



**REPORT ON ASSESSMENT OF NATIONAL MONEY LAUNDERING  
&  
TERRORIST FINANCING RISK:  
BARBADOS**

**December 2019**

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## Abbreviations

AMLA	Anti-Money Laundering Authority
ATM	Automated Teller Machine
AUM/AUA	Assets under Management/Assets under Administration
BO	Beneficial Ownership
BRA	Barbados Revenue Authority
CAIPO	Corporate Affairs and Intellectual Property Office
CBB	Central Bank of Barbados
CFATF	Caribbean Financial Action Task Force
CTSP	Corporate Trust and Service Provider
DNFBP	Designated Non-Financial Businesses and Professions
DPP	Director of Public Prosecutions
FATF	Financial Action Task Force
FCIU	Financial Crimes Investigations Unit
FIA	Financial Institutions Act CAP. 324A
FIU	Financial Intelligence Unit
FSCA	Financial Services Commission Act
FSC	Financial Services Commission
IBC	International Business Company
IBU	International Business Unit
LEAs	Law Enforcement Authorities
MER	Mutual Evaluation Report
MFA	Mutual Fund Administrators
ML	Money laundering
MLFTA	Money Laundering and Financing of Terrorism (Prevention and Control) Act
MVTS	Money Value Transfer Service
NAP	National Action Plan
NPOs	Non-Profit Organisations
NRA	National Risk Assessment

OAG	Office of the Attorney General
PF	Proliferation Financing
POCA	Proceeds of Crime Act – CAP 143
RBPF	Royal Barbados Police Force
SBU	Special Branch Unit
STR	Suspicious Transaction Report
TF	Terrorism Financing
TFS	Targeted Financial Sanctions
WMD	Weapons of Mass Destruction

## FOREWORD

Consistent with its history of observance of international standards, Barbados is fully committed to complying with the Financial Action Task Force (FATF) Recommendations. The Government of Barbados treasures its reputation as a safe and preferred jurisdiction for Barbadians and investors and has clearly articulated its strategy for rebuilding the Barbados brand as a model among small states in the international community.

Barbados was the 4<sup>th</sup> member of the Caribbean Financial Action Task Force (CFATF) to undergo a 4<sup>th</sup> round mutual evaluation by the CFATF. This round of mutual evaluations introduced an assessment of effectiveness of the national framework in place to combat money laundering and terrorist financing. The FATF is the globally recognised standard setter for money laundering, terrorist financing and the financing of proliferation. The national risk assessment is a critical component of achieving compliance with the FATF Recommendations. The first of the 40 FATF Recommendations requires jurisdictions to identify, assess and understand the risks posed by money laundering and terrorist financing. This in turn allows for the development of risk informed mitigants that are reflected in the legal, administrative and operational frameworks implemented. Barbados' financial system is driven by certain dynamics and exhibits characteristics that define the outcome of this national risk assessment.

Barbados completed its first NRA report in June 2016. This updated report is intended to inform and raise awareness among the private sector, public sector and supervisors of evolving risks of money laundering and terrorist financing. It has deepened collaboration and cooperation among all stakeholders. Of particular importance is that the results inform the private sector of inherent risks in their operations, thus shaping implementation of appropriate controls. Additionally, the Government has implemented and refined policies and procedures; and directed resources based on risk.

The national risk assessment exercise will be repeated on a 2-year cycle, that is, in 2020. Until such time, should any developments in the financial landscape trigger a need for an earlier revision, an assessment will be undertaken and a report

disseminated. Each iteration of the process further refines our capacity to better assess risks and strengthen data and information gathering, and methodologies.

The Office of the Attorney General is responsible for leading the national anti-money laundering, terrorist and proliferation financing response. In so doing it works with a number of agencies in the public and private sectors. I am confident that Barbados will continue to implement robust and appropriate responses to risks posed by money laundering and terrorist financing, and that it will do so with the cooperation of all stakeholders.

The Hon. Dale Marshall, Q.C. M.P.  
Attorney General and Minister of Legal Affairs

## **1.0 EXECUTIVE SUMMARY**

As a member of the global community, Barbados shares the common goal of preventing criminals from perpetrating acts of Money Laundering (ML), Terrorist Financing (TF) and the Financing of the Proliferation of Weapons of Mass Destruction (Proliferation Financing). No country is immune to this threat which is a danger to the integrity of the global financial system. The protection of its citizens, the maintenance of financial stability and the promotion of sound economic growth are of fundamental importance to the Government of Barbados.

This report follows a comprehensive assessment of the inherent risk, threats and vulnerabilities which was undertaken in January 2019. It also served as the basis to update Barbados internal self-assessment of compliance with the FATF Standards taking into account the previous NRA report of June 2016 and the 2018 CFATF Mutual Evaluation Report (MER). It is important to recognise that the National Risk Assessment (NRA) is based on a particular set of variables at a given point in time. Consequently, there will be periodic updated NRA reports reflective of an iterative process, fuelled by the dynamics in the external and internal environments.

The ML threat assessment primarily aims to determine the extent to which criminals launder proceeds of crime through Barbados' financial and non-financial sectors. Fraud and Drug Trafficking were found to pose the highest inherent ML threat. The Terrorist Financing (TF) threat considered capacity, global reach and qualitative factors. Terrorism and terrorist financing were rated as inherently low.

In the context of the foregoing, a follow-the-money strategy is in place as part of an ongoing policy, of which countering the financing of terrorism (CFT) is an important component. A TF profile was completed as part of the NRA exercise and a national TF strategy has been developed and is being used by the relevant competent authorities only, given its confidential nature. Additionally, Barbados is far advanced in developing and implementing a risk-based model for Non-Profit Organisations (NPOs) and Charities, which will be informed by the results of a survey issued to all such persons.

Consideration of all sectors that may be inherently vulnerable to these threats revealed the following:

### **Very High**

- Lawyers,
- Corporate and Trust Service Providers,
- Long-term Insurers, and
- International Banks (Commercial Operations).

### **High**

- Commercial Banks,
- Deposit-Taking Finance Companies,
- Non-Deposit Finance Companies,
- Real Estate, and
- Unregulated Cards.

### **Medium**

- Securities Sector (former Investment Advisers),
- Investment Advisers,
- Mutual Funds Administrators,
- Money Service Businesses,
- Credit Unions,
- General Insurers,
- Intermediaries for Long-Term Insurance,
- Accountants,
- Sandbox/Virtual Assets, and
- Unregulated Money Lenders.

### **Low**

- International Banks (Holding Companies), and
- Dealers in Precious Metals, and Stones.

This report aims to raise the awareness of the private sector to the threats and vulnerabilities potentially faced by their operations and to allow for appropriate



measures to be taken in developing policies, procedures and their own risk-based frameworks.

The results have shaped policy decisions and strategic planning aimed at strengthening the national Anti-Money Laundering and Combating the Financing of Terrorism and Proliferation Financing (AML/CFT/PF) framework. Barbados has developed a three-year National Action Plan (NAP) that captures all priority actions in the Caribbean Financial Action Task Force (CFATF) Fourth Round Mutual Evaluation Report. Key legislative priorities have already been enacted. To support implementation, responsible agencies developed operational plans and work is underway on operational improvements in order to strengthen efficiency and capacity.

Consistent with its history of observance of international standards, Barbados is fully committed to complying with the Financial Action Task Force (FATF) Standards and continues to make tangible and positive reforms to effectively address ML/TF risks.

## 2.0 INTRODUCTION

Money Laundering (ML) and Terrorist Financing (TF) are threats to domestic and global security with the ability to compromise the integrity of the international financial system. Money laundering is the process by which criminals conceal or disguise the origin of criminal proceeds to make them appear as if they originated from legitimate sources, so that the assets can be protected and enjoyed. Terrorist financing is the process of collecting funds from legitimate or illegitimate sources and concealing or disguising their purpose in order to support terrorism or terrorists. While ML and TF may differ in their objectives they often exploit the same vulnerabilities in financial systems.

The Financial Action Task Force (FATF) is an international body responsible for setting standards and promoting effective implementation of legal, regulatory and operational measures to combat ML and the financing of terrorism and the proliferation of weapons of mass destruction (WMDs). The FATF has developed a series of Recommendations that are recognised as the international standard in this area. The Caribbean Financial Action Task Force (CFATF) is an organisation of 25 states of the Caribbean Basin, Central and South America, which have agreed to implement common countermeasures to address ML. The CFATF is among the nine Associate Members of the FATF.

The CFATF is conducting a fourth round of mutual evaluations for its members based on the FATF Recommendations (2012), using the Methodology for Assessing Compliance with the FATF Recommendations and the Effectiveness of AML/CFT Systems (2013), both as revised from time to time. The assessment is led by the CFATF Secretariat with the assessment team usually being drawn from membership. The process assesses technical compliance with the FATF Recommendations, and the level of effectiveness of the AML/CFT system. The review consists of desk-based and onsite components after which a report is produced. The Report is then discussed and adopted at one of the two Plenary Meetings convened annually. All Mutual Evaluation Reports are posted on the CFATF's website. There is a follow-up process that seeks to ensure resolution of any issues raised in the Report. Only follow-up reports relating to applications for technical re-ratings are published.

Barbados acknowledges that a clear understanding of ML and TF threats, sectoral vulnerabilities as well as national vulnerabilities and the results of this holistic assessment form the foundation for an effective national AML/CFT framework to mitigate ML/TF risks. Indeed, the FATF Methodology states “*ML/TF risks are critically relevant to evaluating technical compliance with Recommendation 1 and the risk-based elements of other Recommendations, and to assess effectiveness*”.

In order to identify and mitigate its ML and TF risks, Barbados has updated and revised its 2016 National Risk Assessment and domestic coordination framework. Actions taken include:

- Identifying and assessing the ML/TF inherent risks for the country;
- Designating a dedicated resource to co-ordinate the risk assessment and mitigation process;
- Committing to keeping the risk assessment up-to-date;
- Putting in place mechanisms to provide information on the results of the risk assessment(s) to all relevant competent authorities, financial institutions and Designated Non-Financial Businesses or Professions (DNFBPs); and
- Outreach to the private sector, on a risk basis, to generally raise awareness of the FATF Standard; ML/TF threats and vulnerabilities; and the results of the NRA. Information will be channelled on an ongoing basis by way of seminars and postings on the websites of the various competent authorities.

This document sets out the methodology and conclusions of Barbados’ national inherent risk assessment. Internally, Barbados has also re-assessed its mitigations in line with the updated risks, has developed a comprehensive National Action Plan and has continued to implement risk-based measures including several new legislative reforms and numerous policies, procedures and efforts to more effectively mitigate ML/TF risk.

### **3.0 OVERVIEW OF THE METHODOLOGY TO ASSESS INHERENT MONEY LAUNDERING AND TERRORIST FINANCING RISKS**

Barbados followed a systematic approach to assessing its entire ML/TF risk exposure comprising planning and process development, an inherent risk assessment, a residual risk assessment and development of a National Action Plan based on the findings of the 2018 CFATF MER to improve its ML/TF risk mitigation actions. The comprehensive NRA process forms the basis of an ongoing risk-based approach. The NRA process engaged all the relevant AML/CFT competent authorities as follows:

- a. Barbados Revenue Authority (BRA);
- b. Central Bank of Barbados (CBB);
- c. Customs & Excise Department;
- d. Royal Barbados Police Force (RBPF) - Financial Crimes Investigations Unit (FCIU), Sex Crimes and Human Trafficking Unit and Special Branch Unit (SBU);
- e. Financial Intelligence Unit (FIU);
- f. Financial Services Commission (FSC);
- g. International Business Division (IBD), Ministry of International Business & Industry;
- h. Office of the Attorney General (OAG);
- i. Office of the Director of Public Prosecution (DPP); and
- j. Registrar of Corporate Affairs & Intellectual Property Office (CAIPO).

It is recognised that the planning and process phase is important for measures to prevent or mitigate ML and TF risks to remain commensurate with the inherent risks identified.

This NRA report focuses on the identification and assessment of inherent ML/TF risk. Inherent risk is the risk prior to implementing mitigating controls, while residual risk is the risk after mitigating controls have been taken into consideration.

First, detailed inherent risk profiles were completed and rated for:

1. ML Threats;
2. TF Threats;
3. Financial Institution (FI) Sectoral Vulnerabilities; and
4. Designated Non-Financial Businesses and Professions (DNFBP) Vulnerabilities.

In each case, the confidence in the information used to create the profile was also assessed as High, Medium or Low.

The national risk context of Barbados was then assessed and the consequences of ML/TF were identified. Assessments of the ML/TF vulnerabilities of legal persons and of the TF vulnerabilities of NPOs were also conducted.

The assessment results were discussed and agreed by consensus by representatives of the competent authorities identified above during a series of workshops.

The NRA is used to inform the risk-based approach of all the competent authorities and is coordinated through an evergreen AML/CFT National Action Plan. Barbados is committed to updating its National Risk Assessment on a 2-year cycle and will continue to share updated inherent risk assessments publicly.

### **3.1 Threats**

Barbados' national ML and TF threats were assessed by representatives from the competent authorities identified above. The threat assessment primarily aims to determine the extent to which criminals launder proceeds of crime or finance terrorism through Barbados' financial and non-financial sectors. This strengthened knowledge of the criminal environment.

A rating scale of Low, Medium, High, and Very High was applied to both ML and TF threats.

### *Money Laundering Threats*

The full range of predicate offences designated by the FATF was considered, while taking into account other realities in Barbados. The various offences were assessed in accordance with data for 2017 and 2018. To ensure consistency in the application of the Methodology, the FATF list of predicate offences to ML were rated against the specific factors:

1. Criminal actors' knowledge, skills, expertise, networks and resources;
2. The extent to which criminal actors are using FIs, DNFBPs and other sectors (including legal persons) to launder proceeds of crime, including the possible movement of proceeds of crime through cash currency smuggling from foreign jurisdictions into Barbados; and
3. The value of proceeds of crime generated for each predicate offence or via professional ML.

### *Terrorist Financing Threats*

Barbados had no TF investigation cases or convictions and the assessment relied upon intelligence provided by LEAs. The potential threat of terrorism and TF was therefore assessed against a similar, but customised, set of factors as stated above.

1. The extent to which the actors including foreign terrorist financiers sophistication, network and resources contribute to resilient, sustainable and long-term terrorist financing activities.
2. The extent to which the terrorist actors have a network of supporters/sympathisers contributing to their resilience to performing TF activities;
3. The estimated value of funds raised by the terrorist financiers to support terrorists, terrorist organisations or terrorist acts. This includes any kind of support (financial and material, both legitimate funds and proceeds of crime).

### **3.2 Sectoral ML/TF Vulnerabilities**

A total of five rating factors were defined to assess sectoral inherent vulnerabilities of FIs and DNFBPs as follows:

1. The importance of the sector in the domestic economy and whether its structure and location of operations support moving funds rapidly.
2. The nature of products and services offered and the extent to which they have generally been assessed as inherently vulnerable products for ML and TF.
3. The inherent vulnerabilities associated with the sector's clientele profile, including nature of business relationships, customer status, and client occupation or business.
4. The extent to which a sector's activities involve high risk jurisdictions, countries of concern for ML/TF, and jurisdictions of strategic concern for Barbados' security interests.
5. The anonymity conferred by the delivery channel used and the complexity of those channels.

A rating scale of Very High, High, Medium and Low was also utilised.

### **3.3 Legal Persons**

Although not a FATF requirement for the NRA, Barbados undertook an inherent vulnerability assessment for Legal Persons based on information on the types and number of legal entities in Barbados and both international experience<sup>1</sup> and knowledge of competent authorities. This was undertaken in a period of significant transitioning to address issues relating to the Global Forum. The assessment will also be refreshed every two years in the context of the NRA update.

The assessment considered the various types of legal persons in Barbados, the number of business entities incorporated/licensed, and their inherent characteristics and how in particular their ownership structure could be abused for ML/TF. Three risk ratings were used: Low, Medium and High.

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<sup>1</sup>Including <http://www.fatf-gafi.org/media/fatf/documents/reports/FATF-Egmont-Concealment-beneficial-ownership.pdf>.

### **3.4 Non-Profit Organisations (NPOs)**

The FATF Standards recognise that NPOs play a vital role in the world economy and in many national economies and social systems and that some NPOs may be vulnerable to terrorist financing abuse by terrorists for a variety of reasons. For the FATF, NPO refers to a legal person or arrangement or organisation that primarily engages in raising or disbursing funds for charitable, religious, cultural, educational, social or fraternal purposes, or for the carrying out of other types of “good works”.

An inherent vulnerability assessment on NPOs including Charities was completed in this context, that is, to identify any organisations with activities and characteristics which put them at risk of TF abuse. This was also conducted by way of surveys and knowledge of competent authorities. The assessment rated organisations at risk or not at risk.

The assessment will also be updated every two years in the context of the NRA update.



#### **4.0 RISK CONTEXT FOR MONEY LAUNDERING AND TERRORIST FINANCING, INCLUDING SUMMARY OF EXISTING MITIGATIONS**

Barbados is the most easterly of the Caribbean islands and is within close proximity to the sub-grouping of islands which make up the Organisation of Eastern Caribbean States (OECS) and Trinidad and Tobago in the south. The island is 166 square miles with a population of approximately 277,000 inhabitants as at the last census in 2010. Barbados is one of the most stable countries in the Caribbean, with the international business sector being a leading contributor to economic growth.

Barbados is ranked in the Index of Economic Freedom 2019 as the 11th freest economy in Latin America and the Caribbean and 67th in the world. Barbados also ranked by the 2018 Transparency International's Corruption Perceptions Index Latin American/Caribbean countries as 2nd in Latin America and the Caribbean, and 25<sup>th</sup> in the world<sup>2</sup>.

At September 2019, nominal GDP stood at Bds\$7.8 billion according to the Central Bank of Barbados (CBB)<sup>3</sup>.

Barbados has had an Exchange Control regime in place since 1978. The Exchange Control Authority in Barbados is the Minister of Finance who has delegated much of his authority to the CBB. The CBB in turn, delegates some of its authority to Authorised Dealers and Authorised Depositories. These handle most of the transactions made in foreign currencies or gold bullion. Only Authorised Dealers may legally hold and deal in foreign currencies and gold bullion. They act on behalf of the CBB and must submit returns to the Central Bank on whatever transactions they carry out.

##### **4.1 Legislative Framework**

The primary AML/CFT/PF laws in Barbados include:

- i. Money Laundering and Financing of Terrorism (Prevention and Control) Act, 2011-23 as amended in 2019;

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<sup>2</sup> [https://www.investbarbados.org/why\\_high\\_intl\\_rankings.php](https://www.investbarbados.org/why_high_intl_rankings.php)

<sup>3</sup> <https://www.centralbank.org.bb>

- ii. Anti-Terrorism and Counter-Proliferation of Weapons of Mass Destruction Act, Cap. 158 as amended in 2015 and 2019;
- iii. Criminal Assets Recovery Fund Act, 2016;
- iv. Customs Act, CAP 066 as amended in 2019;
- v. Drug Abuse (Prevention and Control) Act, 1990-14, Cap.131;
- vi. Extradition Act, CAP 189;
- vii. Proceeds and Instrumentalities of Crime Act, 2019;
- viii. Mutual Assistance in Criminal Matters Act, Cap.140A;
- ix. Trafficking Victims Protection Act; and
- x. Transnational Organised Crime (Prevention and Control) Act.

The below Statutes, as amended, are also important to the overall regime:

- a. Charities Act, Cap 243;
- b. Companies Act, Cap. 308;
- c. Companies Regulations, 1984;
- d. Corporate (Miscellaneous Provision) Act, 2015;
- e. Corporate and Trust Service Providers Act, 2015;
- f. Financial Institutions Act CAP. 324A;
- g. Financial Services Commission Act;
- h. Insurance Act Cap 310; and
- i. Trusts (Miscellaneous Provisions) Act.

These have significantly improved the AML/CFT framework.

#### **4.2 Key AML/CFT/PF Agencies**

The national framework is executed and overseen by a system of governance spanning the public and private sectors.

The Office of the Attorney General is Ministry responsible for AML/CFT/PF. The key supporting agencies are:

- a. Barbados Revenue Authority (BRA);
- b. Central Bank of Barbados (CBB);

- c. Customs & Excise Department;
- d. The Royal Barbados Police Force (RBPF) - Financial Crimes Investigations Unit (FCIU), Sex Crimes and Human Trafficking Unit, Special Branch Unit (SBU), and Drug Squad;
- e. Financial Intelligence Unit (FIU);
- f. Financial Services Commission (FSC);
- g. International Business Unit, Ministry of International Business & Industry (IBU);
- h. Office of the Director of Public Prosecution;
- i. Corporate Affairs & Intellectual Property Office (CAIPO);

### **4.3 Anti-Money Laundering Authority (AMLA)**

The Anti-Money Laundering Authority is appointed by the Attorney General in accordance with Section 8 of the MLFTA to monitor and supervise financial institutions in accordance with the Act. AMLA's mandate includes the:

- (a) issuance of Guidelines;
- (b) imposition of pecuniary penalties;
- (c) authorisation of FIU staff or such other persons to conduct inspections for compliance with the MLFTA;
- (d) issuance of directives to financial institutions and DNFBPs; and
- (e) imposition of administrative sanctions.

The Authority comprises the heads of all regulatory agencies, Registrar of CAIPO, LEAs, BRA; as well as four independent persons, appointed by the Attorney General, who he may determine have a sound knowledge of banking, financial and legal matters.

Several national Committees are also in place to advise the AMLA on policy and implementation matters. These are the:

- a. *Anti-Money Laundering Supervisors Committee (AMLSC)*;

This Committee is charged with improving the domestic cooperation between the financial and DNFBP AML/CFT supervisors;

b. *Money Laundering Investigations Committee (MLIC)*;

This Committee's main purpose is to improve overall domestic cooperation of ML investigations, including through exchange of information among the competent authorities primarily involved in ML investigations;

c. *Terrorist Financing Sanctions (TFS) Coordination Committee for TF and PF (TFSCC)*; and

This Committee is responsible for developing appropriate procedures aimed at complying with the FATF Requirements relating to targeted financial sanctions associated with UNSCRs on both TF and PF.

A National Action Plan (NAP) has been developed to incorporate the results from the NRA and embodies the national AML/CFT policy to improve ML/TF mitigation measures, including those recommended actions in the last CFATF Mutual Evaluation Report. The plan was endorsed by the Cabinet of Barbados in 2019 and is monitored by a Cabinet Sub-Committee. The NAP is constantly being reviewed and updated, circulated at least monthly to all stakeholders, discussed at the monthly meetings of the AMLA and progress reported to the Attorney General at least once a month. This process allows for ongoing revision of the threats and vulnerabilities and the implementation of proper mitigation actions, prior to the 2-year cycle for the comprehensive updated NRA.

Among the key reforms are:

- Updated suite of legislation;
- Revised Guidelines for financial institutions and Designated Non-Financial Businesses and Professions;
- New Guidelines for Non Profit Organizations and Charities;
- A risk-based approach to ML Investigations and Prosecutions;
- Policy document on RBA supervision of DNFBPs;
- Revised Suspicious Transaction Reporting (STR) form; and

- Procedures for applying countermeasures arising from FATF and CFATF public statements on high-risk jurisdictions.

## 5.0 ASSESSMENT OF MONEY LAUNDERING THREATS

The ML threat assessment was based in part on statistical evidence, spanning the last four years, derived primarily from:

- suspicious Transaction Reports (STRs) received by the FIU;
- disclosures by the FIU to the Law Enforcement Authorities;
- investigated and prosecuted cases; and
- value of proceeds of crime involved and deduced from the amount of proceeds confiscated.

Qualitative information including expert views of competent authorities was also taken into account. The overall rating for each threat level is categorised as Very High, High, Medium and Low, each of which is assigned a numerical value of 4, 3, 2 and 1 respectively and then the results averaged.

Each of the rating factors has a pre-defined rating scale to contribute to a more objective assessment of the ratings. In relation to the level of proceeds for each of the 21 FATF-defined predicate offences and for independent ML, the following scale was used:

Rating	Scale in BBD
Very High	\$ over 1 million
High	\$ hundreds of thousands
Medium	\$ tens of thousands
Low	\$ under thousands

Low	Medium	High	Very High
<b>Threats</b>			
<ul style="list-style-type: none"> <li>- Murder</li> <li>- Illicit Arms and Trafficking</li> <li>- Counterfeiting Currency</li> <li>- Extortion</li> <li>- Piracy</li> <li>- Environmental Crime</li> <li>- Insider Trading / Market Manipulation</li> <li>- Terrorism</li> <li>- Terrorism Financing</li> <li>- Ship-Based Gaming</li> </ul>	<ul style="list-style-type: none"> <li>- Human Trafficking (includes sexual exploitation, forced labor, kidnapping)</li> <li>- Counterfeiting of Products</li> </ul>	<ul style="list-style-type: none"> <li>- Independent ML</li> <li>- Theft and Robbery (includes stolen good trafficking)</li> <li>- Corruption and Bribery</li> <li>- Tax Crimes</li> </ul>	<ul style="list-style-type: none"> <li>- Fraud (includes forgery)</li> <li>- Drug Trafficking</li> </ul>

**1. Very High Threats**

*Drug Trafficking*

The stakeholders considered drug-trafficking and drug-related offences pursuant to the Drug Abuse (Prevention and Control) Act, Cap. 131. Instances of drug abuse are of concern to several authorities on the island. There were over 400 prosecutions for drug trafficking, drug-related offences and ML during 2017. The data also revealed that the majority of FIU disclosures to Law Enforcement Authorities (LEAs) related to drug-trafficking and drug-related offences. In February 2018, a third of the prison population was incarcerated on drug-related offences. Barbados is a transit point for cocaine and cannabis despite the fact that the local drug of choice is cannabis with a limited use of cocaine domestically. Proceeds of crime arising from the investigations were in the range of BDS\$8.5 million.

*Fraud (including forgery)*

Fraud occurs as a result of nationals as well visitors to Barbados acting locally. The latter is believed to possibly be part of a larger international criminal syndicate. The most common incidents of fraud that are offences under the Theft and Forgery Acts relate to the:

- (a) the creation and use of fraudulent cheques;

- (b) the creation of false invoices;
- (c) business email compromise;
- (d) forging documentation to secure loans; and
- (e) Automatic Teller Machine (ATM) skimming.

The proceeds of crime generated from fraud between 2017 and 2018 were BDS\$3.2 million which arose out of 170 and 178 predicate offences and ML investigations, respectively.

## **2. High Threats**

### *Theft and Robbery (including stolen good trafficking)*

Theft is committed largely by individuals using channels known to law enforcement. Relevant STR filings point to stolen/suspected stolen items. In 2017 and 2018, there were 1641 and 1545 investigations, respectively of theft and robbery. The magnitude of proceeds of crime for the relevant period was BDS\$2.4 million.

The threat level was driven by the estimated proceeds of crime in the relevant period related to this offence.

### *Corruption and Bribery*

The sectors through which the offences of corruption and bribery, whether domestic or foreign in nature, are known to law enforcement authorities. The threat related more so to foreign corruption which is of a more sophisticated nature. Foreign jurisdictions involved in the inflows and outflows of proceeds of crime include Venezuela, Antigua and Barbuda, Canada, U.S.A, Nigeria and Peru; and Barbados has received several requests for Mutual Legal Assistance in this vein. The proceeds of crime generated by this offence were approximately BDS\$3.0 million.

### *Tax Evasion*

Barbados provides for the offence of tax evasion under the Income Tax Act as far as it relates to the evasion of the payment of taxes related to Value Added Tax. Section 79(2) states that any person who makes a false or deceptive return, gives any false or deceptive information, misleads the Revenue Commissioner or member of staff,

destroys or otherwise disposes of records or books of account of himself or any other person except as permitted by section 75 in order to facilitate an evasion of tax, is guilty of an offence and is liable on summary conviction to imprisonment for a term not exceeding six months or to a fine not less than BDS\$500 and not greater than BDS\$10,000 or to both imprisonment and fine.

The threat level was driven by criminals' capacity and proceeds of crime, BDS\$2.4 million in the relevant period related to this offence.

### *Money Laundering*

In reviewing the offence of ML pursuant to the Money Laundering and Financing of Terrorism (Prevention and Control) Act, 2011-23, most of the ML seen in Barbados related to self-laundering largely linked drug trafficking or fraud-related offences. Based on the matters reviewed and investigations commenced in the relevant period, a sum of BDS\$45.2 million was involved.

ML does not feature materially and the levels of sophistication and resources are not high.

## **3. Medium Threat**

### *Smuggling*

Smuggling focused on two (2) areas namely, the exporting currency without the relevant Exchange Control Authority permission in accordance with the Exchange Control Act; and importation of goods without the payment of the relevant import duties in accordance with the Customs Act. Specifically, attempts to export United States dollars, above the allowable limit, without the requisite permission and the smuggling of cigarettes into Barbados were the cited threats.

The threat level was also driven by the estimated proceeds of crime related to this offence in the relevant period. In 2017 and 2018, the amounts found totalled, BDS\$88,000 and BDS\$66,000 respectively.



### *Counterfeiting and Piracy of Goods*

Owners of unincorporated businesses feature in this threat scenario. Counterfeit products were sourced from known overseas jurisdictions and there was no indication of collusion found towards the purchase items, including bags, shoes and DVDS, on a large scale for sale.

Proceeds of crime generated in the review period totalled BDS\$2.5 million.

### *Human Trafficking*

The human trafficking threat encompassed sexual exploitation forced labour and kidnapping. Barbados is regarded as a destination country but human trafficking is not extensive. The traffickers have not changed and no new methods have emerged. The traffickers continue to traffic women for personal sexual exploitation and not for employment in other areas. No aspects of ML were identified during investigations for the review period. There were nine (9) reports relative to suspected Trafficking in Persons, all of which were investigated. In addition, two major operations were conducted.

The level of the threat in this area was medium.

## **4. Low Threats**

### *Murder*

58 murders were committed, relating largely to crimes of passion or revenge. There was no evidence to support that these crimes were for financial reward. No STR reports were received. The level of sophistication, resources and knowledge of ML methods to launder did not feature. Based on this together with the lack of STR filings and magnitude of proceeds of crime, a low rating was attributed to this offence.

### *Illicit Arms and Trafficking*

This threat relates to importation of firearms without the relevant import licence/permit. Individuals as importers conceal firearms and ammunition in packages at borders.

The threat level was driven by the criminals' capacity and scope of ML activity in the relevant period related to this offence.

#### *Insider Trading/Market Manipulation*

Section 310 of the Companies Act CAP 308, and Sections 116 – 118 of the Securities Act, set out the prohibition on insider trading; making it a criminal offence. In addition, the Securities Act CAP 318A (sections 74 -76) set on the prohibition on market manipulation while section 142 (2) makes it a criminal offence. This threat assessment was determined based on input from supervisors and law enforcement agencies.

The actors' capacity and level of sophistication were both assessed as low on the basis that there were no detected or reported incidents from internal or external sources during the period under review. There were also no requests from domestic or international competent authorities for information related to market manipulation and insider trading. In addition, there was no evidence to suggest that Barbados was the destination for proceeds related to market manipulation and insider trading. Law enforcement agencies reported that (a) there were no STRs (or overseas requests) on insider trading or market manipulation for the period January 2017 to January 2019 and (b) no charges were laid by RBPF in relation to this matter.

The threat level was rated as Low.

#### *Gaming*

Casino gambling is prohibited while cruise ships are berthed in Barbados. Casino gambling however occurs prior to entering and after departing Barbados. There is no information which could conclude on the involvement of individuals and/or organised crime groups. LEAs have no records to indicate any situations where individuals have made large winnings while in international waters and then entered the country without declaring same. There are no recorded incidents of individuals being detained with cash or bearer negotiable instruments (BNIs) at ports of entry. There were no STRs relating to ship-based casinos or ML investigations over the period reviewed.

The threat level was rated as Low.

## **6.0 ASSESSMENT OF TERRORISM AND TERRORIST FINANCING THREATS**

### *Terrorist Financing*

The threat assessment undertaken did not reveal any instances of TF or CFT. This was based on STR reporting and resultant investigations undertaken. Few STRs were observed between 2017 and 2019 suspected of being related to TF. One (1) matter was investigated in 2018 and the actors' capacity to finance TF was determined to be low. There was no known financing network in Barbados such that the actors' capacity to finance TF was very limited, and any TF activity would likely be sporadic. Any supporters would likely be foreign and any local support minimal. The estimated proceeds were rated as Medium. Consequently, the TF/CFT threat level was rated as Low.

Nonetheless, with the high threat of terrorism in some other neighbouring jurisdictions such as Trinidad & Tobago and the ease of travel between Barbados and these countries, authorities recognise that the threat of being targeted (victimised) or used by foreign terrorist financiers could still be possible.

**7:0 ASSESSMENT OF THE INHERENT VULNERABILITIES OF MONEY LAUNDERING AND TERRORIST FINANCING – FINANCIAL INSTITUTIONS NATIONALLY AND BY SECTORS**

*Introduction*

Barbados’ Financial Sector is regulated and supervised by two bodies: the Central Bank of Barbados and the Financial Services Commission. The Central Bank regulates and supervises the following subsectors under the Financial Institutions Act Cap 324, as amended in 2018 and the International Financial Services Act, Cap 325: The Financial Services Commission is the designated regulator and supervisor under the (a) Insurance Act, Cap. 310 (b) Occupational Pension Benefits Act, Cap. 350B (c) Securities Act, Cap. 318A (d) Mutual Funds Act, Cap. 320B and (e) Co-operatives Societies Act, Cap. 378A (as it relates to the services provided by a credit union).

**Summary of Vulnerability Assessment**

Low	Medium	High	Very High
<b>Vulnerabilities</b>			
<ul style="list-style-type: none"> <li>- International Banks (Holding Companies)</li> </ul>	<ul style="list-style-type: none"> <li>- Securities Sector (ex. Investment Advisors)</li> <li>- Investment Advisors</li> <li>- Mutual Funds Administrators</li> <li>- Money Service Businesses</li> <li>- Credit Unions</li> <li>- General Insurance</li> <li>- Intermediaries</li> <li>- Sandbox / Virtual Assets</li> <li>- Unregulated Money Lenders</li> </ul>	<ul style="list-style-type: none"> <li>- Commercial Banks</li> <li>- Deposit-Taking Finance Companies</li> <li>- Non-Deposit Finance Companies</li> <li>- Unregulated Cards</li> </ul>	<ul style="list-style-type: none"> <li>- Long term Insurances</li> <li>- International Banks (Commercial Operations)</li> </ul>

## 7.1 The Banking Sector

The Central Bank of Barbados through its Bank Supervision Department (BSD) under the Financial Institutions Act Cap 324, regulates and supervises the following subsectors which comprise the Banking Sector.

- Commercial (Retail) Banks;
- Trust Companies, Finance Companies, Merchant Banks and Money or Value Transmission Service Providers;
- Foreign Currency Earning Banks [International (Retail) Banks]; and
- Financial Holding Companies.

The Bank Supervision Department is staffed by trained examiners and its objectives include:

- Developing legislation and regulations for the financial system;
- Inspecting financial institutions licensed under the Financial Institutions Act to ensure that the operations are safe and in compliance with legislation; and
- Reporting on the performance and condition of each licensed financial institution.

It conducts both onsite and offsite inspections of all licensed financial institutions and employs a risk-based supervisory process to inspections to ensure that they are undertaken efficiently and resources are appropriately allocated.

### 1. Very High Vulnerability

#### *Foreign Currency Earning Banks [International (Retail) Banks]*

The sector represents 58% of the assets in the banking sector and 35% of the financial services sector. There is limited integration domestically as the core banking business is conducted internationally which increases the vulnerability to ML and TF. As at September 2018, the sector's assets were US\$31.17 billion while Assets under Management / Assets under Administration were US\$5.61 billion (June 2018).

There are 14 entities licensed within this sector with subsidiaries and representative/liaison offices located in countries including: Canada, South Africa, the United Kingdom (UK), Geneva, Paris, Mexico, the British Virgin Islands (BVI), the

Netherland Antilles and The Bahamas. The ownership structures feature several intermediate layers (trusts, corporations, holding companies) between the licensee and the ultimate beneficial owner, (UBO) - High Net Worth Individuals and financial institutions) which increases the complexity of the sector. Through the ownership structures linkages exist to Switzerland, South Africa, Luxembourg, Cyprus, Cayman, Curacao, Canada, BVI, Venezuela, China, the Czech Republic, Colombia and Panama.

The sector is accessible to customers globally and enables the transfer of funds cross-border, through correspondent banking relationships, but does not offer this service themselves. Transactions are generally conducted via internet banking or wire transfers and may also involve the use of intermediaries.

The sector offers a large variety of inherently vulnerable products and services (both on- and off-balance sheet) which constitute a significant portion of the overall business. These include private banking, wire transfers, assets under management and assets under administration (AUM/AUA).

Most of the sector's clientele involve ongoing and direct relationships however the use of business introducers in the establishment of customer relationships is prevalent. Customers include international business companies, high net worth individuals, trusts, company services providers and politically exposed persons (PEPs) which are all considered inherently high risk.

The main geographic locations where business transactions are conducted were the U.S.A. and Canada. However, five licensees facilitated transactions with jurisdictions including those with strategic deficiencies as published by the FATF namely The Bahamas, Panama and Trinidad and Tobago.

## 2. High Vulnerability

### *Commercial Bank (Retail Bank) Sector*<sup>4</sup>

The Commercial Bank (Retail Bank) sector represents 13% of the assets in the banking sector and 8% of the financial services sector and provide banking services to all other sectors within the economy rendering it vulnerable to ML at all stages (placement, integration and layering). As at September 30, 2018 the sector's assets were US\$6.40 billion.

The sector comprises one branch and four subsidiaries of regional/international regulated financial institutions. Linkages to jurisdictions with strategic deficiencies exist through the ownership structures. The ultimate parents are headquartered in Trinidad and Tobago (2) and Canada (3) and have a Caribbean-wide footprint. One licensee has branches in seven OECS countries across as follows: Anguilla, Antigua, Dominica, Grenada, St. Kitts & Nevis, St. Lucia and St. Vincent and the Grenadines. These are regulated by the respective authorities (and excluded from the quantitative data presented).

Funds are widely accessible within the country through branch and Automatic Teller Machine (ATM) networks. Altogether, there are 34 branch offices along with 57 remote ATMs island-wide. Other delivery channels include internet banking and mobile/telephone banking and Point of Sale. Licensees are all connected via the Caribbean Integrated Financial Services Inc. (CarlFs) network which allows customers access to funds from all ATMs and point-of-sale terminals.

The sector engages in a number of products vulnerable to ML/TF including deposit-taking, lending (including trade financing), correspondent banking and wire transfer services. Correspondent banking relationships are established mainly with banks based in the U.S.A. and Canada and provide the main avenue for the movement of funds cross-border. Assets under management/administration though not a typical activity within the sector is also provided and comprised custodial management (institutional), investment management and pension fund management services.

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<sup>4</sup> Entities licensed under Part II of the Financial Institutions Act.

The client base includes several inherently high-risk customer types such as PEPs, high net worth individuals, trusts, in-direct clients, and non-residents. Transactions with non-clients are facilitated, however the sector is moving away from this activity. These include foreign exchange transactions, and the encashment of cheques. Indirect clients (through service providers such as lawyers) represented 1.0% of deposits as at September 30, 2018; while non-residents represented 6.5% of deposits and 0.8% of loans. Overall, the main customer types were individuals (which includes: salaried individuals, self-employed persons and professionals), local corporations and financial institutions.

The sector has an extensive geographic reach including jurisdictions with strategic deficiencies as published by the FATF<sup>5</sup>. However, based on the data collected, the majority of transactions were conducted with the U.S.A. and Canada.

### *Finance Companies*

Finance companies represent 1.0% of both the banking and the overall financial sector. Entities in this sector are typically trust and finance companies or merchant banks licenced to carry on banking business, though prohibited by law from offering deposits that are repayable on demand. Though relatively small, these institutions may serve as the point of initial entry of funds into the financial system. For the purpose of this risk assessment, this sector was separated into two categories: 1) Deposit-Taking Finance Companies and 2) Non-Deposit Taking Finance Companies. As at September 2018, the asset base of deposit taking and non-deposit taking finance companies was US\$494.65 million and US\$26.20 million, respectively.

### *Deposit-Taking Finance Companies*

This sub-sector comprised of six institutions with linkages to jurisdictions with strategic deficiencies through their ownership structures including potentially Zimbabwe (birthplace of UBO). The sector is integrated with credit unions, insurance companies along with the commercial banking sector. The ultimate parent companies are

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<sup>5</sup> Improving Global AML/CFT Compliance: On-going Process



domiciled in Barbados, Jamaica, Trinidad & Tobago, the Bahamas and the U.S.A and include a credit union (domestic), conglomerates and regulated financial institutions. One licensee has a branch established in St. Lucia. Funds are mainly accessible via the physical branch location banking (that is, face-to-face).

Along with deposit-taking, which is limited to term deposits, the sub-sector offers a number of other vulnerable products and services including AUM (one entity), personal lending and foreign exchange trading. Wire transfers are facilitated through the establishment of corresponding banking relationships with banks locally and in the U.S.A.

The customer base includes several inherently high-risk customer types such as PEPs, high net worth individuals, large corporations and NPOs/charities. These client types may increase the sector's vulnerability to ML/TF risk. Customer relationships are ongoing and direct and there is limited scope for occasional transactions with non-clients.

The main geographic locations where business transactions are conducted were the U.S.A. and Canada however transactions were also undertaken with jurisdictions considered as high risk and areas of concern for ML/TF including the Bahamas, Panama and Trinidad and Tobago.

#### *Non-Deposit Taking Finance Companies*

This sub-sector consists of three institutions which are part of financial services groups headquartered locally and in other countries including Canada and Curacao, with intermediate holding companies located in St. Lucia and the Cayman Islands. Licensees are only integrated with the commercial banking sector.

The majority of the transactions are initiated via telephone or email which introduces a degree of anonymity. This results in the execution of wire transfers which are facilitated through established correspondent banking relationships.

The main activity of this sub-sector is assets under management/administration which is considered inherently high risk, however licensees also offer trust and corporate administration services along with trading and brokerage services. As at September 2018 Assets under Management was approximately US\$0.74 billion.

The customer base includes local foreign currency earning companies (formerly IBCs), trusts and high net worth individuals all of which are inherently high risk customer types.

Geographically, the majority of the transactions for the sector were linked to Canada. Other exposures for the sector were the UK, Cayman Islands, Hong Kong, Switzerland and Australia.

### **3. Medium Vulnerability**

#### *Money or Value Transmission Service Providers<sup>6</sup>*

The MVTs sector is assessed as inherently medium risk. The sector is relatively small and unsophisticated however the risk assessment is driven mainly by the nature of the clientele and the sector's geographic reach. As at December 2015 there were five entities within the sector, four of which were agents of an international/regional money service business (including Western Union or MoneyGram). Only one entity had permission to provide outbound services. Total income for the sector for 2015 was US\$0.90 million while assets totalled US\$1.42 million. During the year there were 145,863 transactions inbound (US\$37.23million) and 74,947 transactions outbound (US\$25.75 million).

Entities operate through branches and sub-agents island-wide. There are no subsidiaries or branches located outside of the jurisdiction however, one entity had sub-agents in St. Vincent & the Grenadines.

The sector facilitates the transmission and receipt of cross-border wire transfers. The product is not complex but there is integration with other sectors within the economy.

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<sup>6</sup> As at January 1, 2019, entities within the sector were be required to be licensed under Part III of the Financial Institutions (Amendment) Act. Entities were previously registered as Authorised foreign dealers.

MVTs are serviced by commercial banks where accounts are maintained for operational purposes. The customer base was mainly individuals including tourists and PEPs. Customers may also include small unincorporated businesses. Transactions are mostly occasional however for outbound transactions repeat customers are on-boarded. All transactions are conducted face-to-face. The sector's geographic reach is extensive based on the inter-agency networks created by Western Union and MoneyGram. During 2015, the top five jurisdictions for outbound transactions were the U.S.A., Jamaica, Canada, Guyana, St. Vincent and the Grenadines; and Trinidad and Tobago and the U.S.A., United Kingdom, Canada, Trinidad and Tobago and Bermuda for inbound transactions.

#### **4. Low Vulnerability**

##### *Financial Holding Companies<sup>7</sup> and Licensees Providing Proprietary Management Services*

This risk assessment is primarily driven by the limited nature of the clientele and the absence of vulnerable products and services. The subsector includes licensees established to hold the parents' investments in the Caribbean ("holding companies"); and/or licensees providing a treasury function to affiliated companies. These entities do not engage in transactions with external clients. There are currently eight licensees in the subsector with combined assets of US\$18.50 billion<sup>8</sup> as at September 30, 2018. The composition of assets reflects mainly the investment in subsidiaries and funds due from head office and affiliates.

The ultimate parent entities are regulated financial institutions based in Canada and Trinidad & Tobago and a Jamaican conglomerate whose business includes money services, food manufacturing and distribution, retail and financial services. For the holding companies, subsidiaries are generally regulated entities and include money service businesses (MSBs), commercial banks, non-bank financial institutions (near banks), insurance companies and asset management companies. Two licensees have

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<sup>7</sup> Financial Holding Companies are entities licensed under Part IIIA of the Financial Institutions Amendment Act, 2018 whose primary activity is the holding of shares in a subsidiary (proprietary).

<sup>8</sup> The largest licensee submits consolidated financial data only and accounts for 85.4% of the total assets noted above. This includes an entity captured in the Commercial Bank (Retail Bank) vulnerability assessment.

operating subsidiaries within Barbados, while regional jurisdictions include: Anguilla, Antigua and Barbuda, Aruba, The Bahamas, Belize, British Virgin Islands, Cayman Islands, Curacao, Guyana, Jamaica, Montserrat, St. Maarten, St. Kitts and Nevis, St. Lucia, Turks and Caicos, St. Vincent and the Grenadines and Trinidad and Tobago. Trinidad and Tobago and The Bahamas are currently on the FATF list of jurisdictions with strategic deficiencies.

The entities within this subsector hold investments in their respective subsidiaries and provide financial services to affiliated companies.

### **7:3 Non-Banking Sector**

#### *Overview*

The *insurance sector* is the second largest financial sub-sector in Barbados. The insurance sector is regulated by the Insurance Act Cap 310 (Insurance Act) and the Financial Services Commission Act (FSCA). All insurers are required to be licensed under the Insurance Act Cap 310. The Financial Services Commission (FSC) permits three categories of licences to conduct insurance business: Class 1, Class 2 and Class 3. Classes 1 and 2 insurers are corporate bodies which engage in the sale of long term<sup>9</sup> and/or general insurance products. Class 1 licensees underwrite related party business while Class 2 underwrite third party business. Licensees under Class 3 are insurance holding companies, insurance management companies and act as sector intermediaries. The assessment of the sector is presented under three distinct sub-sectors: long term insurance, general insurance and intermediaries.

*Long term insurance* as defined by the Insurance Act includes life insurance business, industrial life business and bond investment business. There are 24 insurance companies licensed to write long-term insurance business. The sector has assets of US\$32.6 billion. The sector comprises of subsidiaries of groups, standalone companies and branches.

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<sup>9</sup> Long term insurance includes as life insurance.

*General insurance* business as defined by the Insurance Act refers to the conducting of property insurance business, accident and sickness insurance business, liability insurance business, motor vehicle insurance business and marine, aviation and transit insurance business. There are 247 insurance companies licensed with the FSC to write general insurance, holding assets of US\$65.4 billion in 2018. This sector comprises of subsidiaries within groups, standalone companies and branches. The sector has integration with the securities and banking sectors.

There are 660 *intermediaries* operating within the insurance sector, these are comprised of the below:

Type of Intermediary	Number
Brokers	25
Agents	43
Salesmen	572
Insurance Managers	20

*Credit unions* are registered under the Co-operatives Societies Act, Cap 378A and the FSCA. The credit union sector comprises of 33 credit unions, with an asset base of US\$1,188,425,761 as at September 30, 2018. The largest seven credit unions represent 93% of the sector. Credit unions are member owned, with each member holding an equal ownership stake. The sector is relatively small accounting for 9% of the financial sector. Product offerings to members are limited to loans which account for 71% of total assets and deposits which represent approximately 98% of total liabilities.

The *securities sector* in Barbados is primarily regulated by the Securities Act, CAP 318A (Securities Act) and the Mutual Funds Act, CAP 320B (Mutual Funds Act). Under the Securities Act and the Mutual Funds Act, a financial institution must be registered or licensed by the FSC to carry on one or more types of regulated activity, as defined in the aforementioned legislation. As at the December 31, 2018, there were 110 companies and 68 representatives licensed and/or registered by the FSC to engage in securities or mutual funds business. There are 18 listed securities on the Domestic

Market and two listed securities International Securities Market of the Barbados Stock Exchange.

The regulated financial institutions activities were categorised into three major sub-sectors when considering the inherent vulnerabilities arising from specific features and/or users of the sub-sector:

- i. Securities sector (including Brokerages, Underwriters, Dealers, Traders and Reporting Issuers);
- ii. Investment advisers; and
- iii. Mutual Fund Administrators and Mutual Funds.

Securities sub- sectors	Number of Registrants/ Licensees
Securities Sector (excluding investment advisers)	164
Investment Advisers	64
Mutual Fund Administrators and Mutual Funds	32

## 1. Very High Vulnerability

### *Long- term insurance*

ML in insurance is especially prevalent where there is the ability to purchase large single or lump sum premium policies, policies which have large features of cash investment allowing customers to surrender high value policies early and the ability to assign beneficiaries immediately after policy inception. Globally, it is recognised that life insurance poses a greater ML vulnerability than general insurance. In Barbados, due to the high sectoral inherent characteristics, the:

- diversity and riskiness of the products and services;
- international reach of the sector; and
- complexity of delivery channels.

Long-term insurance inherent vulnerability to ML is Very High.

Intermediaries are used in the insurance sector; however, the associated ML/TF risk is mitigated by the requirement for intermediaries to be licensed with the FSC. Insurers and insurance intermediaries are required to implement AML/CFT controls to manage any potential ML/TF risk, inclusive of customer due diligence risk. Insurers and insurance intermediaries are also required to have documented agreements which detail each party's responsibilities.

While most entities are domiciled in Barbados, operations are conducted internationally. The sector's geographic reach is wide, with products being offered to policyholders internationally. Customers of this sector are predominantly individuals or businesses with complex entity structures and international reach. This increases the likelihood of exposure to PEPs and other high-risk clients which inherently increases ML risk. The FSC's Regulatory Reminders provides practical assistance to insurers and insurance intermediaries in complying with the MLFTA. They provide guidance vis-à-vis risk mitigation, sound risk management and internal controls for operations, exposure to PEPs and other high-risk clients which inherently increase ML risk.

This sub-sector is also integrated with other sectors (securities, banking and pensions). In some instances, insurance companies are part of the same financial group or conglomerates.

Characteristics of the products offered within this sector fall within the range of categories suggested by FATF<sup>10</sup> as examples of higher risk business including: complex products such as universal life products and products designed for high net worth individuals. Universal life insurance products are life products with savings elements that provide cash value build-up. Additionally, some companies offer these products exclusively to high net worth individuals as a means of wealth management.

The anonymity and complexity of the delivery channels is also high, with insurers utilising intermediaries to conduct their business. Long-term insurers<sup>11</sup> utilise a variety of delivery channels - brokers, agents and salesmen, which present heightened ML

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<sup>10</sup>FATF Guidance for a Risk Based Approach Life Insurance Sector

<sup>11</sup> Entities writing long term insurance as defined by the Insurance Act Cap 310

concerns. The risk for ML is especially increased where the insurance company relies on a third party for the collection of customer due diligence.

## **2. Medium Vulnerability**

### *Credit Unions*

Generally, deposit taking institutions are considered to be exposed to a high level of ML inherent risk due to the availability of products which can be abused to conceal illicit transactions. In the Barbadian context, the credit union sector has been assessed as having a medium inherent vulnerability to ML based on the characteristics of the sector, its low geographic reach and the nature of its delivery channels.

The operations of the credit union sector are limited to Barbados, with the majority of members resident in Barbados. There are some foreign customers who are Barbadian emigrants who have retained their membership with the credit union. Predominantly, customers are individuals, accounting for more than 99% of credit union membership. Credit unions also permit deposits from, and loans to, corporate members, which are subject to legislative provisions and regulatory approvals. The two largest credit unions are the parents of subsidiaries providing financial services. These subsidiaries are regulated by the FSC and/or the CBB. Only two credit unions are affiliates of other financial institutions. The largest credit union wholly owns a financial institution that is licensed with CBB under Part III of the Financial Institutions Act. The second largest credit union in the sector wholly owns a company which is an Insurance Agent.

Deposit accounts represent the highest risk for monitoring transactions due to the high transaction volume. Loans, as they can potentially be serviced by the proceeds of illicit activity, present a potential ML vulnerability. Mortgages are also vulnerable to ML risk as there is the potential for criminal proceeds to be cleaned in a singular transaction.

Customer segments most vulnerable to ML are high net worth individuals and PEPs. However, while the credit union sector has some exposure to high net worth individuals, this only accounts for 0.03% of total membership (6% or US\$35.8 million of deposit value). Only 581 members have been designated as PEPs, accounting for US\$2.5 million of deposit value.



There is little anonymity or complexity to the delivery channels of the sector. Transactions are generally conducted face to face at the office of the credit union, with limited internet banking (transactions limited to checking balances and transferring fund within their own accounts).

### *General Insurers*

General insurance has been globally regarded as not being particularly vulnerable to ML due to the inflexibility of the product offerings to provide an attractive vehicle for the laundering of criminal proceeds. Intermediaries which provide services for insurance companies have medium inherent vulnerability to ML. Traditional property, casualty and liability insurance products are offered in this sub-sector, which do not provide large flexibility for exposure to ML and the concealment of proceeds of crime. However, due to the relatively large size of the sector and the diverse international customer base, the rating for Barbados has been assessed as medium.

### *Insurance Intermediaries (Insurance Managers, Brokers, Agents, Salesmen)*

Insurance intermediaries present a medium inherent vulnerability for ML. Insurance managers provide management services to insurers (both long term and general), acting as the intermediary between the regulator and the insurance entity. The services offered are administrative, accounting and secretarial services. In addition, other intermediaries (brokers, agents, salesmen) also act as gatekeepers for the insurance sector, providing a direct point of access between the customer and the sector, which creates a level of ML exposure.

Globally, the *securities sector* is deemed to have a high ML vulnerability. Due to the complexity and range of product offerings, and the high volume and speed of transactions, securities can present an attractive ML vehicle for criminals during the layering and integration stages as cash is not generally used or accepted in securities transactions. The securities market also has inherent vulnerability of being used to conduct transactions constituting market misconduct to generate illicit funds, such as insider trading and market manipulation. The anonymity and complexity of delivery channels within the local securities sector is low, as most transactions are conducted on a face to face basis. When there are instances of non-face-to-face transactions

verification of the instruction received is conducted prior to the execution of the order instruction. Verification processes include call back procedures, if requests are submitted by email or by written instruction, and confirmation of signatures with those on file when written instructions are received.

Further elevating this risk is the potential of high net worth individuals and PEPs within the clientele of the securities sector; as well as the international jurisdictional exposure. While the geographic reach of the sector is primarily Barbados, there are also investors from the Caribbean, Canada, Europe, United Kingdom and U.S.A. The Securities Sector is assessed to be **medium**, having considered the ML vulnerabilities of the three sub-sectors highlighted within the context of Barbados and the mitigation strategies applied:

*i. Securities (Brokerages, Underwriters, Dealers, Traders and Reporting Issuers)*

This sub-sector offers a variety of products inclusive of stocks, bonds, money market instruments, other transferable securities and private placements which are primarily dealt with on behalf of or with investors. Services provided include effecting transactions in Securities on behalf of others or for its own business, participation in and/or offering for sale Securities in a distribution, offering repurchase agreements for sale and issuing Securities to the public.

There are no automated trading services offered in Barbados and there is limited securities margin lending. The companies within Barbados offer a limited range of products and services with varying volumes of transactions; and are required through the FSC's Market Conduct Guidelines issued on March 1, 2013 to ensure that there is segregation of client assets. It is important to note that there are also low levels of trading thereby reducing the inherent attractiveness of highly liquid and/or turnover of exchange traded products.

Within this sub-sector there are 85 companies and 79 individuals registered as at December 31, 2018 with combined assets of approximately US\$4.0 billion, excluding Reporting Issuers (Reporting Issuers accounted for approximately US\$4.7 billion in equity as at December 31, 2017). Of the 85 companies registered, 59 of the companies are predominantly focused on domestic business and 29 companies are predominantly

focused on international business; with primarily domestic and international clientele respectively.

The overall vulnerability for Securities (Brokerages, Underwriters, Dealers, Traders and Reporting Issuers) is medium.

*ii. Investment Advisers*

The activities conducted by this sub-sector include giving advice in respect of investment in or purchase or sale of securities, listing of securities, business restructuring, mergers, structuring private placements and acquiring or disposing of securities from or to the public.

Due to relatively low liquidity and higher transaction costs, the products and services offered by investment advisers are generally less attractive to money launderers. Within the sub-sector there is limited ML risk at the placement stage, but there is scope for use during the layering and integration stages. The main vulnerabilities inherent to the sub-sector are due to the client-driven nature of the relationship, the international nature of funds and associated investors, and potential implication in ML schemes involving the products.

There are 24 registered investment adviser companies and 40 representatives registered as investment advisers, with combined assets of approximately US\$2.9 billion as at December 31, 2017, based on information available. Of the foregoing companies 11 provided adviser services domestically and 15 provided adviser services internationally, as at the time of the National Risk Assessment. As at December 31, 2017, investment advisers predominantly provided services to clients domiciled in Barbados, Canada, U.S.A and countries in the following regions - Africa, Asia, Caribbean, Europe and Latin America. Cash is not generally used for investment purposes, as such investments and distributions are executed through banks and regulated financial institutions. Additionally, disclosures are required for transactions in excess of US\$5,000.00.

The clientele for investment advisers, within the Barbadian context, includes publicly listed companies, companies planning to go public, high-net worth individuals, PEPs, private companies and retail investors. Of the registered investment advisers, it was noted that 16 provided services to international clients only. These advisers were not considered high risk by the FSC. Investment advisers have been assessed as having a medium inherent vulnerability to ML.

*iii. Mutual Fund Administrators and Mutual Funds*

In Barbados, the assets under management for this sub-sector of nine licensed mutual fund administrators was US\$1.3 billion as at June 30, 2018 which represents 23 mutual funds, inclusive of sub-funds. Of the foregoing assets under management, US\$1.1 billion, as administered by five administrators, have a predominantly domestic and/or regional investor profile. Of the nine licensed mutual fund administrators, four offer mutual funds exclusively to international investors, representing US\$234.7 million of the assets under management.

Investors such as high net worth individuals and investors from foreign jurisdictions increase the vulnerability of the sector; as customer due diligence and verification of client identity can be made more difficult. Intermediaries used within the mutual fund industry include brokers and investment advisers. However, the associated ML/TF risk is mitigated by the requirement for intermediaries to be licensed with the FSC. It is the ultimate responsibility of the mutual fund and administrator to receive ultimate beneficial ownership information from all customers. As regulated entities, the funds themselves are subject to AML/CFT supervision and the FSC, in its onsite inspection of these funds and their Administrators, reviews the customer due diligence and on-boarding procedures. It is imperative to note in the instance of closed-ended funds and funds traded on the Barbados Stock Exchange that the vulnerability to ML is limited, given the fixed nature of the funds and the public nature of trading respectively.

Mutual fund administrators are required, through the FSC's Market Conduct Guidelines, to ensure that there is segregation of client assets. Subscriptions and redemptions are executed through banks and regulated financial institutions, by way of direct deposits or transfers. Funds within this sub-sector may be licensed as general mutual funds,

limited investors' mutual funds, exempt mutual funds and unit trusts. Two of the nine mutual fund administrators are companies within corporate groups which include insurance companies, securities companies and mutual funds.

The mutual funds sector significantly deals with institutional investors and regulated financial institutions for a substantial portion of their assets under management, with US\$495.2 million as at June 30, 2018 being managed for pension funds of institutional investor, representing 45% of the domestic mutual funds, which reduces exposure to ML risks. Beyond this, the clientele of the mutual funds sector is predominantly domestic individual/retail investors; with limited international exposure of approximately 18% of the assets under management.

The ML vulnerability of mutual fund administrators, and the underlying mutual funds, is assessed as medium.

#### **7.4: Other – Unregulated Persons**

##### *Stand Alone Credit Card Issuers (High Inherent Vulnerability)*

The sector is unregulated and highly integrated with other sectors. Clients may include high risk persons and businesses. The geographic reach is extensive. Delivery is face-to-face or through agents. There is currently one entity in the sector. This is a Barbadian publicly listed company with diverse interests in retail, tourism, financial services, property development, and renewable energy. As at November 30, 2018, there were 31,667 cards with outstanding debt of US\$17.30 million. The company operates through several locations locally.

The entity provides unsecured lending via VISA Credit Cards (Gold or Classic). Customer relationships are established and include salaried individuals and unincorporated small businesses. The cards can be used wherever VISA is accepted worldwide. Payments can be made at several local company locations and through online banking at three local retail banks. Customers can also transfer funds to each other via mobile app.

### *Money Lenders (Medium Vulnerability)*

These entities provide personal and small business loans (up to \$10K for personal customers and \$25k to corporate customers), supported by private investment. This is an unregulated sector which operates through locations both locally and regionally and has geographic ties to some countries listed in FATF/CFATF Public Statements or identified as having strategic deficiencies. Products and services are accessible to a cross section of clients which may include unincorporated businesses. The main mode of delivery is through direct contact with the client.

There are approximately eight entities within the sector; however, the size of the activity in terms of assets is unknown. The sector has operations regionally in Trinidad and Tobago, Bermuda, Jamaica, Antigua, Dominica, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines. The entities are privately owned and privately funded, these factors increase the risk of ML and TF within the sector. The sector provides unsecured lending products such as payday loans up to US\$5,000 for individuals (usually salaried) and loans for working capital up to US\$12,500 for small businesses. Borrowers are domestic persons and businesses and the delivery channel is via direct contact with clients.

### *Virtual Asset Service Provider/Mobile Wallet (Medium Vulnerability)*

The sector is small and not considered complex but there is some integration with other sectors. Operations are domestic and limited. The primary product offered is considered vulnerable. The product is currently restricted to the local market. Transactions occur generally face-to-face through various agents. The sector comprises of one entity which is a subsidiary of a complex structure – the ultimate parent is a Barbados International Business Company (IBC) with shareholders that include a mix of individuals and corporates. Affiliates span across several countries. At January 14, 2019 there were 7,581 customers with an outstanding value of US\$80.20 thousand. The product is available to individuals across all sectors and can be used at least at one credit union and an insurance company.

Digital wallet enables users to send, receive and store money on their mobile phone which can be used to pay for goods and services at any merchant registered with the entity. The product can be accessed by both residents and non-residents. Customer relationships are ongoing and may include individuals, businesses and high risk customers such as PEPs, high net worth individuals.

All transactions are domestic and the primary delivery channel is face-to-face.

## 8.0 ASSESSMENT OF THE INHERENT VULNERABILITIES OF MONEY LAUNDERING AND TERRORIST FINANCING – DESIGNATED NON-FINANCIAL BUSINESSES AND PROFESSIONS

The supervision of the Designated Non-Financial Business and Professions (DNFBPs) Sectors is not as mature as the regimes administered by the CBB and FSC. The AMLA has overarching responsibility for ML and TF matters. The Money Laundering and Financing of Terrorism (Prevention and Control) Act, 2011-23 identifies the DNFBPs in Barbados as attorneys-at-law, accountants, dealers in precious metals and stones, real estate agents and trust and company service providers (CTSPs). With the exception of the CTSPs, other DNFBPs will be subject to supervision by the Compliance Unit of the AMLA.

The below table captures the results of the 2019 updated NRA. The assessment levels for the non-CTSP DNFBPs will be updated following more detailed information on the activities of these entities, being obtained by the Compliance Unit.

Low	Medium	High	Very High
<b>Vulnerabilities</b>			
Dealers in Precious Metals and Stones	Accountants	Real Estate Agents	Attorneys-At-Lawyers Corporate and Trust Service Providers

### 1. Very High Vulnerability

#### *Corporate and Trust Service Providers (CTSPs)*

There are approximately 101 CTSPs licensed to operate in Barbados categorised as:

- (i) corporate service providers;
- (ii) trust service providers; and
- (iii) corporate and trust service providers.

The criteria for application for a CTSP licence is prescribed in the Corporate and Trust Service Providers Act and requires an applicant to:-



- be a fit and proper person to provide the service in respect of which his application is made;
- have the financial standing necessary to carry on the business of providing the service;
- be or have a representative who is resident in Barbados; and
- not be a specified entity.

The application process takes into account criteria including the education and professional qualifications of the person, whether the person is a member of a professional association or other relevant body, knowledge of legal and other professional responsibilities and any evidence of improper or illegal conduct.

The CTSP sector ranges from sole service providers to companies that have no international presence or subsidiaries of large international service provider operations. The clientele is comprised of Companies holding a valid foreign currency permit, grandfathered International Business Companies and International Societies with Restricted Liability, Trusts registered under the Trust (Miscellaneous Provisions) Act and Private Trust Companies.

The CTSP sector offers various services to domestic and international customers which may be subject to enhanced scrutiny from an AML/CFT perspective. The customer base of the CTSP sector originates primarily from North and South America and Europe. The services offered by the CTSP sector include:

- i) Acting as agent for the formation, registration or licensing of specified entities;
- ii) Providing the service of a registered office;
- iii) Filing statutory forms, resolutions, returns and notices on behalf of specified entities;
- iv) Acting as a shareholder/quota holder; and
- v) Acting as or fulfilling the function of a director.

Vulnerability is associated with the wide, unrestricted global reach of the CTSP sector and the ability to transfer funds by customers who may be PEPs or foreign nationals from potentially high-risk jurisdictions lacking adequate AML/CFT mechanisms, creating the opportunity for abuse by a potential customer to utilise the CTSP's services as a

corporate vehicle for ML purposes. Introducers are sometimes used within the sector for the formation of new client relationships and this use of intermediaries increases the inherent ML/TF risk of the sector as they may not be adequately supervised especially in cases where the introducers are not intra-group.

CTSPs engage generally in the business of acting as an agent for specified entities including:

- grandfathered international business companies (IBCs), international societies with restricted liability;
- foreign currency permit holders;
- private trust companies; and
- trusts registered under the Trusts (Miscellaneous Provisions) Act.

Some of these entities may have complex ownership structures based on incorporation together with non-face-to-face delivery channels which may consequently result in this sector being more susceptible to ML/TF exploitation where there are such instances of anonymity.

With respect to geographical risk, countries identified by FATF or similar regulatory bodies are classified as high-risk as well as countries with weaker or inadequate anti-money laundering and anti-terrorist financing standards, insufficient regulatory supervision, and those countries that present a greater risk for crime, corruption or terrorist financing.

The overall inherent vulnerability rating of the CTSP sector was assessed as very high (VH) based on the assessment of inherent characteristics, nature of the products and services, nature of clients, geographic reach, and nature of delivery.

#### *Attorneys-at-Law*

The ML inherent vulnerability posed by the attorney-at-law sector in Barbados is rated as Very High. This rating is based primarily on the following operations of this sector:

- Establishing relations with non-face-to-face individuals and businesses;

- Integration with other sectors such as trust and company service providers;
- Formation of companies in the initial stages which may serve to obscure the links between the proceeds of crime and the launderer; and
- Potential for attorney client privilege, where difficulties may arise in accessing information.

The sector comprises sole proprietors and firms who when interfacing with their clientele may form a one-off or ongoing business relationship. There are approximately 1,500 members of the Barbados Bar Association (BBA). However, included in this number are persons who are:

- (a) “internal” professionals employed at other types of businesses or working for government agencies and are excluded from the FATF DNFBP definition; and
- (b) CTSPs which fall under the purview of the International Business Unit and are subject to that agency’s regulatory requirements.

Further information will be needed to ascertain the breakdown of Accountants engaged in the types of FATF activities.

## **2. High Vulnerability**

### *Real Estate Agents*

The inherent vulnerability of Real Estate Agents was assessed as High. The purchase of real estate in the island is not restricted to residents and citizens as in some jurisdictions. The customer base of this sector is wide and varied and includes corporate entities, high net worth individuals and PEPs.

Real Estate Agents do not accept cash or funds of any kind for sales/purchases of real property from clients. In order to complete the sale/purchase of property in Barbados, the funds are channelled through an attorney-at-law and a commercial banking institution, which, is a regulated entity for AML/CFT purposes. The real estate agent functions as an intermediary in these transactions. There are approximately 120 members of the Barbados Estate Agents and Valuers Association.

### **3. Medium Vulnerability**

#### *Accountants*

In Barbados, the services offered by accountants primarily relate to accounting, audit and consultative works, which are largely conducted by international accounting firms.

There are approximately 1,000 accountants who are members of the Institute of Chartered Accountants of Barbados. However, included in these numbers are persons who (a) do not conduct the activities listed in Second Schedule (b) are “internal” professionals employed at other types of businesses or working for government agencies and (c) are licensed CTSPs, subject to regulatory requirements of the International Business Unit.

The main services inherently vulnerable to ML and TF are the management of money, securities and other assets of clients; and the management of bank savings and/or securities accounts as well as the formation of companies. Notwithstanding the inherent vulnerability of these services, indications are that very few accountants carry out the FATF defined activities as mentioned above.

### **4. Low Vulnerability**

#### *Dealers in Precious Metals and Stones*

There is no organised group of precious metals and stones dealers in Barbados. It is understood that approximately 90% of the precious metals and stones sold locally is done through five large duty-free jewelry stores, which are all members of the Duty-Free Working Group of the Barbados Chamber of Commerce. The sector is made up wholly of retail businesses. There are no wholesale precious metals and stones importers or exporters in the island. Cash activity within the sector is minimal as most purchases are by credit card or via electronic transfers with the requisite identification having to be provided. Most of the client base is comprised of individual buyers, with no exposure to corporate structures or legal entities being identified. There were 42 persons registered under the Precious Metals and Second Hand Metals Act as at January 2019.

## 9.0 ASSESSMENT OF THE INHERENT VULNERABILITIES OF Non-Profit Organisations (NPOs) AT RISK OF TF

### Summary of TF Vulnerability Assessment of NPOs and Charities

At Risk	No Risk	Inactive
Charities: 4	Charities: 175	Charities: 1188
NPOs: 5	NPOs: 65	NPOs: 729
8 of the above are large with an international reach.		

The NPO sector in Barbados comprises charities, including charitable trusts, governed by the **Charities Act**, and non-profit companies which fall within the purview of the **Companies Act**. Non-Profit Companies are incorporated in accordance with the Companies Act, Cap.308 as amended and are therefore required to comply with the provisions of the legislation. A non-profit company must restrict its undertaking in accordance with Section 314 (2) to one that is of a religious, charitable, educational, scientific, patriotic, social, historical, philanthropic, fraternal, sporting or athletic nature, or the like, or to the promotion of some other useful object. The Charities Act, Cap.243 provides for an unincorporated person to be established as a charity and that its precise objects must be for a “charitable purpose” and demonstrate a public benefit. Consequently, a non-profit company or charity may meet the FATF definition of a NPO, that is,

“NPOs mainly raise and/or distribute funds for charitable, religious, cultural or social purposes, and are carried on without pecuniary gain to their members”. As at January 31, 2019, there were approximately 839 registered charities and 1,332 non-profit companies in Barbados.

An inherent vulnerability assessment of NPOs and Charities was completed to identify any organisations with activities and characteristics which put them at risk of TF abuse. This was conducted by way of surveys and knowledge of competent authorities. The assessment considered inter alia the type of NPO; primary purpose funds are raised and distributed; international activities; geographic reach; nature and extent of activities;

nature of recipients of NPO services; and whether anonymous donations are permitted. The assessment rated organisations at risk or not at risk. See summary of the results of the inherent vulnerability assessment of NPOs and Charities at the beginning of this section.

The assessment considered the features and types of NPOs which by virtue of their activities or characteristics, are likely to be at risk of TF abuse. In this regard, Barbados applied the FATF definition of NPOs, that is, a legal person or arrangement or organisation that primarily engages in raising or disbursing funds for purposes such as charitable, religious, cultural, educational, social or fraternal purposes, or for the carrying out of other types of “good works”.

The various types of NPOs and Charities in Barbados, the number of entities licensed and various characteristics or features were sought to make a determination of whether they are at risk or not of TF abuse. NPOs not at risk exhibited the following features:

- a. Primarily raise or distribute funds for charitable, education, religious or social purposes by providing in kind assistance for example, the provision of sporting equipment, clothing, educational & medical supplies, the provision of meals to the poor in the community;
- b. Lack of engagement in international activities;
- c. Funding or donors by way of regulated financial intermediaries such as a commercial bank or credit union. Large money contribution is likely to be made by cheque where the financial institution is then subject to regulation and supervision. No anonymous donations; and
- d. Recipient of the NPO’s services that are community-based organisations, church congregations, persons in need in communities, the poor, homeless, indigent and disabled, the elderly and persons in palliative care.

## 10.0 ASSESSMENT OF THE INHERENT VULNERABILITIES OF LEGAL PERSONS AND ARRANGEMENTS

### Summary of Assessed Inherent Risk Levels by Legal Persons

Type of Company <sup>12</sup> (and legal basis)	Number of companies (2019-06-18)	Assessed Risk Level
Foundation	0	Medium
Limited Partnership	16	Medium
Foreign Sales Corporations	2884* (incorporated as FSCs with CAIPO) 9 (currently licensed by the International Business Unit (IBU))	Medium
Private Company Limited by Shares	32,639 <sup>13</sup>	Medium
Segregated Cell Company	81	Medium
Incorporated Cell Company	3	High
Private Trust Company (PTC)	6* (incorporated as PTCs with CAIPO) (5 currently licensed by IBU)	High
International Trusts	649	High
International Business Company (IBC)	2184 <sup>14</sup>	High
Company with Foreign Currency Permit	367	High
International / Exempt Society with Restricted Liability	436 <sup>15</sup>	High
Society with Restricted Liability with Foreign Currency Permit	243* (Incorporated as such with CAIPO) (79 licensed with IBU)	High
Society with Restricted Liability (without Foreign Currency Permit)	950 <sup>16</sup>	Medium
Public Company (Listed)	15	Low
Public Company (Unlisted)	21	Low
Company (International) Licensed by the Central Bank	24	Low
Branches of Foreign Companies (External Companies)	2,482	High
<b>Grand Total</b>	<b>41,840</b>	

13 This figure includes 8,818 companies incorporated as IBC's but automatically converted to domestic companies by operation of law on January 1st, 2019 as a result of the International Business Companies (Repeal) Act, 2018 - 40

14 This figure represents those currently licensed with IBU. The former IBC's which were automatically converted to domestic companies by operation of law as at January 1<sup>st</sup>, 2019 have been included with the "Private Companies Limited by Shares". (see previous footnote)

15 This figure represents the total number of international SRL's licensed as such by the IBU. The former international SRL's that were converted to domestic SRL's by operation of law (Societies with Restricted Liability (Amendment) Act, 2018 - 47) have been included in the number of SRL's without a FCP.

16 This figure includes 806 former international SRL's whose licences were not renewed for 2019. These entities have automatically converted to domestic SRL's by operation of law.

In Barbados, the Registrar of the Corporate Affairs and Intellectual Property Office (CAIPO) has statutory responsibility for the registration and incorporation of various types of legal persons and arrangements and non-profit organisations (NPOs). Bearer shares are prohibited pursuant to section 29 (2) of the **Companies Act** which states that no company may issue bearer shares or bearer share certificates.

As at January 31st, 2019, there were 41,840 incorporated entities in Barbados.

Indicators of concealed beneficial ownership were drawn from FATF documents<sup>17</sup> in order to arrive at inherent vulnerability ratings.

## **1. High Vulnerability**

### *International Business Companies (2184)*

At January 1, 2019, a new regime came into effect with the enactment of the *International Business Companies (Repeal) Act*. All companies are deemed to be regular business companies in accordance with the Companies Act, Cap.308. However, a company which intends to earn 100% of its income in foreign currency must apply to the Director of International Business for the grant of a foreign currency permit. An IBC which is eligible by virtue of the provisions of the repealed legislation to have its rights and benefits saved may so apply to the Director of International Business and where approved, the IBC's entitlement to receive the benefits will be continued until June 30, 2021.

IBCs have separate legal personalities. Beneficial ownership (BO) information is disclosed as part of the licensing process and is monitored on an ongoing basis. Any intended changes to BO information must be disclosed to the International Business Unit (IBU) by the CTSP. IBCs are used primarily for conduct of international transactions and are prohibited from transacting business with persons resident in Barbados. Ownership structures may be complex with wide geographical reach.

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<sup>17</sup> <http://www.fatf-gafi.org/media/fatf/documents/reports/FATF-Egmont-Concealment-beneficial-ownership.pdf>



The current size of the IBC sector, which now comprises the “grandfathered” IBCs, is to be determined given the recent changes in the legislation. As at November 30, 2018, 3,064 IBCs were licensed to conduct international business from Barbados; and were serviced by approximately 101 licensed CTSPs.

The inherent vulnerability would be the possible use of nominee directors and/or shareholders to conceal the real beneficial owners who have effective control of the company and thus an opportunity to use the company for illicit activity.

#### *Company with Foreign Currency Permit (367)*

Classified as general companies incorporated under the Companies Act, earning 100% of income in foreign currency. Comprised primarily of former IBCs. BO information is disclosed as part of the licensing process and monitored on an on-going basis. Any intended changes of BO information must be disclosed to IBU by the CTSP. Ownership structures maybe complex with a wide geographical reach.

#### *International Societies with Restricted Liability (436)*

At January 1, 2019, a new regime came into effect with the enactment of the *Societies with Restricted Liability (Amendment) Act*. As a result, no new international societies with restricted liability (ISRLs) can be created. However, ISRLs which held a valid licence prior to October 17, 2017 are entitled to be grandfathered if desired. The sector is not limited to those ISRLs which elected to be grandfathered (period will expire on June 2021). The number of ISRLs is being reviewed given recent amendments to the legislation.

ISRLs have separate legal personalities beneficial ownership information is disclosed as part of the licensing process and is monitored on an on-going basis. Any intended changes to BO information must be disclosed to the IBU by the CTSP. Ownership structures maybe complex and have wide geographical reach.

The inherent vulnerability would be the possible use of nominee managers and/or quota<sup>18</sup> holders to conceal the real beneficial owners who have effective control of the society and thus an opportunity to use the society for illicit activity.

#### *Domestic Society with Restricted Liability with Foreign Currency Permit (243)*

Ownership is vested in quota holders classified as Domestic Societies with Restricted Liability which can earn 100% of income in foreign currency. BO information is disclosed as part of the licensing process and monitored on an on-going basis. Any intended changes to BO information must be disclosed to IBU by a CTSP. Ownership structures may be complex with a wide geographical reach.

#### *International Trusts (649)*

At January 1, 2019, a new regime came into effect with the enactment of the *Trusts (Miscellaneous Provisions) Act*. As a result, no new International Trusts (ITs) can be created nor can existing international trusts be grandfathered. ITs are now classified as domestic trusts.

As at November 30, 2018, 649 ITs had been registered under the International Trusts Act. These ITs were serviced by licensed CTSP. ITs were utilised for varying activities including but not limited to tax and estate planning, asset and creditor protection, business succession, corporate and governance and flexibility in dealing with assets in multiple jurisdictions.

The vulnerability of international trusts would be in respect to their structure. ITs also have a wide global reach allowing settlors, trustees and beneficiaries to be located in diverse countries potentially exposing these trusts to high risk jurisdictions.

#### *Private Trust Companies (6)*

The main function of the company is being the private trustee of a specific trust. Private Trust Companies (PTCs) are utilised to act as trustee of one or more trusts in a private

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<sup>18</sup> Quotas in a society are personal property and are acquired by making contributions to the capital of the society by way of money or property that is the fair equivalent of money.

context, usually familial relationships. BO information of the PTC is captured by the CTSP pursuant to the Corporate Trust and Service Provider Act, 2015-12. A Corporate Trust and Service Provider must collect and maintain all transaction records and BO information. A PTC is prohibited from soliciting or receiving assets to be held on trust for members of the public. Annual renewal is required. Complex company ownership structures and wide geographical reach may create possibility for UBO concealment.

### *Incorporated Cell Company (3)*

A company with separate incorporated cells, treated as separate legal entities. Each cell can separate its assets, liabilities, shareholder agreements and other legal obligations from other cells within the Incorporated Cell Company. UBO details are maintained at the registered office.

### *Branches of Foreign Companies (2,482)*

These are foreign owned companies and are registered in Barbados as external companies. The majority of these companies are not licensed by a Regulator. Foreign ownership makes it difficult to identify the UBO.

## **2. Medium Vulnerability**

### *Domestic Society with Restricted Liability (without Foreign Currency Permit) (950)*

Prior to the Amendment of the Societies with Restricted Liability Act, Cap.318b, which took effect on January 1<sup>st</sup>, 2019, a Society with Restricted Liability was organised as either an International Exempt Society or a Non-Exempt Domestic Society and subject to the corporate tax breaks. The Domestic Society differs in terms of its management and the level of control by managers and members. They may be foreign ownership. UBO information must be maintained at the registered office.

### *Foundation (0)*

The Foundations Act 2012-13 was proclaimed however no Regulations have been made and no Foundations created.

### *Limited Partnership (16)*

Ownership and control are exercised by the partners who are identified and are legally responsible to the partnership. All details are maintained at the Corporate Registry. In the majority of registrations the partners are natural persons who are required to be registered with the Barbados Revenue Authority. Where one of the partners is a company then its BO information is maintained at the company's registered office and it is also subject to the supervision of the Barbados Revenue Authority. There is no restriction on the nationality of partners.

### *Foreign Sales Corporation (2)*

A person must be designated as a foreign sales corporation in the U.S.A; be engaged in foreign trade transactions as its principal objective and activity and its shareholders must not be residents of Barbados or any other the Caribbean Community (CARICOM)<sup>19</sup> member country. It must firstly be incorporated in Barbados and the filed documents are maintained at the Corporate Registry. Upon registration a foreign sales corporation must apply to the IBU of the Ministry for a licence.

### *Private Company Limited by Shares (32,639<sup>20</sup>)*

These vary in size and are often reflective of the nature of operations and the complexity of the management structure which may include corporations and trusts. In some instances there may be foreign ownership. However, in all instances BO information must be maintained at the registered office of the company.

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<sup>19</sup> <https://caricom.org/>

<sup>20</sup> This figure includes 8,818 companies incorporated as IBCs but automatically converted to domestic companies by operation of law on January 1st, 2019 as a result of the International Business Companies (Repeal) Act, 2018 - 40

### *Segregated Cell Company (81)*

The assets and business operations are divided into cells for the purpose of segregating and protecting the cellular assets of the company in the manner provided by the Act. UBO details are maintained at the registered office.

### **3. Low Vulnerability**

#### *Public Company (Listed)(15)*

The Barbados Stock Exchange (BSE) regulations provide for a high degree of transparency. As a self-regulatory organization under the Securities Act, the BSE is regulated by the FSC, which is responsible for regulation of several sectors, including self-regulatory organizations and public companies whether listed or not. The Barbados Central Securities Depository Inc. (BCSDI), a wholly owned Subsidiary of the Barbados Stock Exchange, facilitates the immobilization of securities, the clearance of trades and settlement of funds and also offers services as Registrar of public and listed companies as well as mutual funds. The BCSDI provides broad services categorised as depository and registrar, both of which require shareholder or beneficiary information depending on the particular service offered. It registers stocks in the name of the beneficial owner and also records the movement of securities movements in the name of the beneficial owner using the National Identification Number.

#### *Public Company (Unlisted)(21)*

These are regulated by the securities division of the FSC and include companies which have issued securities to the public but are not listed on the BSE.

#### *Company (International) Licensed by the CBB (24)*

From a Corporate structure perspective, these entities are primarily branches or subsidiaries of Public Listed Financial Institutions. The remaining entities are privately owned with relatively simple structures. The beneficial ownership of all these entities is known to the CBB upon licensing and is monitored and updated on an on-going basis as part of the due diligence process.

## 11.0 CONSEQUENCES OF MONEY LAUNDERING AND TERRORIST FINANCING

The December 2018 press release from the Central Bank of Barbados provides context against which efforts are cast.

*“The year 2018 was challenging for the Barbados economy. Economic activity remained sluggish, but the decision to enter a four-year economic adjustment programme with the International Monetary Fund (IMF), the suspension of commercial external debt payments and the restructuring of Government’s domestic debt renewed confidence and contributed to an improvement in the public finances and the stock of international reserves.*

*Government unveiled the Barbados Economic Recovery and Transformation (BERT) plan, which aims to deepen the fiscal adjustment effort and to undertake structural reforms to stimulate medium-term economic growth.”*

A robust AML/CFT/PF framework is complementary to efforts to redress Barbados’ present economic circumstances. The financial services sector is particularly inherently attractive to criminals given its intermediation role in the economy. Despite best efforts at identifying, assessing, understanding and establishing ML/TF control mechanisms at the national level, incidents of ML/TF threaten the reputation of a jurisdiction and may have severe impact on the economic, social and political landscape. Enforcement action and other repercussions associated with ML/TF cases taken from open sources, demonstrate the gravity of the consequences which small countries like Barbados are significantly less able to withstand. Such consequences include substantial fines, de-risking, loss of correspondent banks, restricted access to capital markets or onerous borrowing costs, reduced foreign direct investment, blacklisting, heightened assessments by international financial institutions, increase in criminal activity and social instability.

In 2018, the Government of Barbados laid out a roadmap towards social and economic recovery over the next five years. Among the Pillars defining the path to success are certain elements that either depend on, or have an impact on, the Barbados financial sector. Various elements of the national strategy have a nexus to delivery of the National Action Plan, which is informed by a clear understanding of risk. The 2018 mutual evaluation report analyses the adequacy of the national AML/CFT framework under these headlines:

1. National ML/TF Risk and Context;
2. National AML/CFT Policies and Coordination;
3. Legal System and Operational Issues;
4. Terrorist Financing and Financing of Proliferation;
5. Preventative Measures;
6. Supervision;
7. Legal Persons and Arrangements; and
8. International Cooperation.

The governance framework, which is discussed in the next section, lays the foundation to be proactive in establishing the necessary risk mitigation framework to accompany a dynamic economy to ensure the required equilibrium between innovation and stability.

➤ National strategies at risk relating to Strengthening Preventative Measures and Supervision are:

- *Improving Government's capacity to respond quickly to new threats and challenges to the international business sector;*
- *Barbados Sovereign Wealth Fund for the building of sustainable wealth;*
- *Facilitating the establishment and regulation of new financial instruments such as crowd-funding platforms;*
- *Leveraging new technologies, such as Blockchain, wherever such technologies have the proven ability to boost foreign reserves, democratise the economy, create economic empowerment for Barbadians and build wealth. We will also consider the capacity of this and other nascent technologies to mitigate the impact on economic activity of the termination of correspondent banking relationships between international banks and indigenous Caribbean banks.*
- *Providing all Barbadians with a digital ID;*
- *Redefining Barbados globally as a centre of excellence for certain niche sectors in international business;*
- *Attracting substantive international businesses to establish their headquarters and/or their administrative and supporting infrastructure, for example, the financial, IT, customer service, sales, marketing and distribution departments, which service their international operations;*

- *Developing a new multi-pronged Investment Attraction Strategy to diversify our International Business Sector and make Barbados a magnet as a regional hub for high-end niche services. We want to attract people who are developing intellectual property, who are in the business of FinTech, or in the business of maritime affairs and shipping. In addition, we will continue to promote Barbados as an internationally recognised domicile for wealth management; and*
  - *Ensuring that Barbadian small businesses producing high value goods and services are able to access international markets and where possible, benefit from global value and supply chain integration.*
- *National strategies at risk relating to Strengthening Legal System and Operational Issues:*
- *Moving away from the imposition of criminal convictions for a number of breaches of the law and allow a system of civil penalties to be imposed;*
  - *Increasing the size of the RBPF by appointing administrative staff to perform non-policing functions so as to allow our police officers to focus on their primary role in maintaining law, order and the protection of citizen;*
  - *Addressing the appointment of police officers as a matter of urgency;*
  - *Treating the criminal justice system as a separate and discrete project for review and reform over a 5-year period and seeking external funding for the implementation of the recommended reforms; and*
  - *Introducing innovative case management regimes in criminal cases that separate and fast track the hearing of serious offences, ensuring that such matters start within 6 months.*

Incidents of ML and TF may result in public listings including by the FATF, FATF Styled Regional Bodies, or the European Commission. Such tarnishing of a jurisdiction has a long-term impact on its reputation, which can only be restored after years of a restored track record.

Barbados can ill-afford to jeopardise the upward trajectory towards economic recovery.



## 12.0 INSTITUTIONALISING THE COUNTRY'S RISK-BASED APPROACH — ONGOING GOVERNANCE MOVING FORWARD

*“The risk-based approach allows countries, within the framework of the FATF requirements, to adopt a more flexible set of measures, in order to target their resources more effectively and apply preventive measures that are commensurate to the nature of risks, in order to focus their efforts in the most effective way”. (FATF Recommendations)*

Barbados has developed a three-year National Action Plan (NAP) that also incorporates all ‘priority actions’ in the 2018 CFATF Mutual Evaluation Report. A key deliverable was the National Risk Assessment (NRA). All competent authorities participated in the exercise which resulted in an internal final report being produced and presented. This exercise established a clearer understanding of the ML and TF threats and vulnerabilities inherent in Barbados. In order to entrench the risk-based approach into the national framework, deliberate governance principles were adopted.

There are multiple pillars to institutionalising the risk-based approach. These are:

- a. Establishment of a national Anti-Money Laundering Authority (AMLA) to oversee the AML/CFT framework to ensure that it keeps pace with the international standards and developments in the national financial sector;
- b. Formation of sub-committees of the AMLA and other agencies, as deemed necessary, to advise the AMLA on policy development and operational matters;
- c. Development of mandates for the AMLA and its sub-committees to clearly define roles and responsibilities;
- d. Seeking to ensure that appropriate mechanisms are in place such that there are effective communication mechanisms between national agencies, e.g. MOUs, on emerging risks and vulnerabilities;
- e. Defining procedures to update the National Risk Assessment. This includes:
  - Periodic updating by AMLA members on developments in the financial sector that may impact risk results in the interim period before 2021;
  - Identifying a list of agreed indicators that may trigger a sectoral or national risk assessment;

- Convening of a workshop every 2 years, with all stakeholders, to renew the risk assessments (reviewing all risk results and updating the NRA);
- f. Publication of sanitised versions of the NRA report to inform and raise awareness of evolving risks;
- g. Seeking to ensure that the private sector considers the inherent risk results to improve their own understanding of their inherent risks and applying appropriate mitigants;
- h. Obtaining assurance that Supervisory Risk-Based Frameworks remain robust to deliver assurance on the adherence of private sector to all requirements; and
- i. Undertaking periodic self-assessments of the national AML/CFT framework in the interim period between mutual evaluations.

At the highest level of governance framework is the Cabinet sub-committee which creates the mechanism for synergy between initiatives pursued by different ministries which (directly or indirectly) feed into sustaining a robust the national risk-based AML/CFT framework.