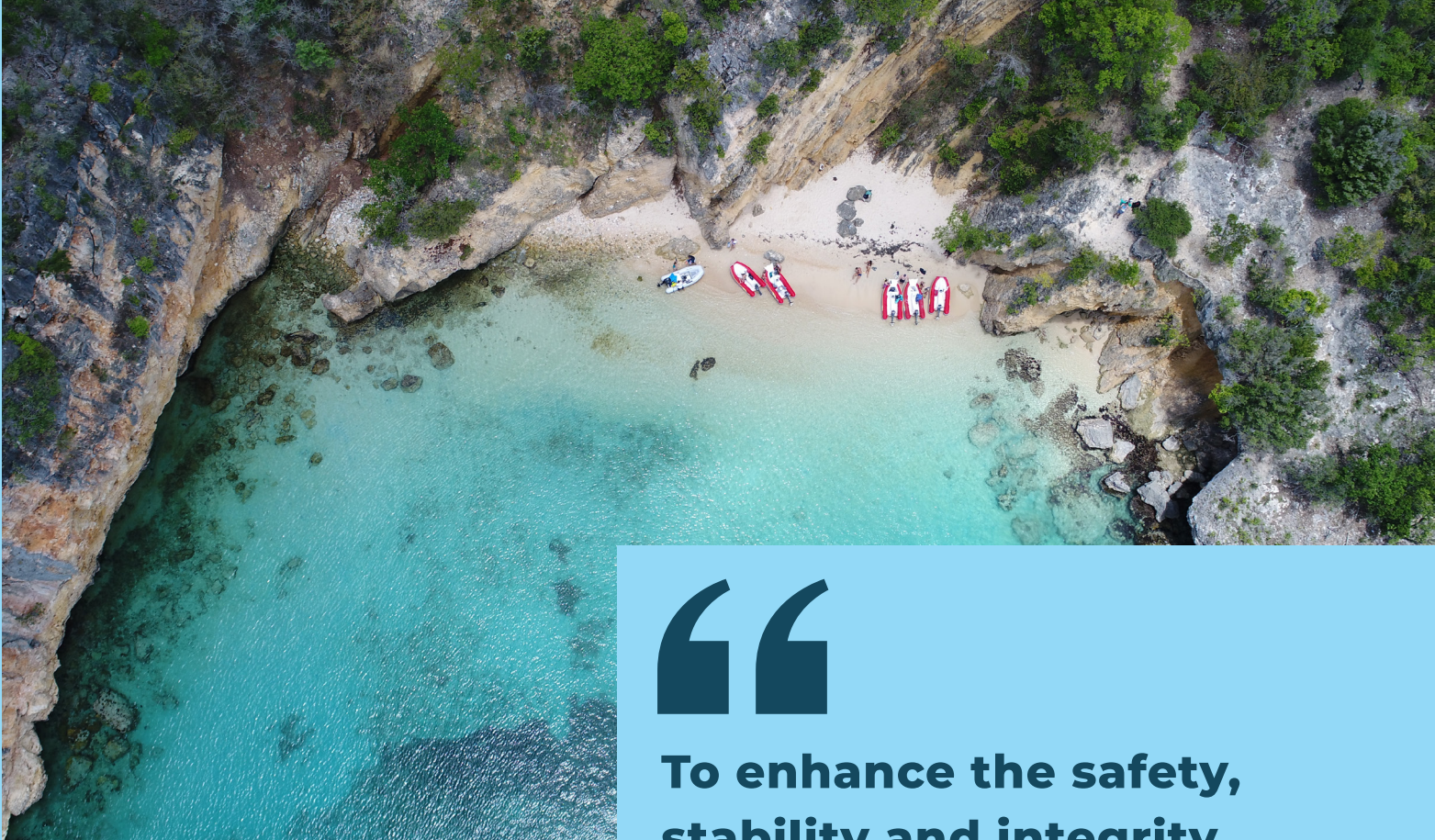


ANGUILLA FINANCIAL SERVICES COMMISSION



ANNUAL REPORT 2023

OUR MISSION



To enhance the safety, stability and integrity of Anguilla’s financial system and contribute to Anguilla being a premier financial centre, through appropriate regulation and legislation, judicious licensing, comprehensive monitoring and good governance.

DIRECTOR'S REPORT



1.0 Executive Summary

This report highlights the Commission's activities for 2023, focusing on its oversight of various financial services sectors, adherence to international standards, and collaboration with both domestic and international stakeholders.

The Financial Services Commission Act, R.S.A. c. F28 ("FSC Act"), empowers the Commission to administer financial services legislation and oversee the prudential supervision of licensees. Additionally, under Section 154 of the Proceeds of Crime Act, R.S.A. c. P98 ("POCA"), the Commission serves as the Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) supervisor for financial service providers.

Significant legislative developments occurred this year, aimed at aligning with international standards in preparation for the fourth-round mutual evaluation on AML/CFT, conducted in late June and early July 2023. Key legislative changes included amendments to the Proceeds of Crime Act and its subsidiary legislation, as well as the Financial Services Commission Act. Notable additions to the legislative framework were the introduction of the Digital Assets Business Act and the Co-operative Societies Act.

Several key initiatives also stand out:

- In October 2023, the Commission launched the ARIAS, a supotech/regtech tool developed through the collaborative efforts of developers and staff.
- The Executive Council approved a framework to begin planning for the integration of the Commercial Registry into the Commission.
- The Commission continues to value its most critical asset—its staff. In 2023, two staff members were promoted in recognition of their contributions. Additionally, the team participated in a range of professional development opportunities, with training sessions conducted in collaboration with regional and international organizations. These sessions focused on critical areas such as digital assets, co-operative societies, and AML/CFT matters.

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2.0 Regulation Statistics

Licensee Statistics

Key sectors include the insurance (domestic and foreign) and trust and corporate services sector. The total number of licensees was 176 as at 31 December 2023. This represents a decline of 9% from the previous year's total of 193 as at 31 December 2022, which itself represented a 11% reduction as compared to the total number of licensees as at 31 December 2021.

Specifically, the captive insurance sector, constituting about 27% of the Commission's licensees, sustained a decrease in its count. The number declined from 62 licensees on 31 December 2022, to 47 on 31 December 2023, marking a decline of 24%. Heightened competition from the U.S. vying for the incorporation of captive insurance companies, alongside efforts by the Internal Revenue Service aimed at smaller captive insurance companies, have prompted a preference for U.S. domiciles among many U.S.-owned captives. This has led to fewer captive insurance licensees being licensed in Anguilla.

The trust and corporate services sector constitutes 31% of the overall licensees, showing minimal change over the last 5 years.

Domestic insurance accounts for 14% of the licensees, while insurance intermediaries make up 19% of the total licensees.

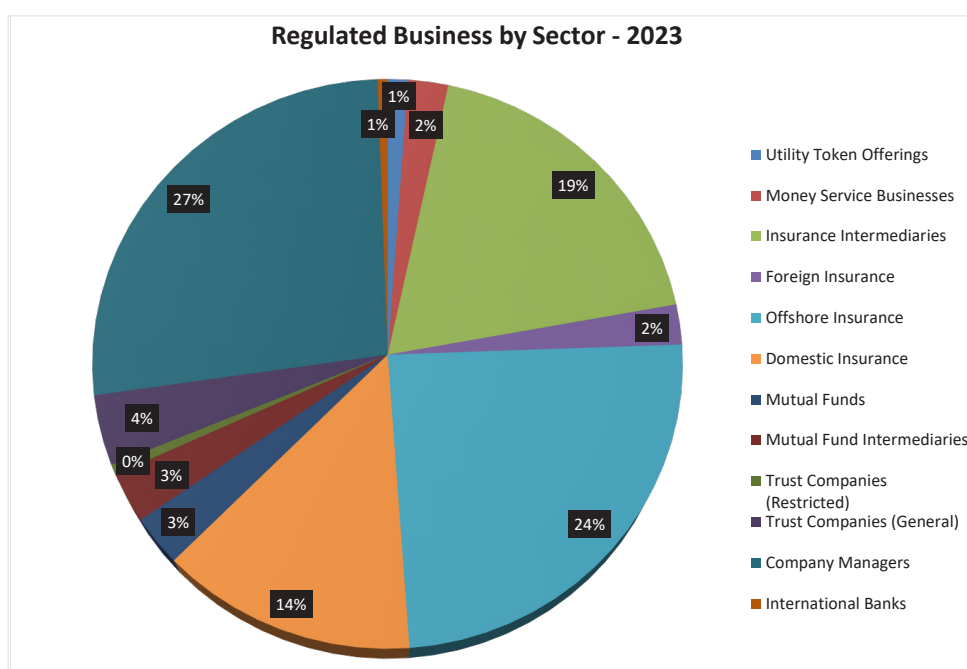


Figure 1: Percentage of Licensees in 2023

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Regulated Business Statistics

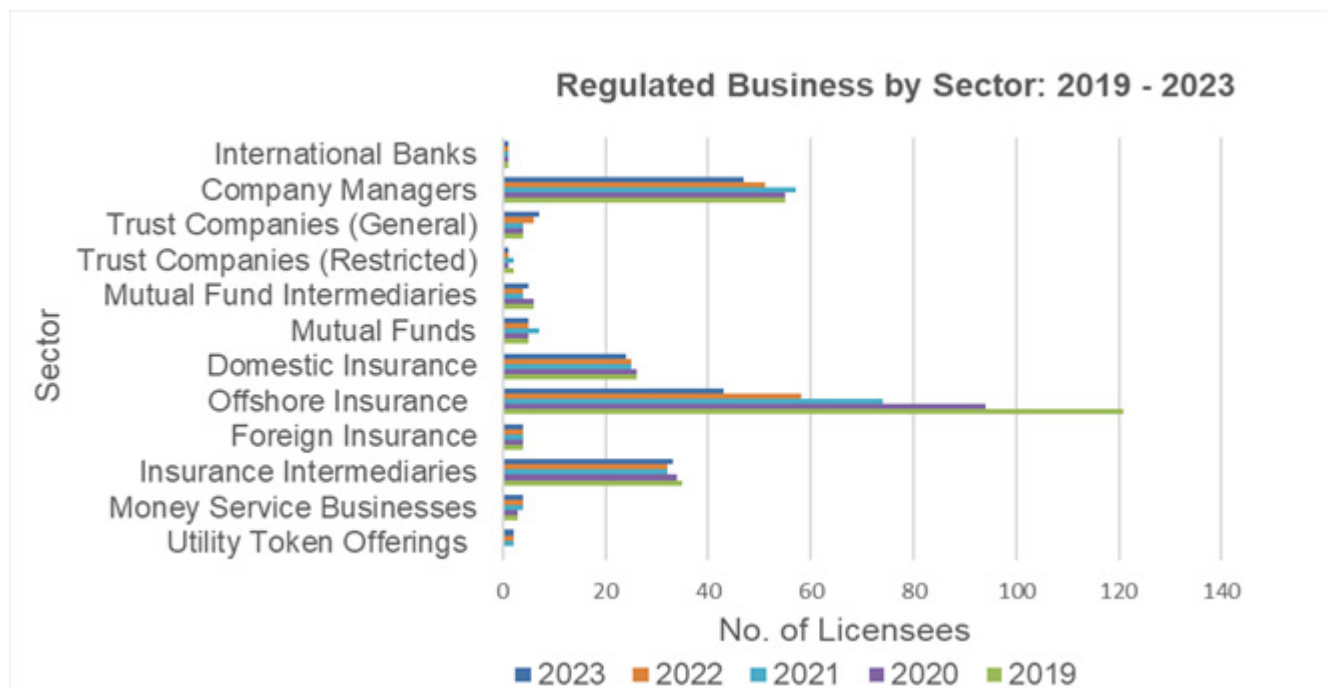


Figure 2: Regulated Business by Sector (2019 -2023)

3.0 Sector Reports

Below the various financial services sectors which include insurance, credit unions, mutual funds, company management and trust services, money services business, international banks, utility token offerings, externally and non-regulated service providers and non-profit organisations will be discussed.

Insurance Sector

Domestic insurers, agents and brokers

Domestic Insurers

The domestic insurance market continues to contend with the impacts of the global economic landscape, particularly in the face of climate change, increasing weather-related events and high reinsurance costs. During 2023, one Class "A" insurer was approved for surrender of its licence. Twenty-four domestic insurers held licences as at the end of 2023.

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IFRS 17

Insurance Contracts adoption and transition efforts continued throughout 2023. Insurers with December financial year-ends were finally in the effective period for reporting under the new standard. The Commission maintained ongoing collaboration with regional insurance supervisors to modify its supervisory regime and position itself for receiving financial statements and other reports under the new measurement, presentation and disclosures.

On 14 February 2023, the Commission issued for comment draft harmonized quarterly reporting forms for domestic insurers. While the forms were not finalized during 2023, the Commission requested that domestic insurers file under International Financial Reporting Standards (IFRS) submit parallel quarterly reporting forms using the draft for IFRS 17, and the prior forms for IFRS 4. As the filing of financial statements using IFRS is not mandatory in Anguilla's insurance supervisory regime, the prior forms will continue to be filed by insurers who report under US Generally Accepted Accounting Principles (GAAP).

The Goods and Services Tax Act, which took effect on 1 July 2022 and introduced new taxes on insurance premiums, was amended late 2023 to repeal and remove any taxes applicable to the sale of insurance products effective 7 December 2023. The removal was a welcome change for the industry already faced with increasing reinsurance and operating costs.

Survey of Domestic Insurers' Insurance Premium Rates

The Anguilla Financial Services Commission conducted a survey of domestic insurers' premium rates in Anguilla. The focus was on changes in premium rates offered to policyholders in Anguilla in 2022 and 2023.

The survey was issued on 19 March 2024 and responses were collected by 5 April 2024 and included both Property & Casualty as well as health and life insurers. Twelve (12) responses were received.

Out of the 12 respondents, all of those that wrote property business in Anguilla reported an increase in premiums from 2022 to 2023, generally in the range of 10-20%.

In a couple of cases, increases were also planned for the 2024 year without stating a percentage. Some of the responses cited that the increases were dependent upon whether there a catastrophe were to occur or if there were increases in reinsurers' rates.

Health lines of business also saw increases ranging from 7.5% to 18%.

Regarding reinsurance capacity, most property insurers reported having a flat renewal, with only one reporting a 12% decline in total capacity for the 2023/2024 renewal and one whose estimated 9% growth was approved by reinsurers. Out of all, only one insurer, a property insurer, anticipated

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a reduction in capacity in the upcoming reinsurance renewal period with respect to Anguilla business.

However, regarding reinsurance cost, property insurers saw significant increases, reporting 20%, 41%, 43% and 50% raises on reinsurance premiums. One insurer could not indicate the expected increase as its renewal had not been completed for 2024 at the time of responding.

The increase in rates presents a huge challenge to the general populace of Anguilla and the Eastern Caribbean. The cession rates have remained unchanged for most insurers while ceding commissions decreased for 3 out of 5 property insurers and 2 saw decreases in profit commissions.

One trend observed by the Commission in the past 3-4 years is that reinsurers have increasingly been pricing based on very segmented geographical regions, in an apparent effort to more closely align the cost of cover with the higher-exposed regions and sub-regions. This shift has affected Anguilla and nearby jurisdictions, particularly in a post-2017 environment.

Against the backdrop of inflation and stagnant wages, insurance is becoming costlier and there are concerns regarding the growing protection gap.

Strengthening of the Legislative Framework

During 2023, there was further work on proposed amendments to insurance regulatory framework with consultation on 26 January 2024. The proposed amendments include changes to the regulatory fee structure for insurance licensees, as well as the introduction of provisions requiring approval for certain transactions that previously did not require it. The objective is to enhance the overall supervisory framework for the insurance sector, pending a comprehensive review and overhaul of the legislative framework.

Climate Risk

The need to assess climate risk in financial services supervision continues to increase. In 2023, climate risk supervision in the insurance sector gained significant momentum as regulators and industry stakeholders intensified their focus on assessing and mitigating the financial impacts of climate change. With the increasing frequency and severity of climate-related events, insurers were faced with the need to incorporate climate risks into their underwriting, investment and overall risk management strategies.

During 2023, the Commission, along with fellow regulators within the Eastern Caribbean Currency Union worked alongside the Eastern Caribbean Central Bank on its 'Project on Integrating Climate Related Financial Risks into Financial Services Supervision'. The project focused mainly on non-bank sectors including insurance, credit unions and the securities market. The project was rolled out in a phased approach and was ongoing at the end of 2023.

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Agents and Brokers

During 2023, two new insurance broker licences were granted. There were no licences revoked or surrendered during the year. The year, having started with 18, ended with a total of 20 insurance agents and brokers.

Non-Domestic Insurers

Captive Insurers

The captive insurance sector in Anguilla continues to face challenges in achieving new licence applications. The factors that shaped the climate causing the initial decline persisted into 2023. As a result, no new licences were granted, whereas there were 15 licence cancellations. The final year-end tally was 47 captive insurers holding licences, down from 62 at the beginning of 2023.

Foreign Insurers

The number of licensed foreign insurers maintained consistency at four.

Insurance Managers

The licence of one insurance manager was cancelled in 2023, resulting in a decline from 14 to 13 holding licences at the year end.

Credit Union Sector

The Co-operative Societies Act and Co-Operative Societies Regulations were enacted in April 2023 repealing the former Act.

The new Co-operative Societies legislation encapsulates a modern and comprehensive framework for the supervision of co-operative societies, including credit unions.

Pursuant to section 256 of the Co-operative Societies Act, all co-operative societies that were duly registered or deemed registered under the former Act prior to the commencement of the new Act are considered registered under the new legislation. Accordingly, two credit unions were deemed registered upon the Act coming into force.

The passage of the co-operative societies legislation will serve to further enhance the safety and stability of Anguilla's financial system.

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Mutual Funds Sector

Funds

As at 31 December 2023, there were 3 private funds and 2 professional fund licensed.

Fund Managers and Administrators

As at 31 December 2023, there were 5 licensed fund managers and administrators with the addition of a fund manager/administrator in 2023.

Company Management and Trust Services Sector

By the conclusion of 31 December 2023, the Commission's licensed entities encompassed 7 general trust companies, 1 restricted trust company, and 47 company managers. Within the general trust sector, one new licensee was added. Three company managers surrendered their licenses with one restructuring and elevating its status to that of a general trust company.

Money Services Business Sector

The Commission continues to hold licenses for 4 money service businesses. Among these, one licensee is limited to operating solely through an automated teller machine or a software application on a desktop computer. This specific licensee facilitates the conversion between U.S. dollars and bitcoins.

Utility Token Offerings Sector

The Anguilla Utility Token Offering (AUTO) sector is a fairly new sector with enacted legislation in 2018 and with amendments to legislation in 2020. There remains two licensees in the sector; 1 administrator and 1 issuer.

International Banks Sector

Throughout 2023, National Bank of Anguilla (Private Banking & Trust) Ltd. and Caribbean Commercial Investment Bank Ltd. remained under administration pursuant to the terms of the order issued by the Eastern Caribbean Supreme Court on 22 February 2016 under section 37 of the FSC Act. During this period, the Administrator's focus remained on safeguarding the interests of these subsidiary banks and their depositors. The Administrator took proactive steps, which included court actions initiated by the Administrator on behalf of the subsidiary banks in both the United States and Anguilla for the purpose of advocating for the legal rights of the subsidiary banks and their depositors to share in the assets distributed under the Eastern Caribbean Central Bank's resolution plan. The Administrator also continued to manage the outstanding loan portfolios of the two subsidiary banks. This involved pursuing the retrieval of non-performing loans and, when necessary, enforcing the security associated with these loans.

At the end of 2023, there was 1 active international bank.

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Externally and Non-Regulated Service Providers Sector

The Externally and Non-Regulated Service Providers Regulations, R.R.A. P98-6 (“ENRSP Regulations”) gives the Commission responsibility for the supervision of domestic banks licensed under the Banking Act, 2015 and companies licensed under the Securities Act, R.S.A. c. S13 (together, Externally Regulated Service Providers (“ERSPs”)) along with non-regulated service providers (“NRSPs”), for compliance with AML/CFT requirements under POCA. Such NRSPs include real estate agents, micro-lenders and high value dealers.

Service providers, as set out in Schedule 2 of the Anti-Money Laundering and Terrorist Financing Regulations, R.R.A. P98-1 (“AML/CFT Regulations”) and not captured under a financial services enactment, are required to register as NRSPs under the ENRSP Regulations. The Commission registered 5 NRSP during 2023 with a total of 25 NRSPs. There continued to be 2 registered ERSPs.

Non-Profit Organisations Sector

In 2023, amendments were made to the Non-Profit Organisations Regulations, R.R.A. P98-2 (NPO Regulations) requiring all NPOs to be registered and removing any exemptions. The Commission is responsible for the registration of non-profit organisations (“NPOs”) under NPO Regulations and for supervising their compliance with anti- terrorist financing requirements under POCA. In 2023, there were 197 NPOs registered with the Commission.

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4.0 AML/CFT Supervision Policies and Procedures

The Board of Members approved the Commission's Anti-Money Laundering and Countering the Financial of Terrorism Risk Based Supervisory Framework and the Anti-Money Laundering and Countering the Financial of Terrorism Risk Manual. The framework provides a structured approach and processes for understanding and assessing key risks inherent in an institution's or sectors activities and determining whether its risk management processes (i.e. identification, assessment, measurement, monitoring, controlling, mitigating and reporting of risks) are adequate in the context of the key risks. This AML/CFT Risk Based Supervisory Framework outlines the methodology in determining the overall risk of each financial sector, the risk for each institution within each sector and the risk of each NPO; and the supervisory strategy and approach flowing from those ratings. The AML/CFT Manual outlines the procedures used for, but not limited to, the processing of applications, risk assessments, conducting inspections and compliance visits, and enforcement matters within the AML/CFT department.

Inspections

Thematic Inspections

The Commission in relation to the themed inspections project conducted during the period 2020-2022 issued six (6) notices of intent to take enforcement action in 2023.

Other AML/CFT Inspections

The Commission conducted one (1) compliance visit of an MSB and one (1) offsite inspection of a lottery during the 2023 period

CFATF Mutual Evaluation Preparations

Anguilla published its National Risk Assessment on 23 February 2023. This outlined the money laundering threats in 21 Predicate offences and the sectoral vulnerabilities within the financial sectors. It also assessed the terrorist financing risks within Anguilla and the sectoral vulnerabilities of Non-Profit Organisations to terrorist financing. Further an assessment as to the money laundering and terrorist financing risks in relation to the residency by investment programme supervised by the Government of Anguilla was conducted in June 2023. A number of pieces of legislation were amended as detailed in the legislative developments.

From 26 June to 7 July 2023, Anguilla underwent its CFATF onsite mutual evaluation. The CFATF mutual evaluation team met with key public and private sector stakeholders during this time.

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Non- profit Organisations Regulations

In relation to its supervision of NPOs, there were major amendments made to the NPO Regulations. In this vein, the Commission revamped its NPO applications and introduced new forms for material changes and voluntary de-registration of NPOs and NPO annual return forms. In addition, the Commission issued a counter the financing of terrorism survey to all high risk NPOs. The Commission revised its guidance for NPOs and published the "Guidance On Best Practices For Combatting The Abuse Of Non-Profit Organisations" on its website.

Enforcement Activity

In 2023, there were 4 notices of intent to suspend; 2 suspensions; 8 notices on intent to revoke, 7 revocations, 8 notices of intent to impose administrative penalties, 2 administrative penalties and 2 directives. Figure 3 below offers a visual representation of the enforcement actions spanning from 2019 to 2023.

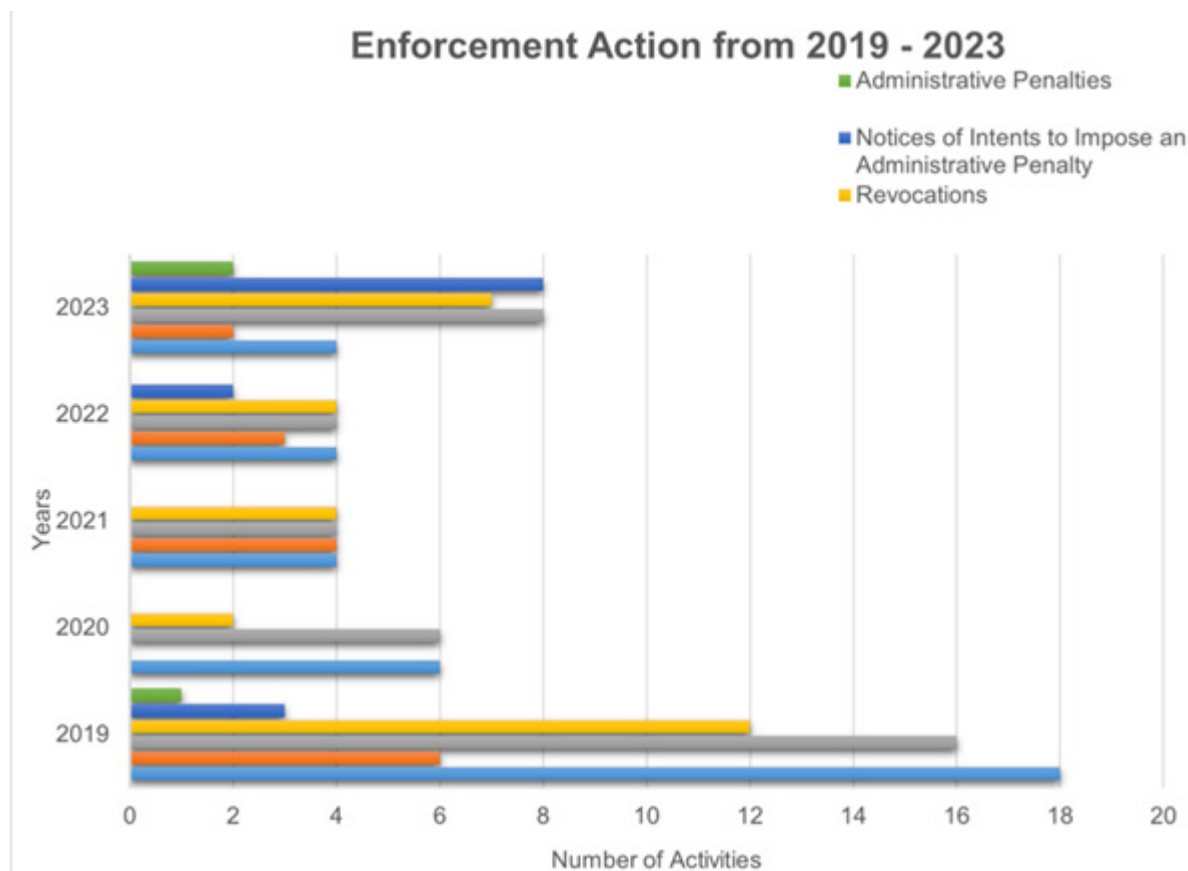


Figure 3: Enforcement Action from 2019 – 2023

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5.0 Legislative Developments

In ensuring compliance with international standards as well as modernizing the legislation, the jurisdiction amended and enacted various pieces of legislation as follows:

- Proceeds of Crime (Amendment)(No.2) Act, 2023
- Financial Services Commission (Amendment) Act 2023
- Trusts (Amendment) Act, 2023
- Financial Services Enactments (Amendment) Regulations, 2023
- Non-Profit Organisations (Amendment) Regulations, 2023
- Anti-Money Laundering and Terrorist Financing (Amendment) Regulations, 2023
- Anti-Money Laundering and Terrorist Financing (Amendment) (No.2) Regulations, 2023
- Anti-Money Laundering and Terrorist Financing (Amendment) Code, 2023
- Trust Companies and Offshore Banking (Amendment) Act, 2023
- Digital Assets Business Act, 2023
- Digital Assets Business Regulations, 2023
- Commercial Registry and Beneficial ownership and Registration System (Amendment) Act 2023
- Commercial Registry and Beneficial ownership and Registration System (Amendment) Regulations 2023
- Co-operative Societies Act, 2023
- Co-operative Societies Regulations, 2023

The Commission continues to review several draft pieces of financial services legislation pertaining to Trust and Corporate Service Providers, Special Trusts, Insurance and Anguilla Utility Token Offerings.

Guidelines

The Commission published two important Guidelines. The first Guideline focused on Non-Profit Organisations and best practices to mitigate the risk of abuse of NPOs. The second Guideline outlines the obligations of companies regarding the registration of beneficial ownership. In particular, it provides guidance on interpreting the definition of 'beneficial owner' in relation to an Anguilla company for the purposes of the Beneficial Ownership Register, as well as the meaning of 'registrable person'.

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6.0 TECHNOLOGICAL DEVELOPMENTS

Launch of ARIAS

The Commission officially launched its customized RegTech/SupTech application, the ARIAS on 10 October 2023, for use in the filing of periodic reporting forms and certain pre and post licensing applications. The platform was developed for use across all sectors supervised by the Commission. While some modules and functionalities remained in development at the end of the year, the platform was designated as the required mode for the filing of new licence applications, certain post-licensing applications and statutory returns. As such, the domestic insurance sector saw its annual and quarterly reporting forms move to the electronic format. However, for those filing under IFRS, the reporting forms were not embedded into ARIAS as the new forms had not been finalized as at the end of 2023.

The launch of the platform marked a notable change in the mode of submission of information to the Commission and mode of communication with respect to filings. Sector specific training sessions were held in September 2023 to introduce the application and provide guidance to prospective users. Expectedly, there were challenges in the initial stages that were subsequently remediated. ARIAS is expected to enhance data collation, comparison and analysis capabilities of the Commission as well as speed execution. It will also serve as a central repository for retrieving historical data. More functionalities will be released in the future to fully optimize ARIAS to further support the Commission in fulfilling its oversight function of the sector.

7.0 OTHER DEVELOPMENTS

Cooperation between National Regulatory Authorities

The Commission continues to collaborate with domestic regulatory bodies to fulfill its regulatory responsibilities. A memorandum of understanding was established between the Commission and the Financial Intelligence Unit to facilitate mutual cooperation, consultation, and the exchange of information.

8.0 Industry Engagement

In light of recent legislative amendments aimed at aligning with international standards, particularly the FATF requirements, there was a need for industry engagement on the definition of beneficial ownership. Specific sectors, notably Real Estate and Non-Profit Organisations, were reminded of their obligations under the subsidiary legislation of the Proceeds of Crime Act. The Commission, as one of the competent authorities involved in the National Risk Assessment, actively participated in the consultative process.

Ahead of its launch, the ARIAS was introduced to licensees through dedicated training sessions. In addition, the Commission was invited to serve as a panelist at the Anguilla National Conference on Youth and Development, where it contributed to discussions on emerging risks

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9.0 Professional Development

Virtual conferences included sessions with international institutions and regulatory bodies such as Caribbean Regional Technical Assistance Centre (CARTAC); Caribbean Financial Action Task Force (CFATF), Association of Certified Anti-Money Laundering Specialists; Eastern Caribbean Central Bank (ECCB); SEC International Institute; Office of Financial Sanctions Implementation and Inter-American Development Bank.

10.0 Regulatory Meetings

Commission staff engaged in regulatory meetings throughout the year, attending significant events like the Caribbean Association of Insurance Regulators (CAIR) conference in September; the Group of Financial Centre Supervisors (GIFCS) conferences; the Group of International Insurance Centre Supervisors (GIICS) conference and the UK Overseas Territories Regulatory Meeting.

11.0 Financial Performance Analysis

The Commission reported a deficit of US\$363,965 for the year ended 31 December 2023 (Deficit US\$212,198 for 2022), which is a 72% increase from the previous year. Reserves decreased by 15% to US\$2,074,701 as at 31 December 2023 from US\$2,438,666 as at 31 December 2022. The underlying factors of the year's performance are reported below.

12.0 Assets Liabilities and Reserves

As at 31 December 2023, the Commission's total assets were US\$7,634,970 (2022: US\$7,937,851). Liquid assets, in 2023 being entirely cash, cash equivalents and other deposit held at bank, accounted for 93% of the Commission's assets (2023: 93%).

Total liabilities were US\$5,560,269 (2022: US\$5,499,185). The increase from 2022 was mainly as a result of increase in Statutory Deposits held by the Commission in connection with approved external insurers licensed in the jurisdiction. Accumulated reserves were US\$2,074,701 at year end (2022: US\$2,438,666), the decrease resulted from the net deficit reported.

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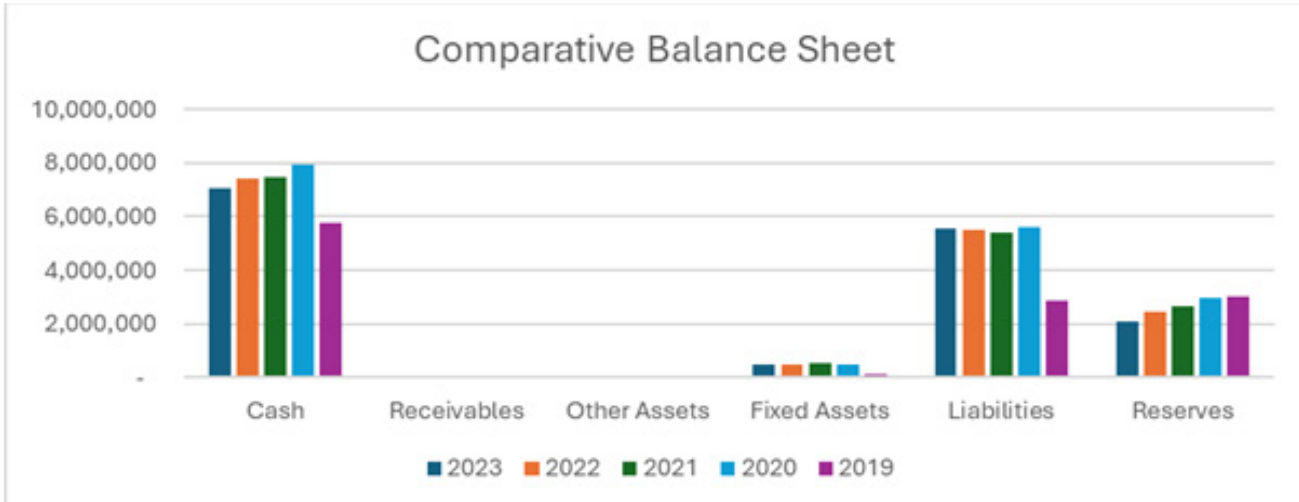


Figure 4: Comparative Balance Sheet Indicator

13.0 Income

Total Income increased marginally by US\$2,573 to US\$768,968 (2022: US\$766,395). License fee income decreased by 11% or US\$77,671 to US\$637,949 (2022: US\$715,620). The decrease in license fees income was primarily due to a decrease in the number of licensees. Total income included fee income from other regulatory services as stipulated by the applicable legislation as well as penalties which include the assessed amount of fines for late payment of fees and administrative penalties imposed. Also included was Government subvention specifically for the payment of a one month ex-gratia to the Commission’s non- contracted employees.

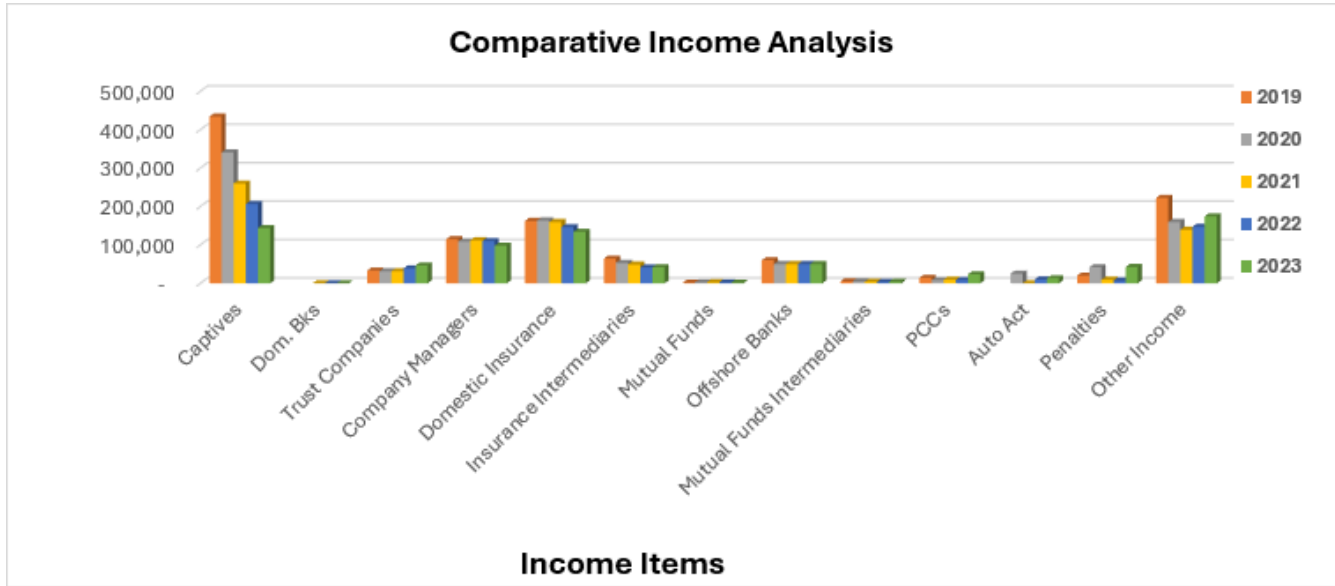


Figure 5: Comparative Income Analysis

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14.0 EXPENSES

Total expenses increased by 16% or US\$157,140 to US\$1,122,605 (2022: US\$965,465). This was mainly attributable to the increase in Payroll and Related Costs, Professional Service Fees and Travel and Subsistence. The increase in payroll related cost resulted mainly from the payment of the Government of Anguilla ex-gratia payment as well as various staff promotions. In addition, there was an increase in legal fees which resulted in the increase in Professional Fees, while growth in travel and subsistence reflected increased travel activity during the year.

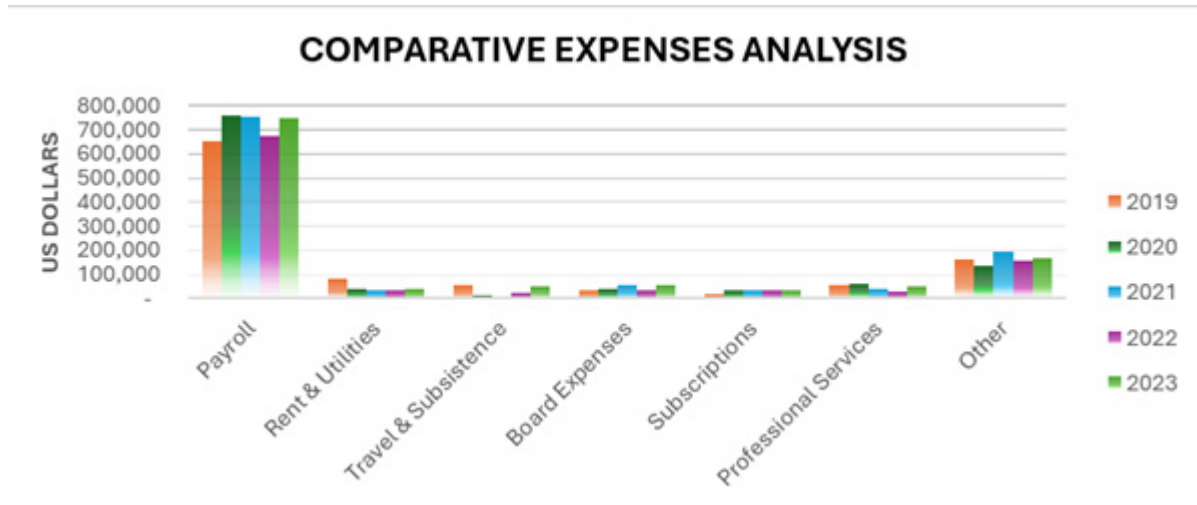


Figure 6: Comparative Expenses Indicator