



**ANGUILLA FINANCIAL
SERVICES COMMISSION**
ANNUAL REPORT
2018

DIRECTOR'S REPORT

Executive Summary

The purpose of this report is to highlight work done by the Commission during 2018, inclusive of changes to the aggregate portfolio of business subject to supervision, ongoing regulatory issues, engagements with domestic strategic partners and other regulatory developments. During 2018, the Commission regained momentum lost following the impact of Hurricanes Irma and Maria in 2017. This momentum included the development of legislation for the supervision of utility token offerings, facilitation of the fast tracking of specific insurance applications and the issuance of amended guidance that impacted both the insurance sector and utility token offerings.

In 2018, the Commission continued its outreach with the financial services industry through trainings and other industry events. Continued training was also provided to Regulators both in-house and at regional training initiatives, which remains a critical requirement for a regulatory authority to ensure that staff are prepared to address evolving supervisory challenges. One aspect of applied supervisory engagement included an enhanced review of Anti-Money Laundering and Terrorist Financing (“AML/CFT”) implementation by licensees. This was key in the Commission’s continued engagement with licensees by way of onsite and offsite inspections towards assessing compliance with AML/CFT and other financial services legislation. Given the importance of these assessments, detailed findings were collated and produced in a separate report. Generally, licensees received reports that set out corrective actions to improve their policies, risk assessment framework and to enhance the knowledge of staff to achieve greater compliance.

In relation to Anguilla’s compliance with international standards, the Commission was included as a member of both the National Risk Assessment Steering Council and National Risk Assessment Working Group established in 2016. These bodies carry out the necessary work to prepare Anguilla for its Mutual Evaluation by the Caribbean Financial Action Task Force (“CFATF”) under the 4th Round.

To ensure that the Commission remains well-placed to address the evolving issues that impact AML/CFT supervision, members of staff attended the CFATF Plenary held in November 2018. Engagement with groups that are uniquely placed to address the challenges of small international financial services regulators also took place in 2018 – specifically, attendance to meetings of the Group of International Financial Centre Supervisors and Group of International Insurance Centre Supervisors. The Commission’s staff also benefited from the secondment of a Senior Regulator to the Isle of Man Financial Services Authority, as well as attendance to other industry specific conferences and trainings during 2018.

In a review of aggregate business, 2018 experienced a contraction of business due to external drivers that impacted the decision of captive insurance companies to redomicile out of Anguilla. Other areas of regulated business have also contracted due to other drivers negatively impacting the financial services industry. The contraction of business also had a direct correlation on the revenues collected by the Commission during that year. Given the challenges that extended from 2017 and those presented in 2018, the Commission’s staff performed their work commendably.

The Financial Services Commission Act, R.S.A. c. F28 (“FSC Act”) is the enabling legislation for the Financial Services Commission and allows it to administer the financial services enactments. The Commission is responsible for the 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 Chart 1 below, the Commission continued to experience a decline in the overall number of its licensees, marking the sixth consecutive year of decline. The total number of licensees was 315 as at 31 December 2018, a decline of 10.5% from the previous year’s total of 352 as at 31 December 2017, which itself represented a 12.9% reduction as compared to the total number of licensees as at 31 December 2016.

The captive insurance sector in particular, comprising more than 50% of the Commission’s licensees, continued its decline in numbers, falling from 188 licensees as at 31 December 2017 to 163 as at 31 December 2018, a decline of 13.3%.

Most of the captive insurance licensees supervised by the Commission 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 thus resulting in this jurisdiction licensing fewer captive insurance licensees than it lost over the past year.

Chart 1 – Captive Insurance Business

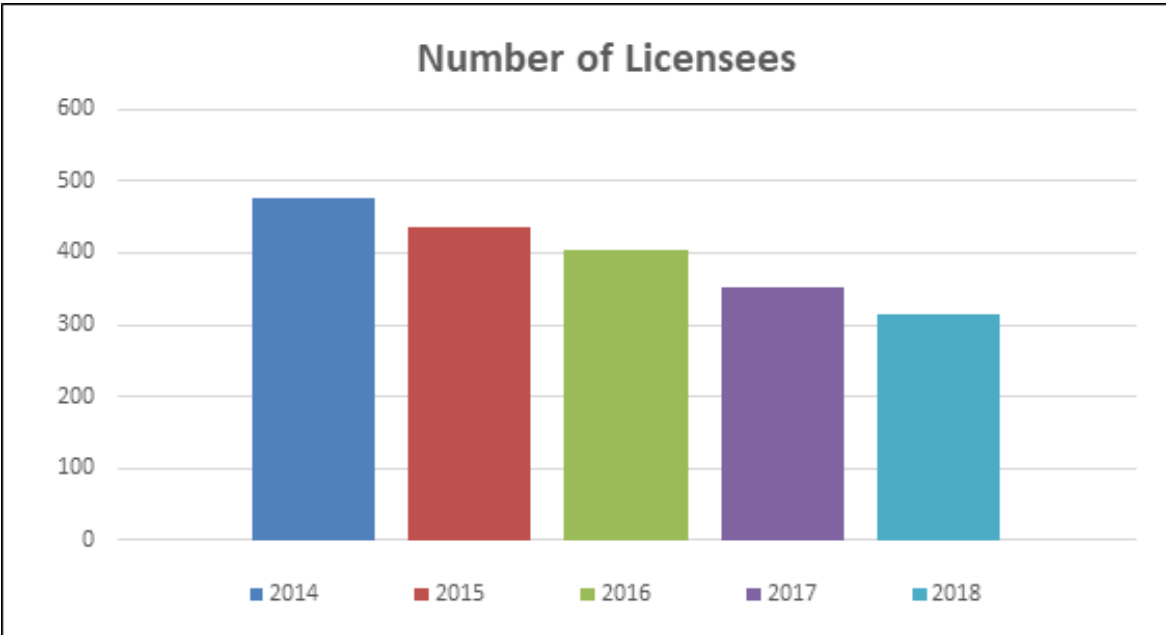
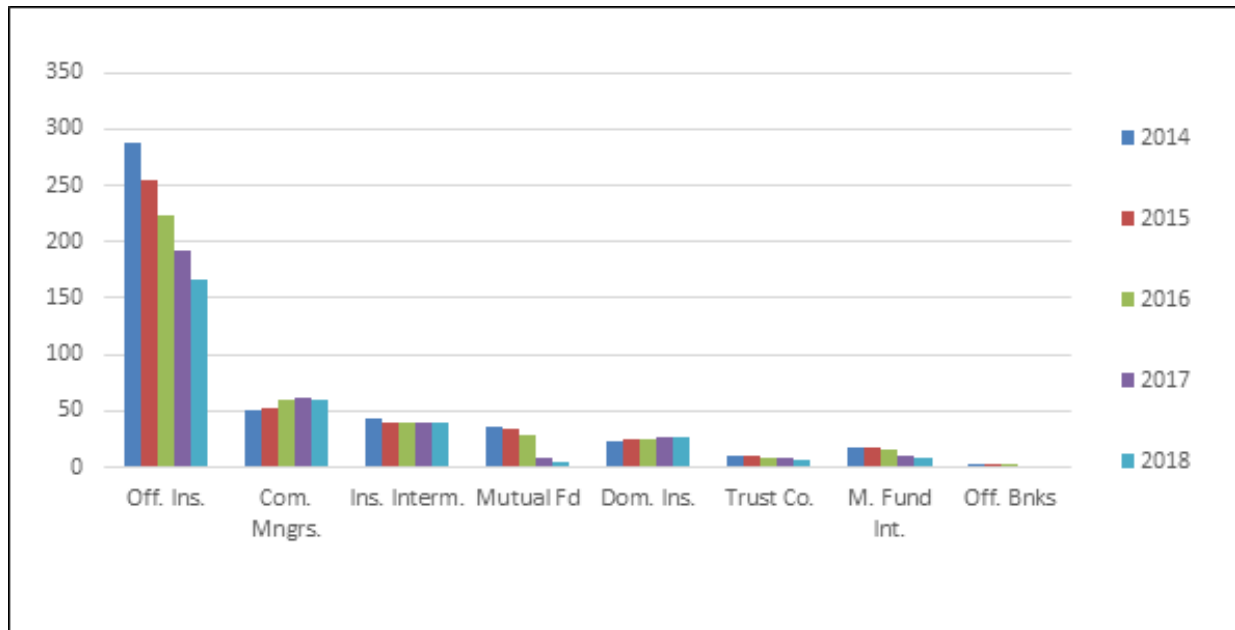


Chart 2 provides an industry sector breakdown of licensees. The dominance of the offshore captive insurance sector continues even with the decrease in the number of licensed captive insurers.

Chart 2 – Regulated Business by Sector



Sector Reports

Insurance Sector

Domestic insurers, agents and brokers

As at 31 December 2018, there were 26 licensed domestic insurers and 18 licensed agents and brokers.

Domestic Insurers

During 2018, there were 2 prudential onsite inspections of external insurers conducting domestic insurance business. The inspections were full scope in nature and included review of governance, operations, internal controls, financial soundness and compliance with the Insurance Act, R.S.A. c. 116 (“Insurance Act”) as well as compliance with the Proceeds of Crime Act, R.S.A. c. P98 (“POCA”) where applicable.

The onsite inspections of the domestic insurers took place over the course of 5 days during the months of February and June, respectively and were conducted by the Commission’s insurance supervision staff. The former was conducted at the Anguilla branch office of the subject insurer and the latter at the head office of the subject insurer in its home jurisdiction. Key findings from both inspections included required improvements in corporate governance framework, implementation and documentation of policies and procedures, claims processes, financial performance reporting and benchmarking, actuarial reporting, internal controls and internal audit functions.

Proposed single insurance market project

A draft Insurance and Pensions Bill 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 circulated for review and comment. Specifics on the structure, funding and location of the ECFSRC have yet to be determined.

Non-Domestic Insurers

Captive Insurers

As at 31 December 2018, there were 163 licensed captive insurers. During the year 1 new captive was licensed, 23 licensed captive insurers surrendered their licences and 3 licences were revoked.

Foreign Insurers

As at 31 December 2018, there were 4 licensed foreign insurers. No new licences were issued.

Insurance Managers

As at 31 December 2018, there were 21 licensed insurance managers. Two licences were revoked during 2018. One new license was issued.

During the year, Commission staff conducted prudential onsite inspections of two insurance managers as well as the captive licensees under their management. The inspections were full scope in nature, including a review of governance, operations, internal controls, financial soundness and compliance with the Insurance Act and the regulations as well as compliance with POCA by both the insurance managers and the insurers under their management, where applicable.

The onsite inspections of the insurance managers took place over the course of 2 days each and were conducted by 2 and 3 members of the Commission's insurance supervision staff respectively. Key findings included required improvements in financial performance reporting, claims administration, the internal audit function, procedures in relation to risk management and level of oversight of insurance managers over captive insurer activities.

Mutual Fund Sector

Funds

As at 31 December 2018, there were 4 private funds and 1 professional fund licensed. There were no new licences granted or issued, and the licences of 1 private fund and 2 professional funds were revoked during 2018.

Fund Managers and Administrators

As at 31 December 2018, there were 8 licensed fund managers and administrators. There were no new licences issued and 2 licences were surrendered during the year.

Company Management and Trust Company Management Sector

As at 31 December 2018, the Commission's licensees included a total of 4 general trust companies, 2 restricted trust companies and 59 company managers. There was 1 new company manager licence issued in 2018, while 1 general trust company was revoked, 1 restricted trust company license surrendered and 3 company manager licenses surrendered.

Money Services Business Sector

The Commission currently has 3 money services business licensees, including one 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 2018 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 2018 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, R.R.A. P98-6 (“ENRSP Regulations”) introduced in 2013 gave 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”)) and non-regulated service providers (“NRSPs”), for compliance with AML/CFT requirements under POCA.

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 under the ENRSP Regulations. The Commission registered 3 micro lenders and 1 lottery company as NRSPs during 2018.

The Commission also issued 3 Investor Alerts of which 1 of the Investor Alerts involved 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. P98-2 and for supervising their compliance with anti-terrorist financing requirements under POCA. In 2018, the Commission registered 14 NPOs and exempted 21 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

2018 Offsite and Onsite Inspections

In 2018, the Commission continued its themed examinations to assess service providers’ compliance with the AML/CFT legislation consisting of POCA, AML/CFT Regulations, Anti-Money Laundering and Terrorist Financing Code, R.R.A. P98-3 (“AML/CFT Code”) and ENRSP Regulations. Nine (9) offsite inspections were conducted from January to October 2018. The inspectors reviewed, on a sample basis, the records, files and written policies and procedures maintained by the service providers and held discussions with management and staff involved in strategic, operational and compliance

matters. A report was furnished for each service provider inspected. Where appropriate, specific areas for improvement were identified and deadlines set for remedial action by service providers. The Commission has been monitoring the service providers' implementation of the corrective actions through follow ups.

Findings from these inspections as well as complaints made to the Commission evidence that there continues to be significant deficiencies in compliance by service providers with AML/CFT legislative requirements. The Commission is concerned that some service providers do not understand their obligations under AML/CFT legislation. The inspection teams have noted significant deficiencies in the following areas: Business Risk Assessment; Policies, Procedures, Systems and Controls specifically the AML/CFT Manual; customer risk assessments; customer due diligence information and evidence; monitoring customer activity; and enhanced due diligence measures. The Commission specifically noted that generally, service providers were not collecting sufficient information in relation to the nature of business of its companies, therefore in some cases, companies were inaccurately risk rated. Therefore, service providers were unable to apply the appropriate customer due diligence measures.

National Risk Assessment

CFATF's 4th Round Mutual Evaluation Review of Anguilla is scheduled to be conducted in the third quarter of 2022. 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.

Consultants were contracted to assist Anguilla with its NRA exercise. The consultants have formulated their own methodology for completing the NRA exercise and preparing for the CFATF mutual evaluation. A Work Plan was produced by the Working Group in consultation with the consultants and extends through to the 2022 onsite mutual evaluation. In December 2018, a week long workshop was conducted by the consultants with members of the Financial Services Commission; Financial Intelligence and Investigation Unit; HM Customs; Royal Anguilla Police Force; Immigration department; Attorney General's Chambers; Anguilla Commercial Registry; Ministry of Finance; Inland Revenue; and the Governor's office. During the workshop, the NRA process was explained and the inherent risk profiles for the predicate offences and the financial sectors were discussed and completed.

Enforcement Activity

During 2018, there were 5 notices of intent to suspend and 3 notices of suspension issued; 12 notices of intent to revoke and 9 notices of revocation issued; 8 notices of intent to impose an administrative penalty and 4 administrative penalties imposed. Table 1 below provides a summary of the enforcement activity between 2016 and 2018.

Table 1 – Enforcement Action from 2016 - 2018

Enforcement Activity	2016	2017	2018
Notices of Intent to Suspend	16	6	5
Suspensions	2	4	3
Notices of Intent to Revoke	2	17	12
Revocations	2	10	9
Notices of Intent to impose an administrative penalty	32	19	8
Administrative penalty	5	19	4

Industry Development

Guidelines and Policies

In 2018, the Commission issued a number of Guidelines as well as amendments to existing Guidelines. These guidelines are aimed at providing clarity to procedures regarding two financial services enactments specifically the Anguilla Utility Token Offering Act, 2018 (“AUTO Act”) and the Insurance Act, R.S.A. c. I16. The following are guidelines issued and amended:

1. Registering an Issuer under the AUTO Act
2. Making an application for a license to carry on business in or from within Anguilla as a Utility Token Offering Administrator under the AUTO Act
3. Making an application for Licensing as a Producer Affiliated Re-Insurance Company
4. Acceptability of a Primary Insurer for Producer Affiliated Re-Insurance Company
5. Fast Track Licensing Application Process for Captive Insurance and Producer Affiliated Re-Insurance Company Applicants
6. Maintaining Reserves and Statutory Deposits

Industry Engagement

The Commission held an Industry Day in December 2018. A number of timely and important topics were discussed.

- EU Economic Substance Initiative
- Anguilla National Risk Assessment
- Insurance Sector – Opportunities, Issues and Trends
 - o Amendments to the Insurance Act - the Producer Affiliated Re-Insurance Company (“PARC”) licence requirements and related Guidelines
- Anguilla Utility Token Offering Legislation and Guidelines

Professional Development

A member of staff attended the CFATF assessor training in January in Guyana, this was particularly important with the pending Fourth Round Mutual Evaluation. In April 2018, a senior member of staff was seconded to the Isle of Man Financial Services Authority over a four-week period as part of an initiative by the Group of International Insurance Centre Supervisors.

Two senior members of staff attended the Captive Insurance Companies Association conference in March in Arizona. Members of staff attended CARTAC training on Developing Financial Health and Stability Indicators for the Insurance Sector and the Credit Union Sector in April and May. Two members of staff attended a Technology Risk Supervision Workshop facilitated by the Toronto Centre in collaboration with the Eastern Caribbean Central Bank in December 2018.

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 and the Group of International Insurance Centre Supervisors annual meeting in May, both of which were held in London, U.K. Two staff members also attended the CARTAC sponsored annual meeting of the Caribbean Association of Insurance Regulators held in St. Kitts in June. One staff member attended the CFATF Plenary in November in Barbados.

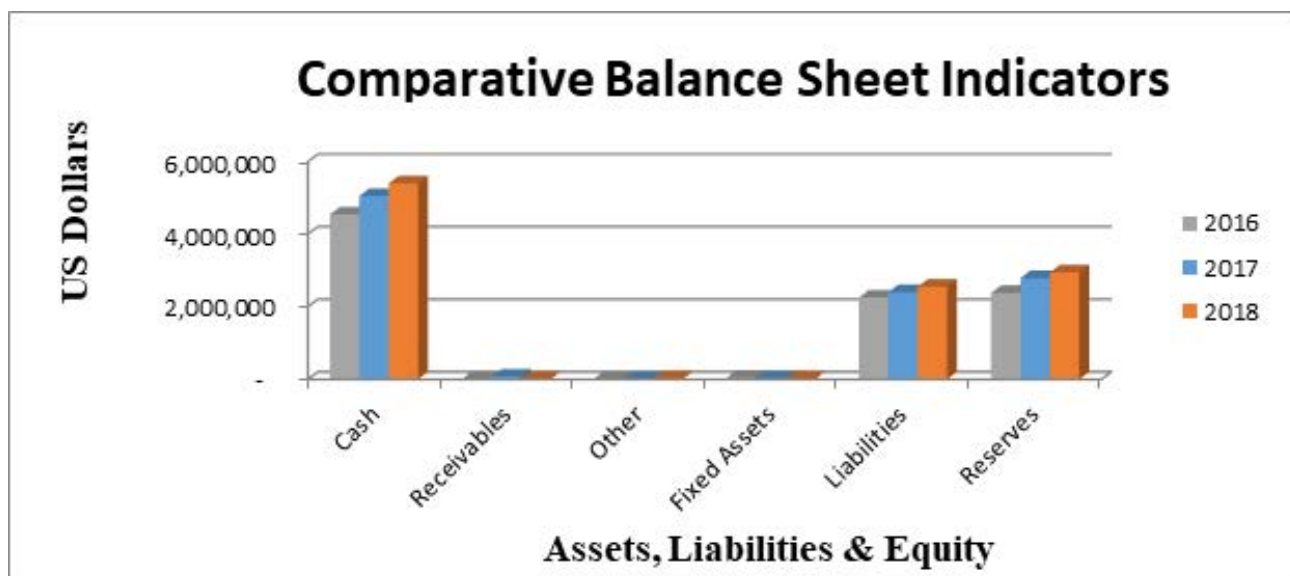
Financial Performance Analysis

The Commission reported net income of US\$156,657 for the year ended 31 December 2018 (2017: US\$408,083), which is a 62% decrease over the previous year. Reserves increased by 6% to US\$2,946,101 as at 31 December 2018 from US\$2,789,444 as at 31 December 2017. The underlying factors of the year's performance are reported below in the discussion of Revenue and Expenses.

Assets, Liabilities and Reserves

As at 31 December 2018, the Commission's total assets were US\$5,499,618 (2017: US\$5,193,160). Liquid assets, in 2018 being entirely cash, accounted for 98.2% of the Commission's assets (2017: 97.3%).

Chart 3 - Comparative Balance Sheet Indicators



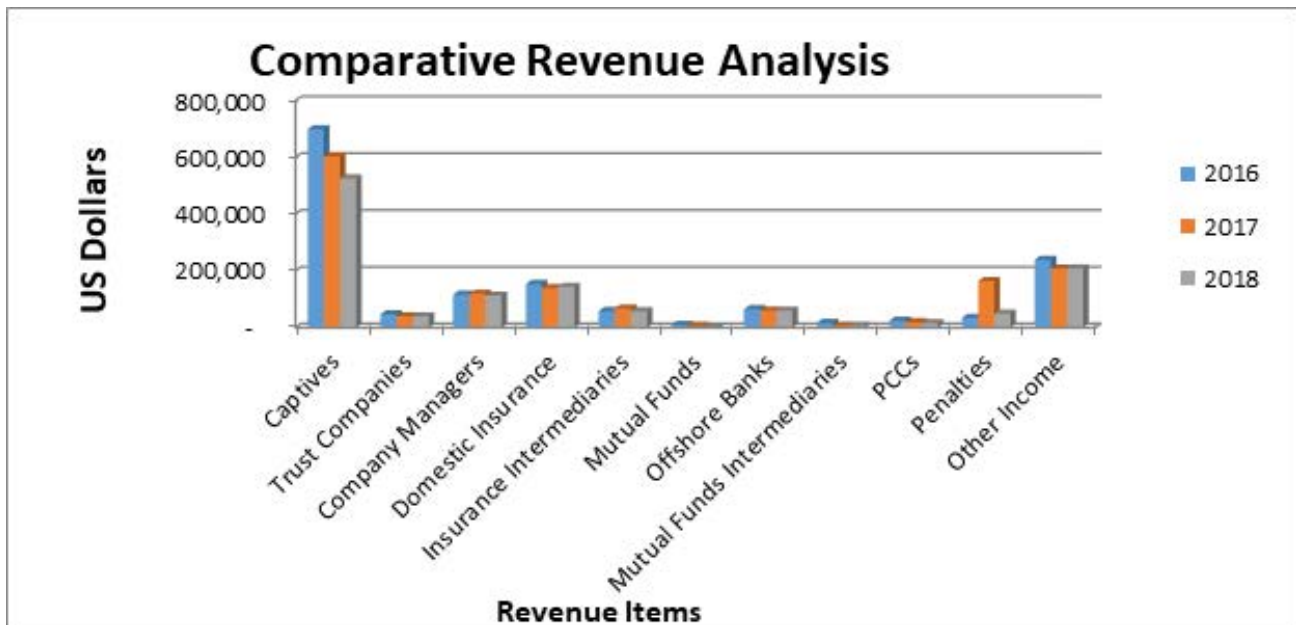
Total liabilities were US\$2,553,517 (2017: US\$2,403,716) with the increase over the previous year-end reflecting an increase in statutory deposits held by the Commission in connection with approved external insurers licensed in the jurisdiction. Accumulated reserves were US\$2,946,101 at year end (2017: US\$2,789,444), the increase resulting from the net income reported above.

Revenue

Total revenue decreased by 15% or US\$209,464 to US\$1,223,459 (2017: US\$1,432,923). License fee revenue decreased by 3% or US\$34,775 to US\$1,026,200 (2017: US\$1,060,975). License fee revenues decreased primarily due to a decrease in the number of licensees. Total revenue included

fee income from other regulatory services performed under applicable legislation as well as penalties which include the assessed amount of fines for late payment of fees and administrative penalties imposed.

Chart 4 - Comparative Revenue Analysis Indicators



Expenses

Total expenses increased by 4% or US\$41,962 to US\$1,066,802 (2017: US\$1,024,840). Rent and Utilities increased by US\$14,114 from US\$61,039 to US\$75,153 which is a 23% over the previous year. "Travel and subsistence" increased by US\$20,667 to US\$47,544 (2017: US\$26,877), primarily due to three overseas onsite examinations conducted in 2018 along with regulatory conferences attended during the year.