering the FIU's exercise of its functions, the Strategic Delivery Plan 2016/17 provided that the FIU would:-

- Act as the Island's national centre for the receipt and analysis of suspicious activity reports (SARs) and other information from both regulated industries and the wider public and domestic and overseas law enforcement agencies with regard to money laundering and the financing of terrorism. The FIU will disseminate intelligence both spontaneously and upon request.
- Proactively develop intelligence packages and disseminate these to law enforcement, revenue, regulatory and other partner agencies in the Isle of Man and overseas.
- Work in partnership with the Attorney General's Chambers delivering the operational function of the Attorney General's Chambers responsibility for responding to International Letters of Request (ILORs).
- Identify and promote the legislative and policy changes required to ensure that the Island's laws prevent the Island from being used for national and cross border financial crime and terrorism financing.
- Work with the Island's regulators and Government Departments, the Island's financial services industry and relevant non-financial sectors, to increase awareness and compliance with anti-money laundering procedures and procedures to combat terrorist financing in order to protect the Island's reputation as a well regulated and responsible international finance centre.
- Represent the Isle of Man at International Money Laundering and Terrorism forums such as the Egmont Group, participating in and contributing to the stated aims of the forums.
- In all of the above, ensure that all financial intelligence activity undertaken by the FIU meets the FATF/Egmont standards and recommended best practices and procedures.

The Aims and Strategic Objectives of the FIU

The FIU's strategic objectives, as identified by the FIU Board are:

- Identifying and addressing cases of high level financial crime and corruption thereby ensuring that the Isle of Man continues to develop as a safe, well regulated and dynamic business centre, thereby protecting its international reputation by complying with recognised international standards.
- Re-assessing the Island's cross-border ML & TF threats in light of information gathered by partner agencies on the flows of funds into and out of the Island's financial sector.
- Providing a high quality of international co-operation in support of the Isle of Man's long-standing commitment to complying with international standards on tax co-operation, transparency and combatting money laundering and the financing of terrorism.
- Providing intelligence to enable partner agencies to detect AML/CFT activity, investigate financial crimes (including tax evasion), disrupt criminal activity, secure prosecutions and confiscate proceeds of crime.
- Providing high quality and timely analysis and advice to government on emerging financial crime threats and typologies.
- Addressing the identified need for additional specialist financial intelligence investigators.
- Implementing a wide ranging training programme that ensures the FIU's compliance with international standards.
- Using technology to enhance both the performance and effectiveness of the FIU by improving the quality of the material it receives and produces.
- Engaging with industry in a meaningful partnership, particularly in regards to improving the quality of SARs/online reporting, ML and TF typologies and emerging threats.
- Producing and issuing an annual report for the FIU as required by the Financial Intelligence Unit Act 2016.

Working with Local Law Enforcement Agencies

The FIU works closely with the Isle of Man Constabulary (particularly its Financial Crime Unit), the Customs & Excise and Income Tax Divisions of the Treasury, the International Cooperation and Asset Recovery Team in the Attorney General's Chambers (ICART), the Isle of Man Government Financial Services Authority and the Gambling Supervision Commission. Representatives of these bodies meet regularly, with intelligence being shared between the bodies in accordance with agreed protocols.

The Council of Ministers National Strategy Action Plan ("NSAP") goals on anti-money laundering and combatting the financing of terrorism, require the Island's authorities to work together to further strengthen the deterrent and response to financially motivated crime, including the financing of proliferation and terrorist offences. Goal 6 of the NSAP is to *"Promote measures to increase asset forfeiture and recovery, including civil recovery"*.

In relation to its work with ICART, the FIU forwards relevant intelligence in the form of intelligence packages to ICART's Asset Recovery Unit (ARU) to enable the ARU to make applications to the Isle of Man Courts of Justice to restrain or freeze assets in anticipation of confiscation or civil recovery. Following analysis of the intelligence reports received by the FIU from all sources in 2016/17, the FIU disseminated 32 intelligence packages to ICART.

Representatives of the FIU also regularly meet with their law enforcement colleagues at the meetings of the various bodies set up to address the Island's response to anti-money laundering and the financing of terrorism and proliferation including the Financial Crime Strategic Board, the Law Enforcement Effectiveness Group, the AML/CFT Technical Group and the AML/CFT Advisory Group. Further details on these bodies can be found in the Isle of Man Financial Crime Strategy 2017-2020 at <https://www.gov.im/media/1358112/isle-of-man-financial-crime-strategy-2017-2020.pdf>.

International Co-operation

The FIU is the single point of contact for Isle of Man law enforcement agencies with international financial intelligence units and is a full member of the Egmont Group of Financial Intelligence Units (the 'Egmont Group')¹. The Egmont Group is a body of 152 financial intelligence units which provides a network for enhancing cooperation among financial intelligence units in the areas of information exchange, training, sharing knowledge and expertise, and fostering the implementation of domestic anti-money laundering and counter-terrorism financing programs.

The Egmont Group works closely and in partnership with the Financial Action Task Force (FATF) and FATF-style regional bodies and it is a FATF requirement (Recommendation 29) that financial intelligence units should apply for membership of the Egmont Group.

The FIU adheres to the Egmont Group Statement of Purpose and its Principles of Information Exchange between financial intelligence units and is able to send and receive requests for information to and from other member financial intelligence units via the Egmont Secure Web (ESW) secure email network.

The FIU assists its international partners in tracing and identifying the proceeds of crime and other crime related property which may become subject to subsequent restraint, freezing, seizure or confiscation orders. The FIU also sends and receives information to and from overseas jurisdictions via the ESW relating to money laundering and the financing of serious organised crime, terrorism and proliferation.

Any information shared by the FIU is strictly controlled and safeguarded ensuring compliance with national provisions on data protection and privacy. As a minimum, exchanged information is protected by the same confidentiality provisions that apply to information from domestic sources obtained by the receiving financial intelligence unit.

The FIU upon receiving assistance requests from partners overseas, searches against databases available to it to collect information on subjects. The information is then assessed for relevance to the request. Relevant information is then entered into an intelligence report for dissemination to the requesting party. Where applicable, the FIU seeks the consent of the overseas partner to share information obtained from their request for assistance with local law enforcement. The same process is used where the FIU receives local intelligence which has potential relevance to an overseas jurisdiction; a report is prepared and spontaneously disseminated via secure networks such as the ESW.

¹ More information on the Egmont Group can be found at www.egmontgroup.org/

The FIU does not require a memorandum of understanding in order to exchange information, as this can be done through the existing legal framework. The FIU will nevertheless enter into such agreements if required by other jurisdictions or organisations.

In addition to the above, the FIU assists the Attorney General in exercising his criminal mutual legal assistance powers by carrying out witness liaison and making initial enquiries following receipt of an appropriate letter of request. Where the FIU holds intelligence relevant to the contents of a letter of request it liaises with the financial intelligence unit in the requesting jurisdiction and disseminates relevant intelligence to the financial intelligence unit via secure networks.

The Consent Regime

The Proceeds of Crime Act 2008 ("POCA") allows persons to avail themselves of a defence against money laundering charges by seeking the consent of the FIU to conduct a transaction or undertake other activity (a 'prohibited act') about which they have concerns.

The decision to refuse or grant consent is made by the FIU in consultation with the relevant law enforcement agency. Where the FIU is unable to establish a link to criminality consent is granted. Where consent is refused, the person will not proceed with the transaction or activity for fear of committing a money laundering offence and the relevant law enforcement agency is able to seek the restraint, seizure or freezing of the relevant funds to prevent their movement. In 2016/17, the relevant law enforcement agency was the Isle of Man Constabulary's Financial Crime Unit, with assistance from the ARU.

The total restrained by law enforcement partners relating to refused consent requests during 2016/17 was £3,021,013.80 (this figure includes monies restrained by ICART on behalf of other jurisdictions).

The outcome of refused consent requests	£
Restrained sums - domestic	66, 673
Restrained sums - international	2,954,340
Civil forfeiture sums - domestic	0
Civil forfeiture sums - international	0
Cash seizure sums	0
Total	3,021,013

Building Relationships with the Private Sector

To be an effective financial intelligence unit the FIU needs to work collaboratively with private industry and to help industry with regard to improving the quality of SARs/online reporting and providing money laundering and terrorist financing typologies and emerging threats so enabling better identification and reporting of suspicious activities. As such, in 2016/17, the FIU delivered presentations to private industry, often in conjunction with the Island's regulators, including presentations to the following:

- Online/e-gaming MLROs;
- Manx Insurance Association;
- IOM Society of Chartered Accountants;
- Locally hosted tax conference;
- Local banks (internal training);
- The Isle of Man Financial Services Authority's annual AML/CFT conference.

The presentations covered the establishment of the FIU, the provisions of the Act, the SAR regime and Themis (the FIU's online reporting system). The FIU received positive feedback following these presentations and they will be part of an on-going programme in 2017/18. The FIU is currently working up analysis of typologies and emerging threats and it is planned that future presentations from 2018 will cover such threats.

Themis allows secure two way communication between the reporter and the FIU. During the period the FIU published several advisory notices to reporting entities via Themis on a variety of subjects. The FIU will continue to publish advisory notices relating to areas of risk and of interest via Themis. These notices may be sent to all persons registered on Themis or they may be focussed on a specific sector thereby maximising the FIU's reach whilst controlling the extent of dissemination where the topic is sensitive or sector specific.

Throughout the period the FIU has worked closely with the Island's regulators to put in place an outreach programme for the forthcoming year, taking into account the Island's risk profile.

Intelligence Receipt, Analysis and Dissemination

The FIU received 1536 suspicious activity reports (SARs) during 2016/17. As can be seen from the table below, the volume of SARs submitted to the FIU decreased by 14% on the previous year. This is considered to be as a result of improved engagement with industry, resulting in fewer but better quality SARs as demonstrated by the number of intelligence packages disseminated to local law enforcement.

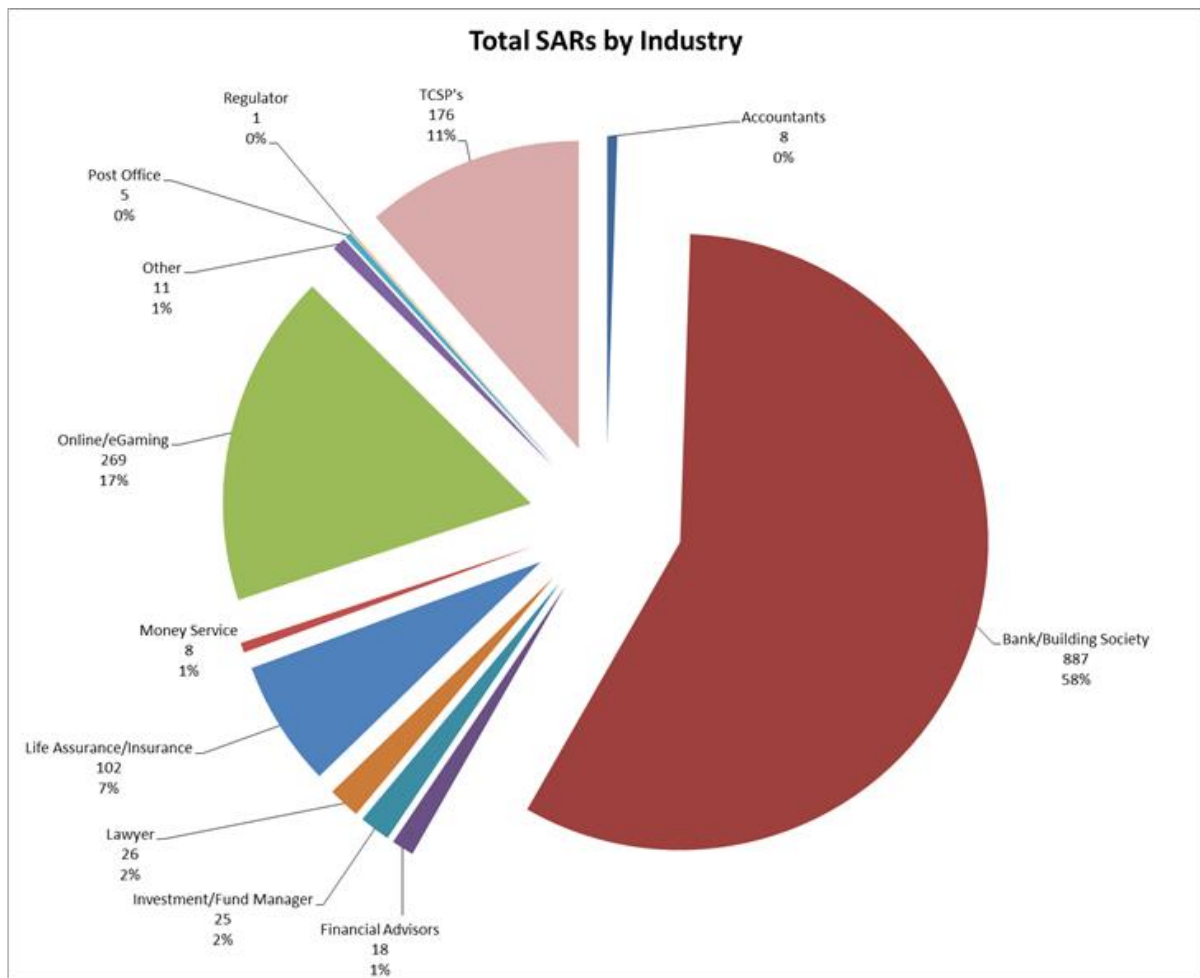
Whilst the number of SARs submitted to the FIU decreased, the number of SARs submitted under ATCA increased by 300%. This is considered to be due to a greater industry awareness of terrorist financing and its indicators.

Statistics	April 2016 – March 2017	% Change from prior year	April 2015 – March 2016
Total SARs	1536	-14%	1795
SARs under POCA 2008	1475	-18%	1792
SARs under ATCA 2003	12	300%	3
SARs under 'Other'	49	-	-- ²
Consent requests	172	17%	147
Consent requests refused (and %)	13 (7.5%)	1 (0.6%)	1 (0.6%)
Refused consent requests subsequently granted during the moratorium period (and %)	4 (2.3%)		-- ³

² The ability to make SARs to the FIU other than under POCA was introduced by the Act on 22nd April 2016.

³ Data is only available from the introduction of the FIU's online reporting system, Themis, on 1st April 2016

Summary of SARs by Reporting Sector



During 2016/17 the largest reporting sector in the Island was the banking sector, making up 57.75% of all SARs received. The online/egaming sector was the second highest reporting sector with 17.51% of all SARs received and the TCSP sector was the third largest reporting sector with 11.46%. These figures are reflective of both the nature and relevant size of business undertaken in the Isle of Man.

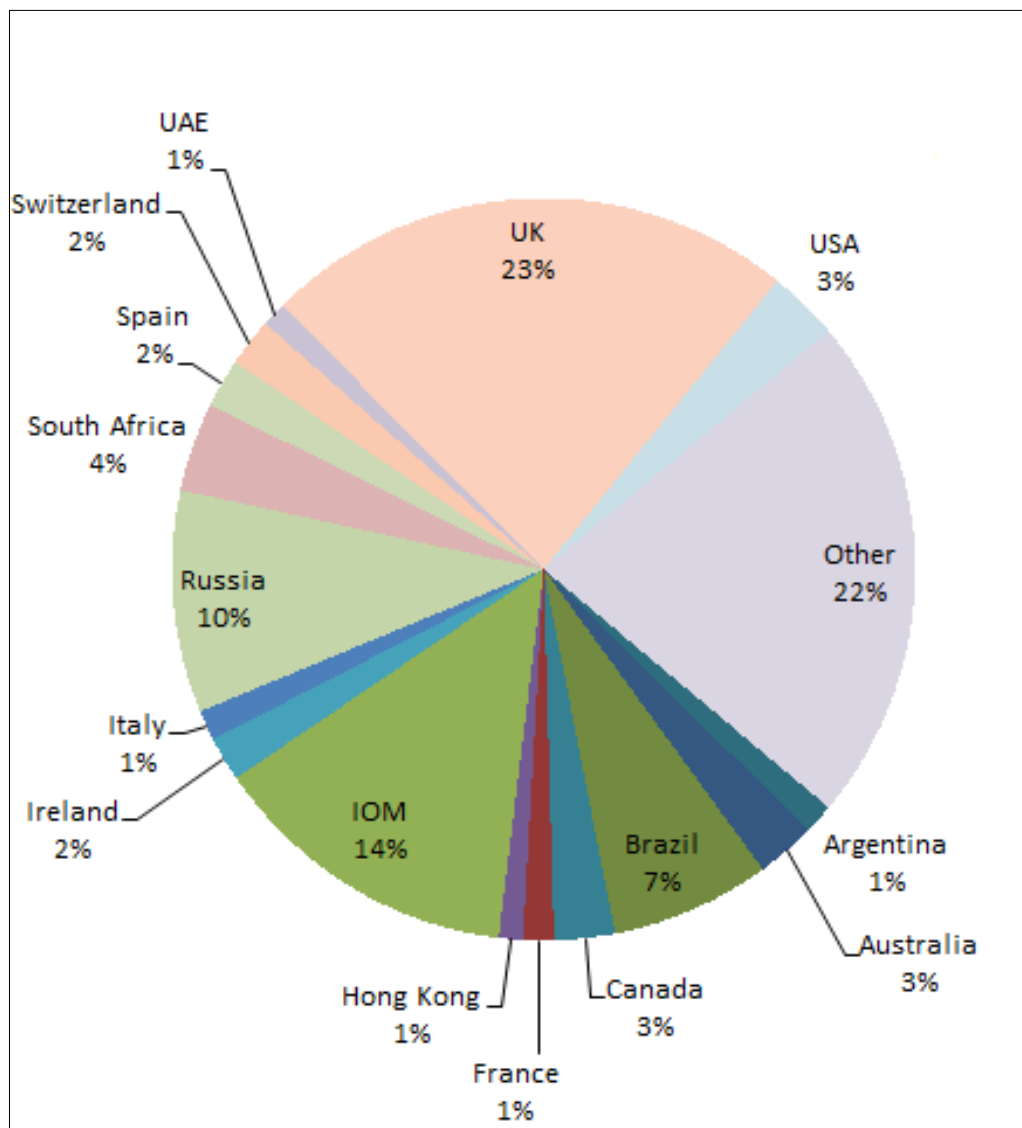
The main known or suspected criminality identified by the online/e-gaming sector was fraud/attempted fraud or money laundering with a predicate offence of fraud, with the fraud being perpetrated or attempted against the online/e-gaming company. The suspicion generally arose due to fraudulent documents being submitted to the online/e-gaming company or activities relating to chip dumping, where a stolen credit card or stolen ID is used to fund gaming involving one or more players intentionally 'losing' to another player in order to obtain financial benefit.

Table of SARs by Reporting Sector

Sectors	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Total	Percentage of Total
Accountants	2	0	0	0	0	1	2	2	0	0	0	1	8	0.52%
Bank/Building Society	80	87	64	65	61	44	56	92	84	87	70	97	887	57.75%
Estate Agent	0	0	0	0	0	0	0	0	0	0	0	0	0	0.00%
Financial Advisors	0	0	0	0	0	4	6	0	2	1	3	2	18	1.17%
Investment/Fund Manager	0	0	0	1	4	7	4	1	1	3	1	3	25	1.63%
Lawyer	4	1	1	1	3	2	5	2	3	1	2	1	26	1.69%
Life Assurance/Insurance	15	5	10	9	14	10	5	9	8	8	5	4	102	6.64%
Money Service	1	1	0	0	1	2	0	0	0	2	0	1	8	0.52%
Online/eGaming	50	18	68	23	28	18	11	20	7	10	7	9	269	17.51%
Other	2	0	0	2	2	1	1	0	0	1	2	0	11	0.72%
Post Office	1	1	0	0	0	1	1	0	0	0	0	1	5	0.33%
Regulator	0	0	0	0	0	0	0	0	0	1	0	0	1	0.07%
Stockbroker	0	0	0	0	0	0	0	0	0	0	0	0	0	0.00%
TCSP's	10	10	14	6	10	9	12	8	36	36	6	19	176	11.46%
Totals	165	123	157	107	123	99	103	134	141	150	96	138	1,536	

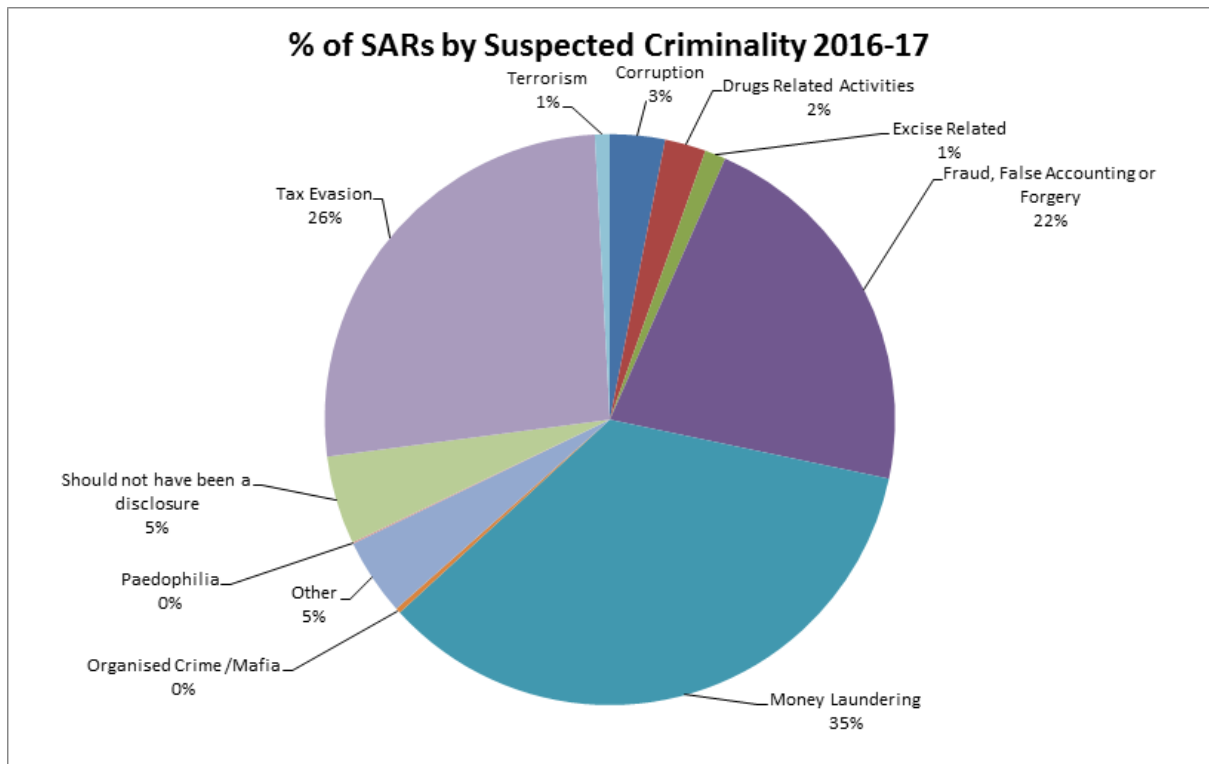
Summary of all SARs by jurisdiction of residence of subject 2016/17

The SARs received in 2016/17 related to subjects resident in 105 jurisdictions, with most subjects residing in the Isle of Man or in the United Kingdom. The chart below shows the percentage of SARs relating to each of the top 16 jurisdictions, with the other jurisdictions identified as 'other'.



% of SARs by suspected criminality 2016/17

The largest category of suspected criminality was 'money laundering' which is often used where the reporter cannot identify the predicate or underlying offence. The second highest category is tax evasion, with this category often being used where the SAR is linked to an international tax amnesty. Several tax amnesties were in place during the relevant period, including in Brazil and Argentina.



Key Highlights during 2016/17

The key highlights for the FIU during 2016/17 were as follows:

- The appointment of new staff including the FIU Director, two Supervisors and a new Financial Intelligence and International Cooperation Officer;
- The provision of terrorist financing training for FIU staff by UK experts in February 2017;
- The successful completion of the National Crime Agency's Financial Intelligence Officer training by 4 members of the FIU staff;
- The attendance, by representatives of the FIU, at the Egmont Group Plenary in Doha, Qatar, allowing the FIU to engage directly in the formulation of operational systems and processes for financial intelligence units and assisting the Egmont Group in gaining a greater appreciation of the Isle of Man's circumstances;
- Working extensively with the regulators and private industry to promote the use of the online reporting system (Themis) and to improve the quality of the reporting regime;
- Building closer working relationships with counterparts overseas, particularly in relation to terrorist financing.

Key Performance Targets for 2017/18

As a result of the National Risk Assessment 2015 and the Moneyval 5th Round Mutual Evaluation Report the FIU has identified its key priorities for 2017/18 as:

- Continuing to develop and implement a training and development programme for its staff;
- Providing education, guidance and training for industry on suspicious activity reports (SARs), including publishing typologies from the analysis of SARs;
- Improving the level of analysis of SARs and undertaking regular strategic analysis of threats based upon intelligence received;
- Building strategic and productive relationships with the financial and non-financial sectors and law enforcement agencies both on and off the Island, including the newly created International Cooperation and Asset Recovery Team (ICART).
- Identifying, collecting and maintaining statistics and KPIs designed to demonstrate and improve the FIUs performance

Whilst the FIU started to address these priorities during 2016/17, the FIU will give further attention to these priorities during 2017/18 to ensure that it achieves excellence in the gathering, analysis and dissemination of intelligence.

In focussing on its key priorities the FIU will, amongst other things –

- Ensure that its staff receive training from recognised experts, including financial intelligence officer training, anti-money laundering training and terrorist and proliferation financing training;
- Develop a programme for increased liaison with industry, including speaking at forums/conferences and meeting with the regulators, industry bodies and industry members;
- Produce guidance for industry on the risk indicators for terrorist financing;
- Produce guidance for industry on the online reporting system (Themis) and on the SAR reporting regime;
- Produce an operational analysis handbook for use by FIU staff;
- Increase the dissemination of actionable intelligence to law enforcement agencies (including ICART) and regulatory bodies;
- Collect and analyse intelligence from mutual legal assistance requests received by H.M. Attorney General and provide meaningful intelligence packages for use by law enforcement agencies and regulatory bodies;

Contact Details

If you wish to obtain further information on the FIU, its contact details are set out below:

Telephone + 44 (0) 1624 686000

Email fiu@gov.im

The above contact details may also be used if you are outside the regulated sector and you have a suspicion or knowledge of money laundering or if you have concerns about a suspected financial crime that you wish to report to the FIU.

The FIU's website is currently being improved so that it may be used by the FIU to publish relevant information. In the meantime the existing website may be found at www.fiu.im.