



**Anguilla Financial
Services Commission**

2017

Annual Report

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Director's Report

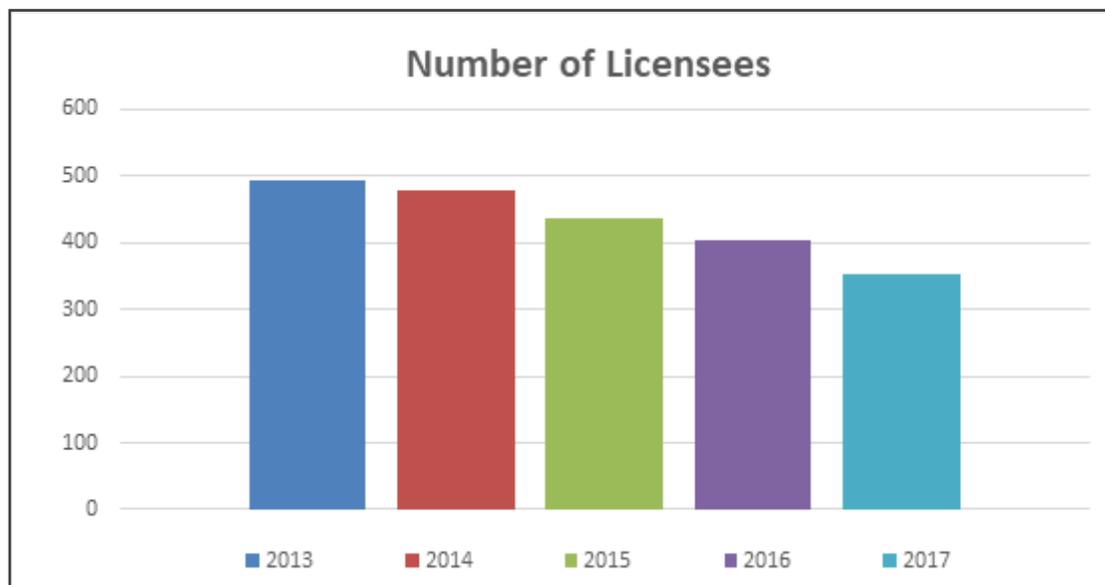
The Financial Services Commission is responsible under the provisions of the Financial Services Commission Act, R.S.A. c. F28 ("FSC Act") for administering the financial services enactments listed on the back page of this Annual Report, including licensing and prudential supervision of licensees under those enactments and taking enforcement action where necessary in cases of non-compliance with requirements under those enactments.

The Commission also is responsible for registering externally regulated service providers, non-regulated service providers and non-profit organisations under AML/CFT legislation and for monitoring and enforcing compliance by those registrants, as well as by licensees, with their AML/CFT obligations.

Number of Licensees

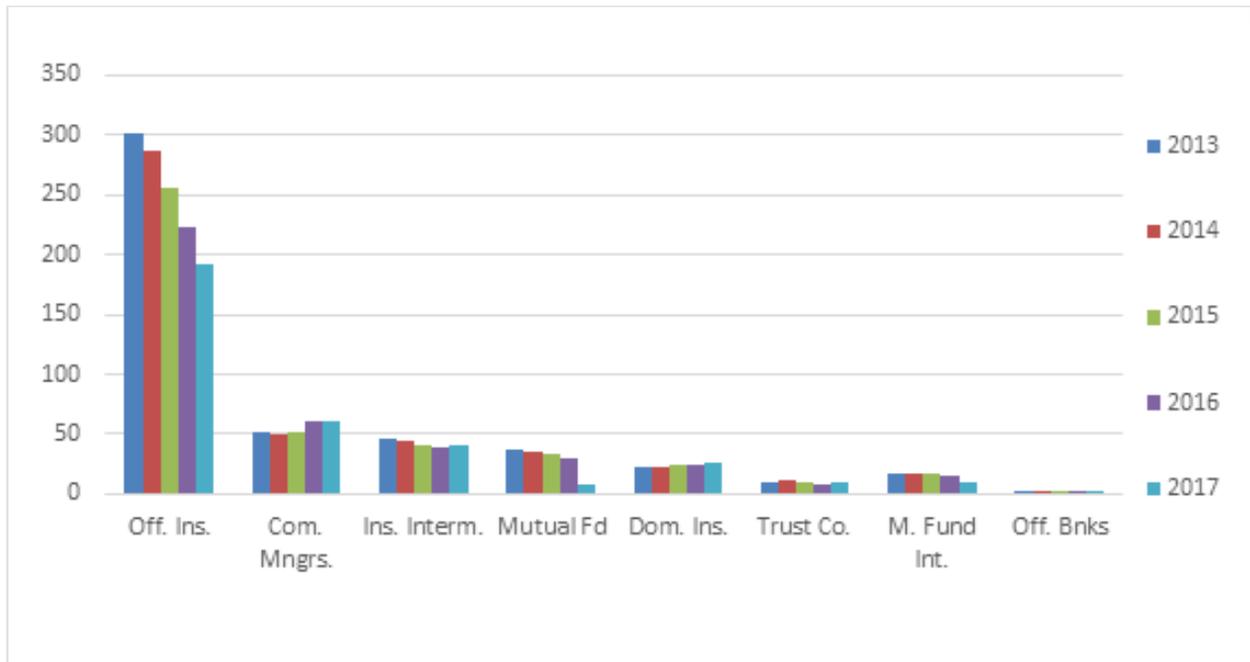
As reflected in the chart below, the Commission continued to experience a decline in the overall

number of its licensees, marking the fifth consecutive year of decline. The total number of licensees was 352 as at 31 December 2017, a decline of 12.9% from the previous year's total of 404 as at 31 December 2016, which itself represented a 7.6% reduction as compared to the total number of licensees as at 31 December 2015. The captive insurance sector in particular, comprising more than 50% of the Commission's licensees, continued its decline in numbers falling from 218 licensees as at 31 December 2016 to 188 as at 31 December 2017, a decline of 13.8%. Most of the Commission's captive insurance licensees are owned by U.S. residents and provide insurance to related companies located in the United States. Increased competition from U.S. states to attract captive insurance company incorporations, combined with various actions by the U.S. Internal Revenue Service directed at small captive insurance companies, have led to many U.S. owned captives favoring a U.S. domicile and have resulted in this jurisdiction replacing fewer captive insurance licensees than it has lost over the past year from normal attrition.



The following chart provides an industry sector breakdown of licensees. The dominance of the offshore captive insurance sector continues and, even with the decrease in the number of licensed captive insurers, demonstrates

Anguilla's continued position as one of the world's leading jurisdictions in relation to the number of companies licensed to carry on business in the captive insurance market.



Sector Reports

Insurance Sector

Domestic insurers, agents and brokers

As at 31 December 2017, there were 26 licensed domestic insurers and 18 licensed agents/brokers, representing an increase of 2 licensed domestic insurers as compared to 2016 figures.

Single insurance market project

In 2009, the Monetary Council of the Eastern Caribbean Currency Union ("ECCU") established a Ministerial Subcommittee on Insurance in response to the challenges created by the failure of the CL Financial Group. This subcommittee is responsible for, among other things, overseeing development of a single insurance market for the ECCU, including a regional regulatory body. The subcommittee is chaired by The Hon Ralph

Gonsalves, Prime Minister of Saint Vincent and the Grenadines.

The Ministerial Subcommittee on Insurance is supported by a Technical Core Committee on Insurance, which has comprised government and Eastern Caribbean Central Bank ("ECCB") officials as well as international insurance and legal experts. In October 2014, the Monetary Council appointed a Steering Committee to coordinate activities leading to the establishment of a single insurance and pensions market and regulator for the ECCU.

A draft Insurance Act for the ECCU region, as well as a draft Agreement Establishing the Eastern Caribbean Financial Services Regulatory Commission ("ECFSRC"), the proposed regional insurance regulatory body, have been produced but have not yet been enacted by the ECCU member states. In November 2015, the Steering Committee came to Anguilla and held a public consultation with the insurance industry, updating industry members on the status of the project,

the Single Insurance and Pensions Market Project ("SIPMP"), and soliciting comments and concerns. The first round of public consultations across the ECCU on the SIPMP was completed in September 2016. A project manager, responsible for coordinating a work program specific to the execution of the project, was appointed in February 2017. Specifics on the structure, funding and location of the ECFSRC have yet to be determined.

Non-Domestic Insurers

Captive Insurers

As at 31 December 2017, there were 188 licensed captive insurers. During the year 3 new companies were licensed, 33 licensed captive insurers surrendered their licences and 2 licences were revoked.

Foreign Insurers

As at 31 December 2017, there were 4 licensed foreign insurers. No new licences were issued and 1 licence was surrendered during 2017.

Insurance Managers

As at 31 December 2017, there were 22 licensed insurance managers. One new license was issued and no licences were surrendered during 2017.

During the year, Commission staff conducted an onsite prudential examination of an off-island insurance manager that provides insurance management services to captive insurance companies licensed in Anguilla. The examination was full scope in nature, including a review of governance, operations, internal controls, financial soundness and compliance with the Insurance Act, R.S.A. c. I16 and the regulations thereunder by both the insurance manager and the insurers under its management.

The onsite examination of the insurance manager

took place over the course of 4 days and was conducted by 2 of the Commission's insurance supervision staff. Key findings included required improvements in financial performance reporting, claims administration, the internal audit function and procedures in relation to risk management.

Mutual Fund Sector

Funds

As at 31 December 2017, there were 5 private funds and 3 professional funds licensed. There were no new licences granted or issued, 14 private funds and 4 professional funds surrendered their licenses and the licences of 1 private fund and 2 professional funds were revoked during 2017.

Fund Managers and Administrators

As at 31 December 2017, there were 10 licensed fund managers and administrators. There were no new licences issued, 3 licences were surrendered and 3 licenses were revoked during the year.

Mutual Fund Sector Compliance Review

The Commission gradually has increased the rigor of its regulatory activities in support of ensuring compliance with the legislation it has responsibility for regulating. The Commission's approach is in line with the regulatory trend internationally to strengthen enforcement programs with the objective of evidencing, both to the investing public and to international overseers, a credible deterrence to legislative breaches. In this respect, the Commission in 2017 completed a comprehensive review of its mutual fund sector that was initiated in 2016, including all licensed funds, fund managers and fund administrators. The review included a total of 34 funds, both private and professional, and 17 fund managers and administrators, resulting in the surrender of the licences of 23 funds and 4 managers and administrators, the ongoing suspension of 1 fund and the revocation of the licences of 3 funds and

of 3 fund managers and administrators.

Company Management and Trust Company Management Sector

As at 31 December 2017, the Commission's licensees included a total of 5 general trust companies, 3 restricted trust companies and 61 company managers. One new restricted trust company licence and one new company manager licence were issued in 2017, while no trust company or company manager licenses were surrendered.

Pursuant to the Commission's Notice to its licensees issued in October 2016 providing notification of the expiry of the overseas agent system, the one-year period during which an existing overseas agent was required by the Commission to submit an application to the Commission to become a licensee, or enter into an agreement with a licensee to become an intermediary or introducer of the licensee where the licensee incorporates all companies, ended on 31 December 2017. Two former overseas agents were licensed during 2016 and 2017.

Money Services Business Sector

The Commission currently has 3 money services business licensees, including one issued in October 2017 that is restricted to the business of currency exchange and specifically to the operation of an automated teller machine for the conversion of U.S. dollars to bitcoin and vice versa.

Offshore Bank Sector

National Bank of Anguilla (Private Banking & Trust) Ltd. and Caribbean Commercial Investment Bank Ltd. (together the "offshore banks") remained under administration throughout 2017 pursuant to the terms of the order of the Eastern Caribbean Supreme Court made on 22 February 2016 under section 37 of the FSC Act. The Administrator during 2017 continued with his efforts to protect the interests of the offshore banks and their

depositors, including pursuant to court actions initiated by the Administrator on behalf of the offshore banks in both the United States and Anguilla for the purpose of advocating for the legal rights of the offshore banks and their depositors to share in the assets distributed under the ECCB's resolution plan. The Administrator also continued to administer the outstanding loan books of the two banks and pursued the collection of non-performing loans and the enforcement of security held in relation to those loans as necessary.

Externally and Non-Regulated Service Providers

The Externally and Non-Regulated Service Providers Regulations ("ENRSP Regulations") introduced in 2013 gave the Commission responsibility for the supervision of domestic banks and companies licensed under the Securities Act, R.S.A. c. S13 (together, "ERSPs") and non-regulated service providers ("NRSPs") for compliance with AML/CFT requirements under the Proceeds of Crime Act, R.S.A. c. Pg8 ("POCA").

Service providers as defined under POCA are required to register under the ENRSP Regulations. The Commission registered one micro lender and one lottery company as NRSPs during 2017.

The Commission also issued an Investor Alert involving an Anguilla incorporated company in the business of dealing in forex trading that had failed to comply with the requirement to register under the ENRSP Regulations. Failure to register while continuing to engage in a business requiring registration is a violation of section 158 of POCA and can result, on summary conviction, to imprisonment for a term of 12 months or to a fine of \$50,000 or to both; or on conviction on indictment, to imprisonment for a term of 5 years or to a fine of \$100,000 or to both.

Non-Profit Organizations

The Commission is responsible for the registration of non-profit organisations ("NPOs") under the Non-Profit Organisations Regulations, R.R.A. Pg8-

2 and for supervising their compliance with anti-terrorist financing requirements under POCA. In 2017, the Commission registered 12 NPOs and exempted 15 NPOs from registration. An NPO can be exempted from registration if its gross annual income does not exceed EC\$5,000 and its assets do not exceed EC\$10,000.

AML/CFT Supervision

2015-2017 Offsite Review Program

The Commission recognizes that its licensed company managers are faced with significant responsibilities under AML/CFT legislation to address money laundering and terrorist financing risks. Their failure to be vigilant in complying with AML/CFT legislation exposes licensees to enforcement action by the Commission and possible criminal prosecution and could create reputational damage to Anguilla. The Commission as a result has conducted a several year campaign to educate company managers on their responsibilities, in particular as stated in the Anti-Money Laundering and Terrorist Financing Code, R.R.A. Pg8-5 ("AML/CFT Code") and the Anti-Money Laundering and Terrorist Financing Regulations, R.R.A. Pg8-1 ("AML/CFT Regulations"). The education campaign included Industry Day presentations, numerous training sessions and one on one meetings as well as publications via its website.

Following on from its education efforts, the Commission between March 2015 and October 2017 conducted offsite reviews to ascertain the level of compliance with customer due diligence provisions of the AML/CFT legislation by its licensees carrying on company management business. Fifty-one (51) licensees were reviewed to ascertain their level of compliance with the following basic AML/CFT requirements:

- licensee's business risk assessment (section 16(f) of the AML/CFT Regulations)
- customer risk assessments (section 10 of the AML/CFT Regulations)
- identification and verification information of the customer, third party, and beneficial owner (section 10 of the AML/CFT Regulations)
- AML/CFT policies and procedures manual (section 16 of the AML/CFT Regulations)

Based on the results of the offsite reviews, the Commission issued administrative penalties totaling US\$59,798 against thirteen (13) licensees who failed to comply with their obligations under the AML/CFT Code and AML/CFT Regulations. In November 2017 the Commission published a summary of the administrative penalties imposed matched with the violations in respect of which the penalties were imposed, and posted it on its website for the purpose of providing additional guidance to its licensees as well as to evidence the emphasis the Commission is putting on requiring compliance by its licensees with their AML/CFT obligations.

2017 Offsite and Onsite Inspections

In 2017, in addition to completing the 2015-2017 offsite review program, the Commission conducted offsite inspections of five company managers, most of which were based in Taiwan. Based on the findings of the offsite inspections, the following key issues were noted:

1. Updates required to the AML/CFT procedures manual to incorporate the topics cited in the AML/CFT Issues Guide for Procedures Manual as well as other relevant topics in the AML/CFT Regulations and Code;
2. Documentation required of the business risk assessment of the licensee;
3. Revision required of the ratings of the customer risk assessments to reflect the risks posed by the nature of the business of the managed companies and when business is conducted in countries that do not comply with FATF standards;
4. Further customer due diligence documentation required including evidence of the nature of business, contact information and ongoing monitoring.

One onsite inspection also was conducted of an externally regulated service provider. The key findings were in relation to documentation of the ERSP's policies, procedures, systems &

controls and general compliance with AML/CFT obligations.

All licensees have committed to resolving their outstanding issues.

National Risk Assessment

CFATF's 4th Round Mutual Evaluation Review of Anguilla is scheduled to be conducted in the fourth quarter of 2021. Central to Anguilla meeting the requirements of the review is the conduct of a national risk assessment ("NRA"). The NRA is a responsibility of the Government of Anguilla deriving from its membership in the CFATF. The NRA exercise is expected to take approximately three years to complete. It involves identifying the risks for money laundering and terrorist financing in the jurisdiction across both the public and private sectors, reasonable means of addressing those risks and measuring their effectiveness, the production of a detailed report documenting the exercise conducted, its results and an action plan to determine means of reducing the risks, and applying the necessary resources to ensure that the risks are effectively mitigated.

The Government announced the launch of the NRA on 13 February 2017, including the establishment of a National Risk Assessment Steering Council under the chairmanship of the Minister of Home Affairs to lead the work on the development of the NRA. The Steering Council's membership includes the Chief Minister/Minister of Finance, the Attorney General, the Deputy Governor, the Commissioner of Police, the Chairman of the MLRA, the Director of the Commission, the Permanent Secretary Finance and the Chief of Staff - Governor's Office, as well as a private sector representative.

The development work will be conducted by a Working Group reporting to the Steering Council, including responsibility for data collection, writing the report and driving forward delivery of the resultant action plan. The Working Group is chaired by the Chairman of the MLRA and will be coordinated by Senior Legal Counsel from the Commission and the Compliance Manager from the Ministry of Finance. Its membership also includes the Head of the Financial Intelligence

and Investigation Unit, the Comptrollers of both HM Customs and Inland Revenue, the Deputy Commissioner of Police, the Chief Immigration Officer, the Deputy Director of the Commission, senior crown counsel in the Attorney General's Chambers, the Chief of Staff in the Governor's Office and a private sector representative.

Enforcement Activity

The Commission has continued to increase its enforcement activities in order to provide, and to evidence both to the investing public and international overseers, a credible deterrence to legislative breaches. This approach corresponds with the regulatory trend internationally to strengthen enforcement programs. During 2017, the Commission issued 48 demands for the provision of information and production of documents (2016: 53), 6 notices of intent to suspend (2016: 16) and 4 suspensions (2016: 2), 17 notices of intent to revoke (2016: 2) and 10 revocations (2016: 2), 19 notices of intent to impose an administrative penalty (2016: 32) and 19 administrative penalties imposed (2016: 5) totaling US\$126,386 (2016: US\$19,002).

Of the administrative penalties imposed in 2017, US\$46,552 (2016: US\$19,002) was collected during the year. That amount, in addition to the penalties assessed and collected in 2016 and 2015, totaling in aggregate US\$73,137, was expended or committed to be expended for industry education and other industry-related initiatives, as well as to assist in the financing of the National Risk Assessment.

Industry Development

Guidelines and Policies

In February, 2017 the Commission published Guidelines for the Conduct of Company Management Business through an Intermediary. The Guidelines are not compulsory but are intended to provide both a roadmap for licensees to follow and best practices in relation to pre-

incorporation and post-incorporation customer due diligence practices for compliance with obligations under Anguilla's AML/CFT legislation.

Industry Events

The Commission did not hold an Industry Day in 2017 due to the lingering impact of Hurricane Irma that struck the island on September 6th.

Staff Training

A senior prudential regulatory staff member attended training in Jamaica in January on the application of micro-insurance principles, in particular in relation to the A2ii Access to Insurance Initiative. The Director attended the Captive Insurance Companies Association conference in March in San Diego. Two senior staff members attended the Annual Conference of the Caribbean Group of Banking Supervisors held in July in Antigua, at which matters involving mobile money, fintech and crypto-currency were presented and discussed. An enforcement staff member attended a three-day AML/CFT Anti-Fraud and Financial Crimes conference in Antigua, also in July. A three-day training session was presented in-house in July to insurance regulatory staff by a consultant from CARTAC focused on reinsurance.

Regulatory Meetings

Staff attended the UK Overseas Territories Financial Services Regulators annual conference in Miami in April, as well as the Group of Financial Centre Supervisors annual meeting in April and the Group of International Insurance Centre Supervisors annual meeting in June, both of which were held in London, U.K. A staff member also attended the CARTAC sponsored annual meeting of the Caribbean Association of Insurance Regulators, including the regulatory college held to discuss any outstanding issues with a selected regional insurer, that was held in Jamaica in June as well as the CFATF Plenary in November in Guyana.

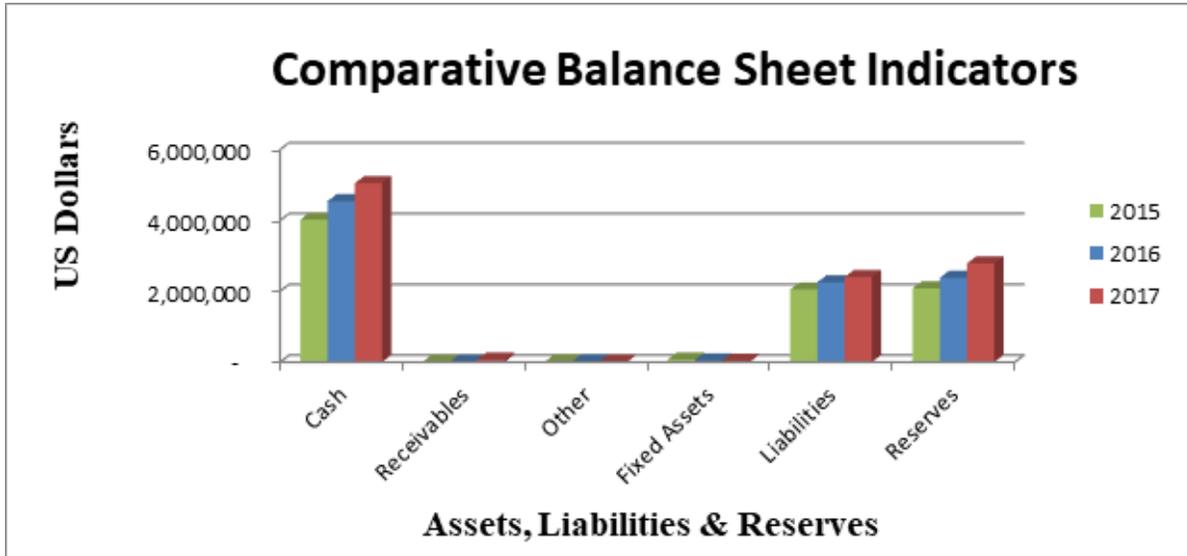
Financial Performance Analysis

The Commission reported net income of US\$408,083 for the year ended 31 December 2017 (2016: US\$297,176), a 37% increase year over year. Reserves increased by 17% to US\$2,789,444 as at 31 December 2017 from US\$2,381,361 as at 31 December 2016. The factors underlying the year's performance are reported below in the discussion of Revenue and Expenses.

Assets, Liabilities and Reserves

As at 31 December 2017, the Commission's total assets were US\$5,193,160 (2016: US\$4,637,858). Liquid assets, in 2017 being entirely cash, accounted for 97.3% of the Commission's assets (2016: 98.1%).

Table 1: Comparative Balance Sheet Indicators



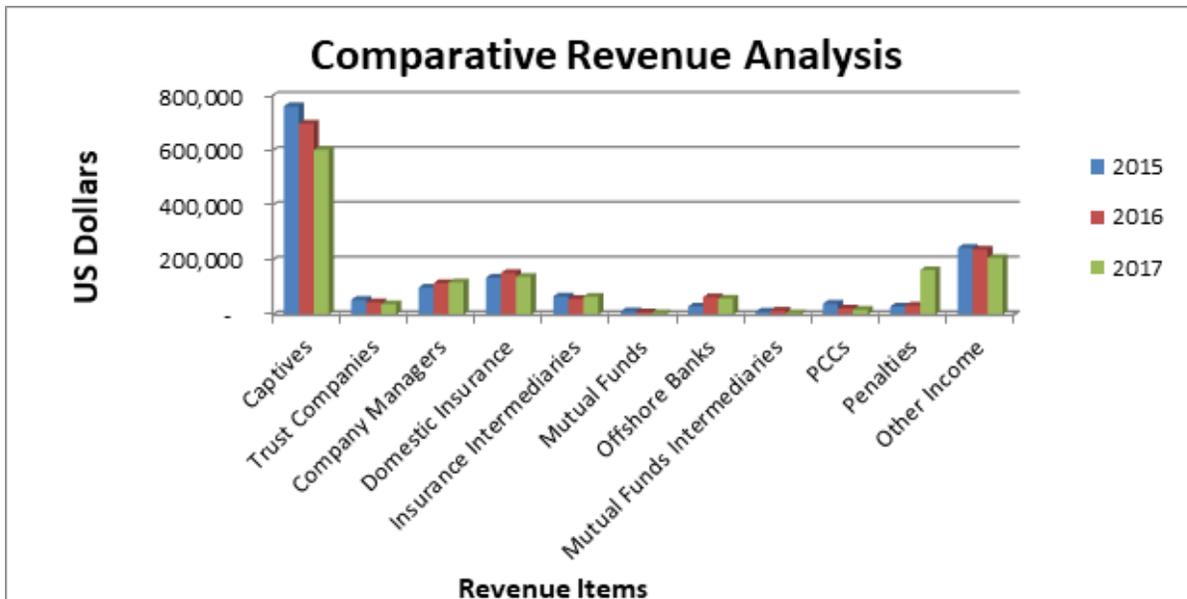
Total liabilities were US\$2,403,716 (2016: US\$2,256,497) with the increase over the previous year-end reflecting an increase in statutory deposits held by the Commission in connection with approved external insurers licensed in the jurisdiction. Accumulated reserves were US\$2,789,444 at year end (2016: US\$2,381,361), the increase resulting from the net income reported above.

Revenue

Total revenue decreased by 2.0% or US\$29,519 to US\$1,432,923 (2016: US\$1,462,442). License

fee revenue decreased by 2.0% or US\$29,380 to US\$1,407,970 (2016: US\$1,437,350) while interest income increased slightly, license fee revenues decreased primarily due to a decrease in the number of licensees. License fee revenue includes fee income from not only the issuance of licenses but also from other regulatory services performed under applicable legislation. Revenue from "Penalties" includes the assessed amount of fines for late payment of fees and administrative penalties imposed. As addressed under the "Enforcement" section of this Annual Report, administrative penalties imposed increased significantly in 2017 as compared to 2016.

Table 2: Comparative Revenue Analysis



Expenses

Total expenses decreased by 12.1% or US\$140,426 to US\$1,024,840 (2016: US\$1,165,266). Payroll costs declined US\$23,678 to US\$768,633 (2016: US\$792,311), primarily due to the resignation of a senior staff member part way through the year.

“Travel and subsistence” decreased by US\$65,544 to US\$26,877 (2016: US\$92,421), primarily due to fewer overseas onsite examinations conducted in 2017, a decrease in the cost of staff training and a lower cost for the regulatory conferences attended during the year.

