

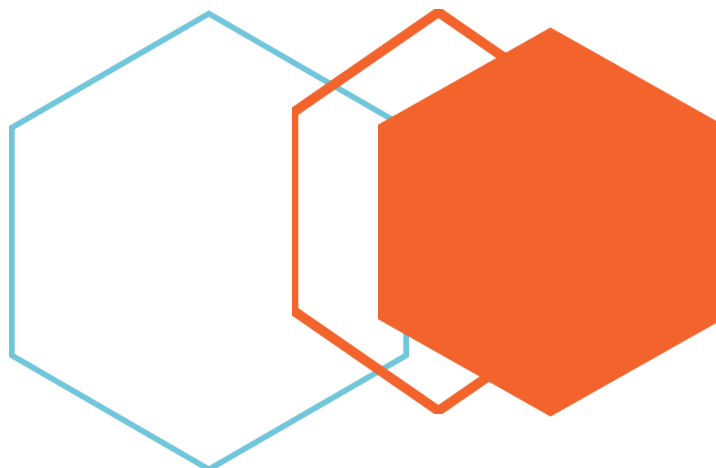


National Risk Assessment

**For Anti-Money Laundering, Countering the Financing of Terrorism and
Countering the Proliferation of Weapons of Mass Destruction**

ST. KITTS AND NEVIS 2021

“The Federation remains dedicated to the ongoing work of curbing the scourge of money laundering, terrorist financing, proliferation of the financing of weapons of mass destruction and related concerns. We are cognizant of the fact that continued awareness raising, useful collaboration and promotion of adherence to the rule of law are fundamental to success in these areas.” *Honourable Vincent Byron Jr., Attorney General & Minister of Justice and Legal Affairs*





Disclaimer



The National Money Laundering and Terrorist Financing (ML/TF) Risk Assessment has been conducted as a self-assessment by the authorities of St. Kitts and Nevis using the National ML/TF Risk Assessment Tool that has been developed and provided by the World Bank Group.

The World Bank Group project team's role was limited to delivery of the tool, providing guidance on the technical aspects of the tool, and review/feedback to assist with the accurate use of it.

Data, statistics and information used for completing the National ML/TF Risk Assessment Tool Modules, as well findings, interpretation and judgment under the scope of the National ML/TF Risk Assessment completely belong to the authorities of St. Kitts and Nevis and do not reflect the views of the World Bank Group, its Board of Executive Directors or the Governments they represent.



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Vincent F. Byron Jr.

Attorney General

Minister of Justice and Legal Affairs

The Mutual Evaluation process for St. Kitts and Nevis would have been impacted by the dramatic intervention of the COVID-19 Coronavirus pandemic. In the face of the ensuing global uncertainties and threats to our respective health systems, the Federation would have taken the critical decision to close its borders to regional and international traffic in March 2020. In that regard, the scheduled onsite visit for the MEVAL of the Federation was postponed from its initial appointment of March 23rd, 2020.

The challenges from the pandemic would have had serious repercussions for the immediate continuity of some of our domestic internal processes, since the Federation would have proceeded on a series of national lockdowns and curfews to curb the spread of the virus. Notwithstanding these challenges, the Government continued to promote its AML/CFT policies. The Federation was able to eventually regain its momentum and to continue its work on the important initiative of preparing for this critical process. As a result of the postponement of the Mutual Evaluation from March of 2020, this would have had ramifications for the assessment period. This resulted in the need for inclusion of relevant information for the additional period of 2020. The various agencies for NAMLC would therefore have redoubled their efforts to compile and address this data for the period in question.

In that regard, there were several notable changes to the Report. For example, there was a shift in respect to the most dominant crimes so that the most prevalent instances observed were that of larceny, possession of narcotic drugs with intent to supply and burglary. The incidence of crimes on a whole was reduced over the assessment period and advances were made in the process of data collection and analysis by the Royal St. Christopher and Nevis Police Force and the White-Collar Crime Unit. The pandemic had at least one positive result by underscoring the need for the streamlining of processes to facilitate greater and more immediate access to vital information.



Additionally, the Inland Revenue Department would have fortified its compliance function by placing a greater focus on its formal framework for suspicious transaction reporting.

The Federation remains dedicated to the ongoing work of curbing the scourge of money laundering, terrorist financing, proliferation of the financing of weapons of mass destruction and related concerns. We are cognizant of the fact that continued awareness raising, useful collaboration and promotion of adherence to the rule of law are fundamental to success in these areas.

PREFACE



TABLE OF ACRONYMS

AML	Anti-Money Laundering
CBI	Citizenship By Investment
CDD	Customer Due Diligence
CED	Customs and Excise Department
CFT	Countering the Financing of Terrorism
CPF	Countering the Financing of Proliferation
CU	Credit Union
DNFBP	Designated Non-Financial Business and Profession
ECCB	Eastern Caribbean Central Bank
ECSRC	Eastern Caribbean Securities Regulatory Commission
EDD	Enhanced Due Diligence
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit
FSRC	Financial Services Regulatory Commission
GDP	Gross Domestic Product
IBC	International Business Corporation
LLC	Limited Liability Company
MSBs	Money Service Businesses
NFATF	National Financial Action Task Force
NIA	Nevis Island Administration
NPO/NGO	Not for Profit Organization/ Non-Government Organization
NRA	National Risk Assessment
OECS	Organization of Eastern Caribbean States
OFIs	Other Financial Institutions
TCSPs	Trust and Corporate Service Providers
WCCU	White Collar Crime Unit

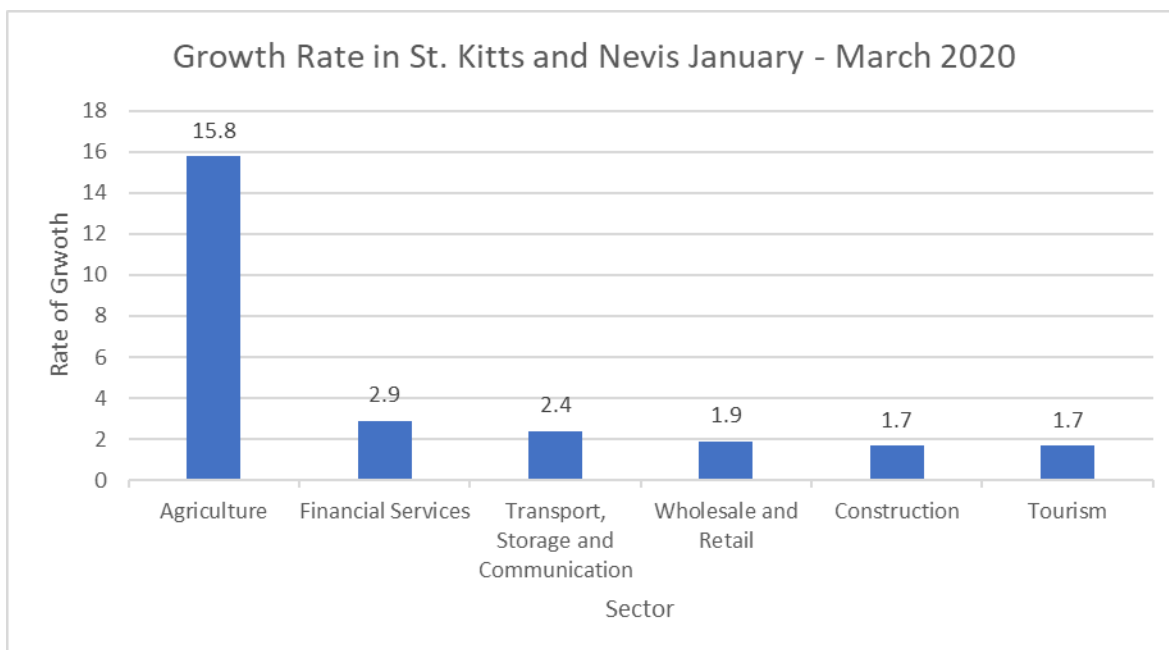


ECONOMIC OUTLOOK OF ST. KITTS AND NEVIS

The year 2020 was indeed memorable as St. Kitts and Nevis experienced mixed fortunes in terms of its pursuit of an inclusive socioeconomic development agenda. The emergence of the COVID-19 pandemic impacted every aspect of life across the globe and it was no different in the Federation. The Government's top priority was and still is the protection of its citizens and residents from the unprecedented threat of the Corona Virus. As a small nation, the Federation demonstrated great fortitude in facing the pandemic. The response has made a tremendous difference in helping to preserve lives and livelihoods. The successes achieved to date are underpinned by the implementation of strict COVID-19 protocols which has translated into a relatively low number of confirmed cases of the virus, no evidence of community spread and zero deaths in the Federation thus far.

Despite the challenges experienced globally in travel and trade, during the first quarter of 2020 the economy demonstrated resilience by achieving positive economic growth of 1.6 percent. This outturn was underscored by positive growth in major sectors.

Figure 1 below summarizes the growth rate of each Sector.



Source: Ministry of Sustainable Development Statistics Department

As a direct consequence of the pandemic, however, the positive outturn for the first quarter in 2020 was short lived and the St. Kitts and Nevis economy experienced negative growth by the end of 2020 in contrast to the positive growth recorded over the past five years. The Federation suffered heavily from the closure of the Tourism Sector and the resultant increase in unemployment. The implementation of critical measures such as physical distancing and lockdowns were undertaken to manage and control the



spread of COVID-19 in the Federation. Even though these measures were necessary, they had severe impacts on traditional key drivers of the economy which depend heavily on Tourism and physical interactions in daily operations of business.

Although, the economy experienced a contraction of 12.5 percent in 2020, the Government is cautiously optimistic in projecting that the economy would rebound in 2021 with a positive growth rate in the region of 5.0 percent. This estimate of positive growth for St Kitts and Nevis is broadly consistent with estimates forecasted by the Eastern Caribbean Central Bank (ECCB) (6.4 percent) and by the International Monetary Fund (8.0 percent). It is anticipated that this positive outlook for 2021 would be driven by a rebound in the Construction, Wholesale and Retail, Transport, Storage and Communications, and Real Estate and Business Activities Sectors.



OVERVIEW OF THE 2019 NATIONAL RISK ASSESSMENT

St. Kitts and Nevis undertook the National Risk Assessment as a vital step to strengthen the policy framework and strategically identify and address its ML/TF risks.

Governance and Oversight

The NRA was organized and led by the St. Kitts and Nevis authorities and involved the collective participation of key AML/CFT stakeholders. This helped to ensure that resources were coordinated to assess risks and the appropriate mechanisms utilized to prevent and mitigate money laundering and terrorist financing commensurate with the risks identified. The NRA formally commenced on January 29th 2018. The first workshop was held in April 2018 with representatives from the Public Sector. The draft Report was prepared in May 2019 and during the second Workshop in July 2019, representatives from the Private Sector were invited to participate in the process.

An NRA Coordinator was appointed as the Project Leader to ensure that the NRA was effectively coordinated, implemented and completed within the set time frame.

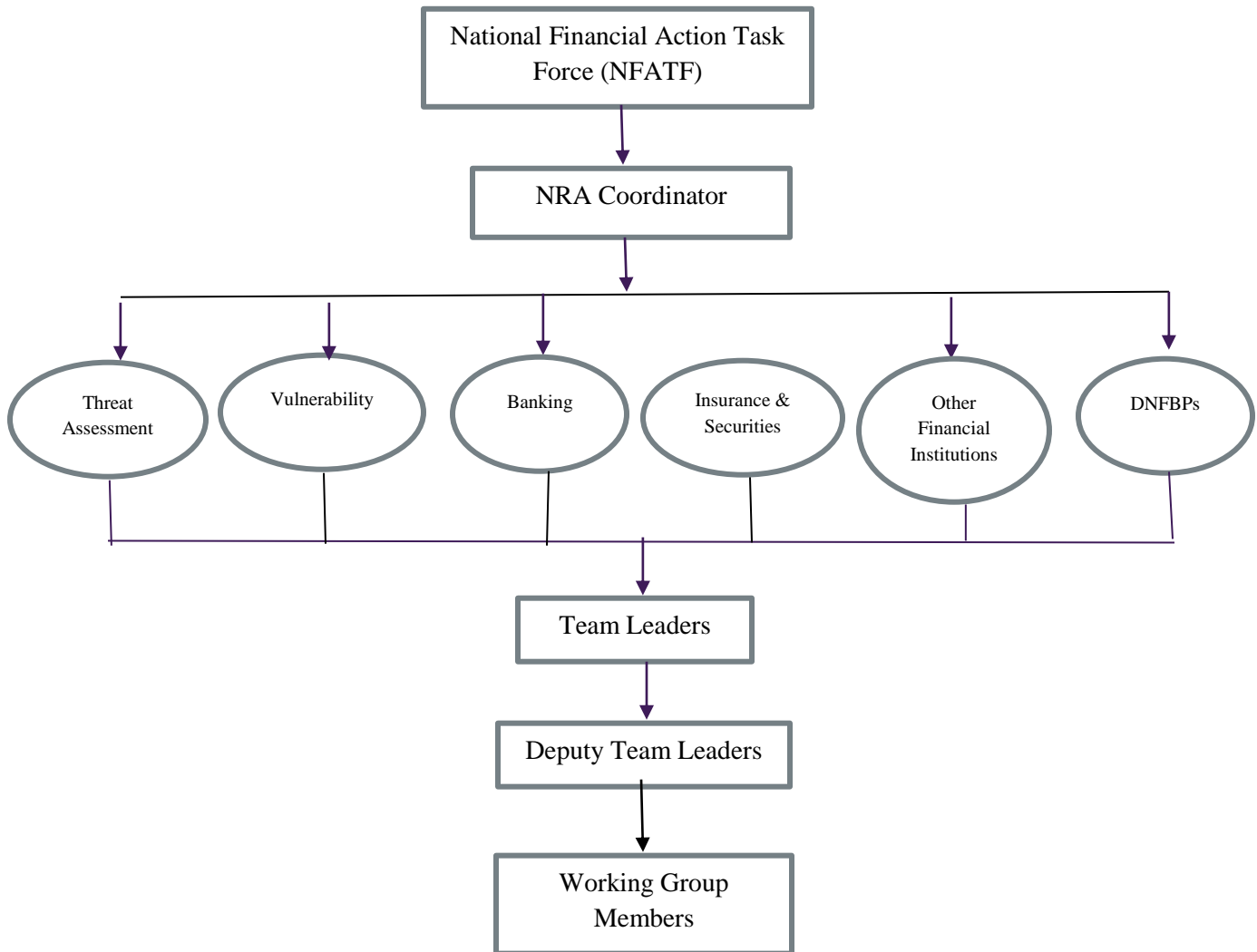
At least two (2) representatives from each AML/CFT agency were identified to establish the NRA Working Group. The NRA Working Group consisted of 54 persons. Representatives from the following Agencies comprised the NRA Working Group:

- Financial Services Regulatory Commission (FSRC) St. Kitts Branch
- Nevis Financial Services (Regulation and Supervision) Department
- Financial Intelligence Unit
- Customs and Excise Department
- Inland Revenue Department
- Ministry of Finance
- Office of the Director of Public Prosecutions
- White Collar Crime Unit
- Ministry of International Trade
- Ministry of Sustainable Development
- Royal St. Christopher and Nevis Police Force
- Ministry of National Security
- Office of the Attorney General
- Ministry of Justice and Legal Affairs

Six (6) teams from the NRA Working Group were formed in preparation for the first Training Workshop with the World Bank Team. Each NRA Team was tasked with handling a separate Module of the NRA Tool.



Figure 2 Outlines the NRA Structure used in St. Kitts and Nevis



National Risk Assessment Tool

The World Bank’s Risk Assessment Tool is an excel-based model that provides a methodical process for countries to identify the main drivers of ML/TF based on the understanding of contributory money laundering risk factors and variables relating to the regulatory and economic environment.

This Risk Assessment Tool provided St. Kitts and Nevis with a structured model to enable the collation of all required data and evidence. Teams assigned ratings to each Input Variable in their respective Modules providing ample justification for each rating with quantitative and qualitative information. The Tool then generated a rating based on the inputs from the Modules providing a systematic approach to analyze the country’s money laundering and terrorist financing threats and vulnerabilities.



Structure of the St. Kitts and Nevis NRA Report

The National ML/TF Assessment took into consideration the following factors relative to each Sector:

- ✚ Size of each Sector with respect to its contribution to GDP;
- ✚ Size of the respective entities;
- ✚ Types of products and services offered;
- ✚ Systems of Internal Control and Compliance;
- ✚ AML/CFT Legislation of St. Kitts and Nevis; and
- ✚ The AML/CFT Regime of St. Kitts and Nevis

The Report focused on identifying the threats and inherent vulnerabilities affecting the Federation. Consideration was given to the level of AML/CFT controls in place and the extent to which these threats and vulnerabilities were mitigated by these controls. The data in the Report, for the most part, covered the period 2014-2018.

At the end of the process, the NRA Working Group identified six (6) areas where increased resources are required on a National Level for combatting money laundering and terrorist financing.

1. Increase Human Resource Capacity;
2. Introduction of Independent Information Sources and Databases;
3. Legislative Review and Amendments;
4. Increased Training for Law Enforcement, Compliance Personnel and Regulators;
5. Improved Data Collection and Retention; and
6. Increased Collaboration among Prudential Regulators, AML/CFT Relevant Authorities and Entities.



PROGRESS MADE/ACCOMPLISHMENTS

Following the completion of the 2019 National Risk Assessment, the development of the National Action Plan allowed for a more consistent and strategic approach to address the areas highlighted for action in the 2019 NRA Report. The National Anti-Money Laundering Committee (NAMLC) as well as the AML/CFT Agencies have made significant progress and continue to work to bolster and refine the Federation's AML/CFT framework. The most notable accomplishments thus far include:

- ✚ The National Anti-Money Laundering Committee (NAMLC) Act, No. 2 of 2020 was passed to formally establish a Committee comprising various agencies critical to the fight against money laundering and terrorist financing. The Committee's mandate is mainly to coordinate actions to address the Federation's money laundering, terrorist financing and proliferation financing risks.
- ✚ A Legislative Committee (from the NAMLC) was established to review and draft several pieces of Legislation including the following:
 - Regulations for DNFBPs;
 - AML/CFT/CPF Regulations;
 - Proceeds of Crime Act;
 - Virtual Asset Act;
 - Gaming Control Act;
 - Countering the Financing of the Proliferation of Weapons of Mass Destruction Act; and
 - Non-Government Organizations Act.
- ✚ An Implementation Committee (from the NAMLC) was established to coordinate the approval and submission of documents, reports and statistics to the Mutual Evaluation Assessment Team and to set timelines for the relevant Government agencies and private stakeholders to deliver the required submissions. The Committee has drafted the National Strategic Plan which articulates the way forward for the Federation's approach to addressing the risks in a timely and meaningful manner.
- ✚ Integral AML/CFT/CPF Agencies such as the White-Collar Crime Unit benefited from increased staffing as well as specialized forensic accounting services to assist in their investigations.
- ✚ There were nine (9) money laundering charges made during the period 2016-2020. This underscores the positive results of the work done in respect of investigative training, human resource augmentation and overall improvement in the processes of the Royal St. Christopher and Nevis Police Force (RSCNPF), including the White Collar Crime Unit (WCCU) and the Financial Intelligence Unit (FIU).



- ✦ Consistent with the established policy that all licensed entities should comply with existing regulations and international standards, the Financial Services Regulatory Commission (FSRC) has adopted a targeted approach:
 - to identify non-conforming regulated entities;
 - to provide the necessary enhanced monitoring; and
 - to provide training and supervision to ensure improved compliance with regulations and international standards.

- ✦ The establishment of Memoranda of Understanding (MOUs) between relevant AML/CFT/CPF Authorities and Prudential Regulators, has formalized the existing information sharing and collaboration mechanisms.

- ✦ In keeping with the established policy that all areas of activities that are relevant to AML/CFT/CPF are regulated and supervised by a competent authority, the supervisory arrangements were further strengthened. The FSRC was named as the Supervisory Authority for Non-Government Organizations and Virtual Assets Service Providers (VASPs). Additionally, legislation naming the FSRC as the Supervisory Authority for the Gaming Sector has recently been passed by the National Assembly.

- ✦ The Inland Revenue Department (IRD) was designated as the Competent Authority for Tax Crimes. Targeted training has been provided to the IRD staff to enhance the performance of its existing compliance function in respect of tax crimes. An International Taxation Unit, specializing in handling requests and sharing information with counterparts and relevant stakeholder agencies, was established. The IRD has also provided data in respect of Corporate Income Tax which was not available for inclusion in the 2019 NRA Report.

- ✦ Efforts were made to promote the existing policy for the maintenance of adequate data collection and retention mechanisms by competent authorities. A number of agencies including the RSCNPF, the FIU and the IRD have significantly upgraded their record keeping and data collection mechanisms which have improved the accuracy and ease of information sharing among relevant agencies.

- ✦ The risk assessment for the Non-Government Organization Sector commenced in 2019 and was recently completed. This was intended to provide a general overview of the NGO Sector in St. Kitts and to attain a greater understanding of the vulnerabilities and threats to the Sector, in an effort to identify the risks and implement measures to collect the required data to complete a more in-depth risk assessment.



NATIONAL RISK ASSESSMENT FOLLOW UP METHODOLOGY

The National Risk Assessment Follow Up was organized and led by the Authorities in St. Kitts and Nevis and involved the collaborative efforts of key AML/CFT/CPF stakeholders.

Guidance Documents were provided to each Team Leader outlining the relevant Actionable Items for the assigned Sector based on the 2019 NRA Report. The data collection and compilation of the follow-up process commenced in November 2020 and involved the participation of Public Sector agencies and private regulated entities.

The Actionable Items were focused on the collection and compilation of information to demonstrate the progress made in addressing the areas identified for attention in each Sector in the 2019 NRA Report. This included the following:

1. Legislative Amendments;
2. Introduction of New Legislation/Regulations;
3. Statistics on Training;
4. Information on Targeted Training;
5. Evidence of Improved Human Resources;
6. Evidence of Improved Data Collection and Record Keeping Mechanisms;
7. Introduction of New Policies and Procedures; and
8. Evidence of Improved Information Sharing, Collaboration and Coordination.

The process sought to highlight any new threats and vulnerabilities to be included and addressed in the NRA Follow-up Report. The re-rating of Sectors was based on the level and significance of progress made in addressing the outstanding issues identified in the 2019 NRA Report.

The final report would be approved by the NAMLC Committee and disseminated to the relevant Government agencies and Private Sector entities.



RATINGS SUMMARY

The NRA Follow-up Report focuses on the on-going progress made in addressing the identified risks and the threats and vulnerabilities confronting the Federation. Consideration has been given to the improvements made to the level of AML/CFT controls in place, the measures introduced for CPF and the extent to which the threats and vulnerabilities have been mitigated by these controls.

Table 1 shows a comparison between the 2019 and 2021 NRA Reports.

Table 1

	High	Medium High	Medium	Medium Low	Low
Particulars	2019		2021		
National Threat					
National Terrorist Financing Threat					
National Vulnerability					
Proliferation Financing	Not Assessed				
Virtual Asset Service Providers	Not Assessed				
Commercial Banking					
International Banking					
The Development Bank					
Domestic Insurance					
International Insurance					
Securities					
Money Services Businesses (MSBs)					
Credit Unions					
Trust and Corporate Service Providers (TCSPs)					
Gaming Sector					
Real Estate Sector					
Dealers in Precious Metals and Stones					

Some improvements have been noted in the Banking Sector, Trust and Corporate Service Providers (TCSPs) and Money Services Businesses (MSBs) which have resulted in re-ratings. Two (2) additional vulnerabilities were identified and assessed in line with the Government's policy to ensure that new and emerging trends and threats are evaluated. Three (3) Sectors; Gaming, Real Estate and Dealers in Precious Metals and Stones remain at HIGH. With the imminent introduction and enforcement of the



legislation for Designated Non-Financial Businesses and Professions (DNFBPs), greater supervision and monitoring would be administered to the Sectors resulting in more favourable ratings.



NATIONAL THREAT ASSESSMENT

The Proceeds of Crime in St. Kitts and Nevis are generated primarily from the following areas:

1. Larceny (Including Housebreaking);
2. Drug Related Offences (Trafficking and Possession with Intent to Supply); and
3. Robbery and other Gun Related Offences.

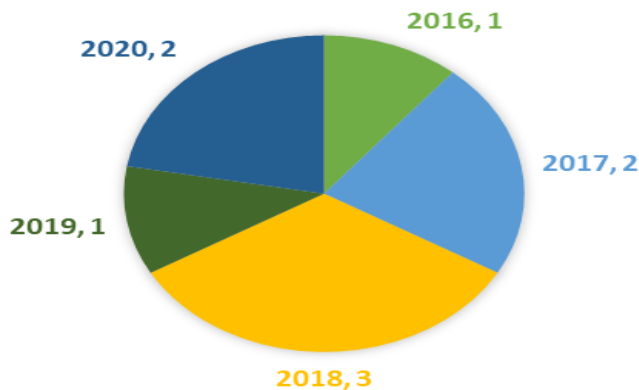
Based on the Royal St. Christopher and Nevis Police Forces' Statistical Report dated 25 February 2021, there was a significant decrease (76%) in the number of drug cases between 2019 and 2020. A similar trend followed for all other predicate offences during the period.

Table 2 below shows the Federation's Comparative Crime Statistics for 2014 to 2020.

Recorded Crimes	2014	2015	2016	2017	2018	2019	2020	Total
Robbery	54	65	59	81	69	45	23	396
Larceny (Including House Breaking)	464	397	679	746	749	604	432	4071
Drug Related Offences (Trafficking and Possession with Intent to Supply)	59	63	98	152	127	75	18	592

There were nine (9) instances of money laundering charges (during the period) 2016 - 2020. This is a notable increase in the number of money laundering charges when compared to previous years and underscores the increased focus of the Department. Figure 3 below outlines the number of money laundering charges between 2016 and 2020.

MONEY LAUNDERING CHARGES 2016-2020



Source: Local Intelligence Office, The Royal St. Christopher and Nevis Police Force.

**Table 3 Showing Suspicious Transaction Filings by Sector for 2014 – 2020.**

Sectors Filing STRs	2014	2015	2016	2017	2018	2019	2020	Total
Banks	75	68	84	44	32	39	78	420
Insurance	2	0	0	0	1	1	1	5
Credit Unions	3	5	6	4	2	7	3	30
Money Services Businesses (MSBs)	24	22	18	112	22	10	3	211
Lending Institutions	2	7	1	3	0	0	0	13
Means of Payment Businesses	4	3	0	0	0	0	0	7
Trust and Corporate Service Providers	9	5	15	8	9	10	5	61
Real Estate Agents	1	0	0	0	0	0	0	1
Casinos	0	0	0	0	0	0	7	7
Lawyers	2	0	0	0	0	0	0	2
Pawn Shop (Other)	0	0	1	1	0	0	0	2
Hotel Accommodation	0	0	0	0	0	1	0	1
Total	122	110	125	172	66	68	97	760

Source: Financial Intelligence Unit

The Banking Sector continues to lead in terms of the highest volume of suspicious transaction reporting. There has been some improvement in suspicious transaction reporting in the Gaming Sector. This would be attributed to the increased training and guidance provided to representatives of the Gaming Sector.

Some Departments have benefited from the assignment of additional staffing which would help to improve efficiency and effectiveness of the relevant agencies. In the WCCU in particular, staffing has been augmented by 50% and provisions have been made for the employment of an additional staff to provide dedicated expertise in forensic accounting.

Since 2019, the RSCNPF has significantly upgraded its record keeping particularly in terms of the collection of primary data. This has been facilitated through the introduction of a digital database known as the Crime Management System (CMS). The RNCNPF has consequently become more proficient in its data entry, data searches and data analysis which have generated an improved crime analysis product. These improvements have positively impacted on the efficiency and accuracy of information sharing with other agencies.

The FIU is currently in the process of upgrading its Database which should aid in improved data retention, search and analysis. More specifically, this would also allow for improved analysis and the generation of strategic inferences in trend analysis.



Tax Crimes

Pursuant to the provisions of Section 47 of the Tax Administration and Procedures Act (TAPA), the Comptroller of Inland Revenue is empowered to bring charges for any criminal offence committed under the Act and generally to enforce compliance with the provisions of the Act. Additionally, Section 61 (1) provides that the power to bring charges and to seek prosecution for criminal offences defined in TAPA belongs exclusively to the Comptroller of Inland Revenue. The designation was formally authorized by a letter from the Financial Secretary to the IRD naming the Comptroller as the Competent Authority for Tax Crimes. This designation was subsequently given legislative effect.

Targeted training has been provided to the relevant staff of the IRD to improve its existing compliance function in respect of tax crimes. Whilst information has been shared informally between the IRD and the FSRC over the time period, there is now a MOU between the two agencies to formalize the arrangements.

As part of the steps taken to strengthen the tax compliance framework, an International Taxation Unit has been established at the IRD to specialize in handling requests and sharing of information with counterparts and relevant stakeholder agencies.

The IRD has worked diligently to enhance its compliance capacity resulting in a more coherent suspicious transaction reporting mechanism. This entails formal internal procedures for suspicious transaction reporting, a suspicious transaction form and a training regimen targeted to identifying suspicious activity by staff.

Additionally, the IRD has sought to improve its measures for inter-agency collaboration and meaningful cooperation. In that connection, the IRD continues to provide technical assistance to the WCCU in the form of forensic accounting services.

The IRD has also taken steps to improve its data collection and reporting mechanisms. In furtherance of this objective, the Department carried out an exercise to collect outstanding data in respect of Corporate Income Tax. Table 4 shows the Filing Compliance Levels for Core Taxes collected by the Inland Revenue Department for the period 2014-2020.

Table 4

<u>Tax Type</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Unincorporated Business Tax	57%	58%	62%	64%	63%	67%	57%
Value Added Tax	94%	93%	94%	92%	88%	92%	85%
Withholding Tax	65%	61%	62%	66%	61%	62%	54%



<u>Tax Type</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Corporate Income Tax	66%	77%	75%	77%	65%	58%	34%

Source: Inland Revenue Department

Non-Government Organizations (NGOs)

The NRA revealed some inconsistencies with the existing policy and supervisory regime relevant to the NGO Sector. This resulted in a comprehensive review process including new registration procedures and other requirement to improve oversight of the Sector. Additionally, a risk assessment of the NGO Sector as well as a review of the existing NGO legislation were conducted to enhance effectiveness in accordance with the international standards. The amendments included the following:

- a. Mandatory registration of all NGOs under the NGO Act;
- b. Retention of financial accounts for at least five (5) years;
- c. Appointment of the FSRC as the regulatory body for oversight, monitoring, compliance of the NGO Sector;
- d. Designation of the Registrar of NGOs as a contact point for international requests for information; and
- e. Provision of identifying particulars and any supporting documentation in relation, to Directors, Beneficial Owners and any other persons with a significant controlling interest in the NGO.

In 2020, outreach to the Sector was intensified in order to better assess the size and level of risk associated with NGOs operating in St. Kitts.

Awareness raising was also done through the dissemination of AML/CFT Information to the NGO Sector including Newsletters, Public Statements and Advisories. Additionally, several Know Your Regulator (KYR) Sessions were facilitated by the FSRC, which involved the participation of the Office of the Registrar. These sessions were held annually from 2017-2019 and were focused on sensitizing regulated entities on the requirements of the NGO Legislation and their reporting obligations.

Generally, the engagements with the NGO Sector revealed that the organizations operating in the Sector were relatively small, with low value financial flows which are primarily sourced from within the jurisdiction. In an effort to ensure greater accountability and transparency, NGOs are subjected to onsite examinations, follow ups and spot checks as part of the FSRC's supervision and monitoring process. Two (2) of the most recognised NGOs in the Federation were examined during the period. The on-site examinations revealed that the NGOs posed a Medium Low risk based on the fact that funds are generally derived from sponsorship, contributions and donations from local individuals and businesses.

The FSRC has included the NGO Sector on its annual inspection calendar and examinations and follow-ups will be conducted based on the NGO's risk to ensure compliance with regulations.



Immigration Related Issues

There was one (1) case of attempted smuggling and one (1) of smuggling between 2019 and 2020. The offending parties were charged in both of these instances. In the case of attempted smuggling (August 2020), the vessel was intercepted by the SKN Coast Guard. Charges were laid for all three (3) persons on board for entering the country from an unauthorized port of entry.

In September 2020, one (1) individual from the Dominican Republic was smuggled from St. Maarten. The individual was intercepted by the authorities, quarantined for two (2) weeks and subsequently detained.

There were no reports of Human Trafficking within the Federation for the period under review.

Proliferation Financing

Based on the assessment exercise, the NRA Working Group concluded that risk of Proliferation Financing (PF) is currently **LOW** in the Federation. This determination was influenced by the following information:

1. No STRs in respect of Proliferation Financing were reported during the period;
2. No investigations or charges were filed in respect of Proliferation Financing;
3. There were no known local trends or derogatory media information in respect of Proliferation; and
4. There were no international requests made in respect of Proliferation Financing.

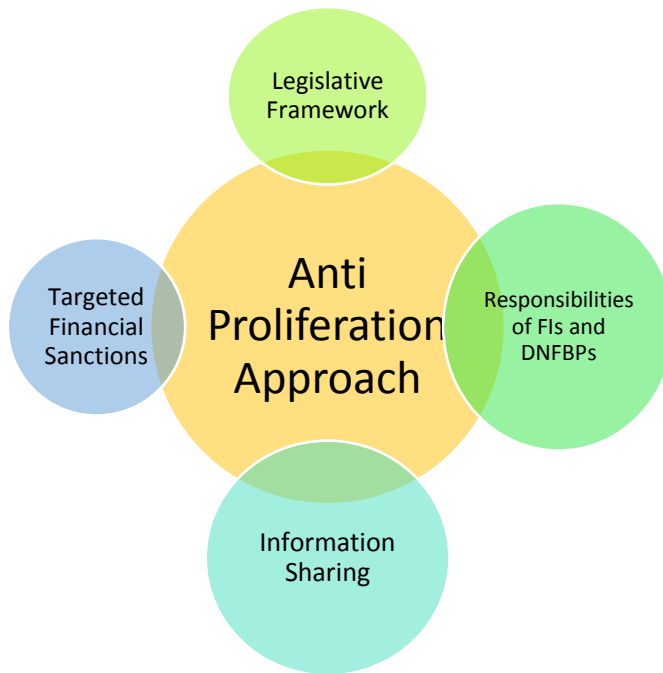
Notwithstanding, Proliferation Financing is covered under the policy framework and as such the Federation has taken the necessary steps to coordinate a multifaceted approach to sensitize, detect and mitigate the risks of Financing of the Proliferation of Weapons of Mass Destruction. The key strategic actions have been comprehensively discussed at the NAMLC level and are therefore included in the National Strategic Plan of the Federation. This will help to advance the efforts to strengthen the National Response to the Financing of the Proliferation of Weapons of Mass Destruction.

The implementation of this approach is intended to meet the following policy objectives:

- To prevent the misuse of financial services for the development of weapons of mass destruction;
- To have mechanisms that provide for the seizure of funds; and
- To swiftly identify and disrupt any proliferation networks.



Figure 4 summarizes the main pillars of the Federation’s Anti-Proliferation Framework.



Development of an Effective Legislative Framework

Legislation in respect of Proliferation Financing (Anti Proliferation (Financing of Weapons of Mass Destruction) Act, 2020) was passed on 17 August 2020. In Section 3 of the Act, the Attorney General is established as the Competent Authority responsible for designating persons or entities to the United Nations Security Council and relevant Committees.

The Legislation also makes provision for various mechanisms necessary to strengthen the Federation’s Anti- Proliferation system. These include the following:

- Freezing without delay;
- Identification of Suspicious Proliferation Activity;
- Offences; and
- The Identification of Targets for Designation.

Additional Regulations have been enacted to formally provide the necessary guidance to Financial Institutions and DNFBPs to combat Proliferation Financing. These Regulations would explicitly outline the requirements, internal controls, policies and procedures that all regulated entities should have in place.

Implementation of Targeted Financial Sanctions

The Authorities are cognizant of the importance of targeted financial sanctions as an effective measure in the disruption of Proliferation Networks. In this regard, Targeted Financial Sanctions have been established (Section 3 of the Anti-Proliferation (Financing of Weapons of Mass Destruction) Act)



pursuant to the obligations set out in the United Nations Security Council Regulations (UNSCRs) that impose targeted financial sanctions in respect of the proliferation of weapons of mass destruction.

Highlighting the Responsibilities of FIs and DNFBPs

Continuous vigilance and monitoring by the FIs and DNFBPs on the activities of their clients, employees and counterparts is a fundamental element in countering proliferation financing. The forthcoming Regulations will provide guidelines for the incorporation of proliferation financing as part of regulated entities' preventative measures and internal controls.

Promoting Information Sharing

Increased awareness and information sharing are critical in ensuring that FIs and DNFBPs can identify and address Proliferation Financing risks. Guidance specific to proliferation financing has been disseminated to Regulated Entities. These include Training Sessions, Workshops, Newsletters and Legislation. Efforts are ongoing to develop and provide comprehensive training programs for national agencies and regulated entities.

The establishment of Memoranda of Understanding (MOUs) has formalized existing information sharing mechanisms between Government agencies. This will foster improved cooperation and coordination among relevant authorities especially those concerned with proliferation financing. Work is ongoing to coordinate sectoral outreach programs primarily focused on the identification, detection, reporting and mitigation of proliferation financing threats.

Transparency in Legal Persons and Arrangements

Information and statistics on company formation and ownership are kept current and are accessible through the Corporate Registries for St. Kitts and Nevis. The Registries are the main source of information for legal persons and arrangements. The relevant databases are both electronic and manual and keep consistent records of company information including company name, legal form, status, physical address, directors and other individuals having means to represent the company such as shareholders. The information held by the Registries is reliable and enhances the Federation's AML/CFT framework in respect of entity transparency and the availability of beneficial ownership information. All changes to the Company structure are to be communicated to the Registrar of Companies in writing.

Tables 5 and 6 summarize the total incorporated entities for each type of legal person and legal arrangement from 2016 - 2020.

**Table 5**

Legal Arrangement	2016	2017	2018	2019	2020	Total
Private Ordinary Companies	1550	1622	1662	1706	1676	8216
Private Exempt Companies	1265	1280	1330	1093	534	5502
Public Companies	21	22	21	21	19	104
External Companies	76	79	79	79	77	390
Foundations	466	449	423	423	379	2140
Trusts	33	32	8	8	5	86
Limited Partnerships	8	9	10	10	7	44
	3419	3493	3533	3340	2697	16482

Source: Corporate Registries St. Kitts

Table 6

Legal Persons/Arrangements	2016	2017	2018	2019	2020
IBCs	5,388	6,481	7,484	8,256	9,104
LLCs	1,826	2,134	2,482	2,917	3,433
Multiform Foundations	21	38	81	94	107
Qualified Foreign Trusts	8	8	8	8	16
International Exempt Trusts	299	338	397	471	553
Total	7,542	8,999	10,452	11,746	13,213

Source: Registry of Companies, Trusts and Foundations, Nevis

The Corporate Registries provide the following services to the general public:

1. Company Formation;
2. Establishment of Foundations;
3. Certificates of Good Standing;
4. Certificates of Incumbency;
5. Wind Up and Dissolution Requests;
6. Filing of Resolutions;

The Registrars have a close working relationship with the Financial Intelligence Unit (FIU) to facilitate the necessary sharing of information in respect of the status of entities listed on the Registries.



The relevant Authorities have a comprehensive understanding of the risks and vulnerabilities posed by legal persons and arrangements in the Federation. In that regard, the Authorities keep abreast of the Sector through the use of ongoing initiatives to support a robust supervisory framework for legal persons and arrangements. This framework includes comprehensive procedures for the establishment, supervision, on-going monitoring and sanctioning of Companies. As part of this process, the Registrars undertake due diligence through the use of Google searches and reviews of various Sanctions Lists to verify whether there is any individual or entity listed. To date, there have been no known instances of the misuse of entities within the jurisdiction.

Enhancement of Legislative Framework

The following list comprises the Acts that govern the Establishment of Legal Persons and Arrangements:

- The Companies Act, Cap.21.03;
- Companies Ordinance, Cap 7.06;
- The Trust Act, Cap 5.19;
- The Limited Partnership Act, Cap 21.12;
- The Foundations Act, Cap 21.19;
- The Non-Government Organization Act Cap 20.59;
- Nevis Business Corporation Ordinance, No. 1 of 2017;
- Nevis Limited Liability Company Ordinance, No. 2 of 2017;
- Nevis International Exempt Trust Ordinance, Cap 7.03; and
- Multiform Foundations Ordinance, Cap 7.08.

During the period under review, a number of amendments were made to the legislation governing legal persons and arrangements. Regulations for the supervision and licensing of TSCPs were also updated.

The Non-Government Organizations (Amendment) Act, No. 4 of 2020 mandates that all NGOs are to be registered pursuant to the provisions of the Act. The FSRC has been officially designated as the regulatory and supervisory authority for NGOs. Formal outreach, guidance and training continue to be provided to the Sector in respect of trends and new developments related to money laundering, terrorist financing and the proliferation of weapons of mass destruction.

AML/CFT Supervision

As a consequence of their position as TCSPs, the majority of the lawyers operating in the jurisdiction are subject to monitoring and supervision by the FSRC. The level of this supervision would extend to the business of company formation and Citizenship by Investment (CBI) business. Mandatory training and compliance requirements in accordance with the AML/CFT Regulations are some of the mechanisms used to ensure that lawyers and other service providers adhere to the required customer due diligence



obligations. Emphasis is also placed on understanding the ownership and control structure of their clients, being able to identify and report on incidences of suspicious transactions. As part of the on-site examinations, TCSPs are required to demonstrate their verification procedures to ensure that due diligence information on all shareholders, trustee(s), beneficial owners and directors is obtained and maintained.

Reporting and Disclosure Requirements

TCSPs are required to submit a comprehensive set of reporting and disclosure documents to comply with the relevant legislation. Incorporation documents that must be submitted to the Registrar include the following:

1. Statutory Statement;
2. Memorandum of Association;
3. Articles of Association; and
4. Two (2) Notarized pieces of Identification for each Shareholder, Director and Secretary.

In addition to the submission of the annual return to the Registrar, each company is required to maintain a Register of Directors and Secretaries at its registered office.



NATIONAL VULNERABILITY ASSESSMENT

The National Risk Assessment was conducted in 2019 identified six (6) vulnerabilities. These are as follows: -

- Off shore Banking Sector;
- DNFBPs, specifically, Jewelers, Real Estate, Gaming and TCSPs;
- Citizenship by Investment Program;
- Absence of Independent Information Sources;
- Quality of Border Patrol; and
- International Insurance Sector.

During the follow-up process, two (2) additional vulnerabilities have been identified: -

- Virtual Assets (VA) and Virtual Assets Providers (VASPs); and
- Covid-19 Pandemic.

➤ Virtual Assets (VAs) and Virtual Assets Service Providers (VASPs)

The recently revised FATF Recommendation 15 in respect of VAs and VASPs provided the authorities with comprehensive guidance as to the level of intervention needed to ensure the effective understanding and identification of the potential risks posed by VAs and VASPs to the Federation.

The overall risk level currently posed by VASPs and VAs to the Federation has been deemed as **LOW** owing to the fact that there are currently no VASPs registered and operating within the Federation. To date, investigations by law enforcement have not revealed any evidence signifying the illegal operation of virtual asset businesses.

Nevertheless, the Authorities have continued to work assiduously to ensure that effective systems and mechanisms are in place to properly document and supervise VASPs which includes the enhancement of the Virtual Asset Act.

At the national level, a number of initiatives have been undertaken with the objective to assist the various AML/CFT/CPF Agencies and the regulated entities to better understand the risks involved with VAs.

The Virtual Asset Act, No. 1 of 2020 was passed on 24 January 2020 and provides for the licensing and regulation of VASPs operating from and within St. Kitts and Nevis. It forms the basis of the AML/CFT/CPF framework for virtual asset business. Specific requirements outlined in the Act include the following:



1. Registration of VASPs with the FSRC;
2. Maintenance of Registers;
3. Application of Registration;
4. Conditions for Granting and Refusal of Applications;
5. Compliance of Business Operations with the Financial Services Regulatory Commission Act Cap 21.10;
6. Compliance with Data Protection Act No. 4 of 2018;
7. Guidelines for sale or issuance of virtual assets;
8. Powers of the FSRC; and
9. Penalties and fees for offences.

The Legislative Committee continues to work with the NAMLC to review the existing virtual asset legislation to identify and recommend enhancements as necessary.

The FSRC is the named regulatory and supervisory Authority for virtual asset business for St. Kitts and Nevis. The FSRC continues to work to build adequate expertise and procuring the supervisory tools required to effectively monitor and enhance VASPs and to ensure the full implementation of AML/CFT/CPF guidelines. Guidance specific to Virtual Assets was disseminated via monthly Newsletters to regulated entities and AML/CFT agencies most recently during the following months:

November 2019: <https://www.nevisfsrc.com/january-2019-newsletter-regulation-of-virtual-assets/>

March 2020: <https://www.fsrc.kn/newsletters/661-march-2020-newsletter-digital-identity/file>

November 2020: <https://www.fsrc.kn/newsletters/740-november-2020-virtual-assets-red-flag-indicators/file>

In 2020, staff members from the Law Enforcement Agencies including the Financial Intelligence Unit, have benefited from comprehensive training in crypto-currency Investigations from the International Law Enforcement Academy. There is an appropriate mechanism in place to facilitate international cooperation should the need arise. To date, there have been no requests sent or received for cooperation in respect of VASPs.

The Authorities in St. Kitts and Nevis have made significant progress in strengthening its AML/CFT/CPF framework to be compliant with international standards relative to VASPs and VAs. The NAMLC will continue to monitor any trends and developments closely specifically on the growth of the virtual asset business in the Federation.

The National Strategic Plan articulates the need for a formal mechanism for the registration and supervision of VASPs. Work is ongoing on the key actions which include the following:

1. Review and amend the legislation to register and supervise VASPs;
2. Submit the draft amended legislation to Cabinet for approval;
3. Provide awareness on the Virtual Asset Legislation; and



4. Allocate training resources for AML/CFT/CPF agencies to identify and monitor risks associated with VASPs.

Going forward, the main short-term objective is to have continuous dialogue with regulated entities to address concerns and challenges in altering their controls, systems and procedures to identify and mitigate threats of illegal activities relative to virtual assets.

➤ **COVID 19 National Response**

One of the effects of the COVID-19 pandemic on the Financial Services Sector was an increase in fraudulent schemes namely; Ponzi schemes and quick money payout schemes. As one of the measures to provide the general public and regulated entities with information on these emerging threats, the FSRC published newsletters addressing these threats and ensured wide distribution to increase awareness. Public Advisories were also issued and posted on the website of the FSRC – St. Kitts and Nevis branches and the RSCNPF and social media pages.

Outreach to the Sector intensified to assess regulated entities' readiness and responses to address the many restrictions brought about by the pandemic. The FSRC – St. Kitts Branch requested updated business continuity plans and COVID-19 Action Plans from all entities.

The FSRC – St. Kitts Branch also issued an advisory on 20 March 2020 to the general public and regulated entities outlining the following measures in response to the COVID-19:

- Reduced hours and limited access to the FSRC office in April – May 2020;
- All reporting forms, applications, documents and audited financial statements should be submitted electronically;
- On-site examinations and follow-up examinations would be suspended; and
- Submission of the Continuity Plans for the regulated entities.

During the period of limited operating hours, there was an increased emphasis on off-site analysis and electronic submissions were accepted for all relevant documents.

In response to the COVID-19 pandemic, the FSRC - Nevis Branch issued an advisory on the 20 March 2020 and another on the 27 March 2020. The first correspondence outlined a number of preventative measures to be effective until 30 April 2020 and included the following measures:

- Requiring the electronic submission of all reports within the stipulated time for all statutory filing obligations;
- The suspension of all on-site examinations with continuing requests for information to facilitate off-site monitoring in keeping with the obligations of the FSRC - Nevis Branch;
- Limiting visits to the FSRC - Nevis Branch to a “need-only” basis, while discouraging visits by persons experiencing flu-like symptoms; and,



- Requesting the electronic submission of general correspondences and utilizing electronic payment options.

The second correspondence was issued on 27 March 2020 and came into effect of 30 March 2020. Some of the measures outlined were:

- The payment of fees by wire transfer or by deposit to the Nevis Island Administration's account;
- The electronic submission of filings and other documents;
- In the first instance, unaudited statements were accepted electronically while the audited versions were to be submitted by October 30, 2020. Late submissions of the final statements were not treated as a breach and no enforcement action was taken against the entity; and
- Waiver of Fees & Penalties Entities.

Although the COVID-19 pandemic has posed a threat to the way of doing business with some of the financial institutions, established procedures and mitigating risk measures have reduced the negative impact of the pandemic on most financial institutions. Some of these measures included use of:

- Electronic payment systems;
- Mobile and virtual meetings; and
- Mandatory face-to-face interaction to complete on-boarding process for new customers.

Based on the review of the institutions' responses to the effects of the pandemic, the threat to the overall integrity of the financial system was assessed to be low.

Additionally, the decrease of levels movement of persons in and out of the jurisdiction due to the closed borders and reduced travel would have reduced the possibility of cross-border and related violations by individuals.

Absence of Independent Information Sources

Credit bureaus play an important role in facilitating credit information sharing. Credit information sharing is critical for the growth of credit and improving access to finance. One of the main purposes for the establishment of a credit bureau in the Eastern Caribbean Currency Union (ECCU) is to address information asymmetries in the lending process. This should reduce uncertainty by providing lending institutions with greater access to information on risks associated with potential borrowers.

The objective of the ECCU Credit Bureau Project is to establish a framework that will allow for the regulation and supervision of a modern credit reporting system in the ECCU. The relevant legislation and regulations have been passed in St. Kitts and Nevis. An operator has been licensed however the legislation is still outstanding in some participating jurisdictions. Due to the regional nature of the initiative, it would be necessary for the legislative framework to be in place in all participating



jurisdictions before the Bureau is operationalized. It is anticipated that this would be accomplished by the end of the 3rd quarter 2021.

International Banking Sector

During the period under review, two (2) international banks have been licensed in the Federation. Examinations have been conducted on each entity and the overall risk rating assigned to each entity was medium low. There have been marked improvements in the compliance functions, documentation of policies and procedures as well as procedures for risk assessment resulting in an overall MEDIUM risk rating for the Sector. The entities and the overall Sector will continue to be monitored closely.

Quality of Border Control

The St. Kitts and Nevis Customs and Excise Department (CED) continues to operate as one of the lead agencies supporting the policy to ensure that St. Kitts and Nevis' borders are monitored and controlled to mitigate the risks associated with the country's geographic location and porous coastal borders. The Department continues to explore the prospects for scaling up the use of Long-range surveillance drones and baggage x- ray scanners as tools/options to support efforts in combating illicit activities due to vulnerabilities created by our Federation's geographical location in the Eastern Caribbean, its closeness to neighboring countries and miles of porous coastal borders. The Unmanned Aerial Vehicles (UAVs) have been introduced to monitor our coastal borders by the CED and SKNDF Coast Guard. These activities are directly related to the policy and strategic plans to secure the Federation's borders and mitigate against illegal activities.

The CED acquired two (2) L3 cargo scanners in 2018 and 2019 and intends to acquire an additional two (2) baggage X- Ray scanners in 2021. In 2020, the CED continued its efforts to patrol and secure the Federation of St. Kitts and Nevis coastal borders using the marine asset, Guardian II vessel and the Regional Clearance System (RCS). The Guardian II was used in 2020 to conduct joint patrols within our territorial waters with the SKNDF Coast Guard.

The CED continues to work with the Caribbean Customs Law Enforcement Council (CCLEC) to ensure that the CED is equipped with the necessary tools to advance its border patrol capabilities. This includes ensuring that other local authorities have direct access to the RCS for processing vessels prior to entry into the Federation. The CED currently maintains records of all cases investigated and cash declarations in hard copy and in an excel format. The CED has bolstered its training program by increasing its focus on money laundering related issues. Training workshops and sessions attended included the following:

- Fraud Pyramid and Ponzi Scheme;
- Trade Based Money Laundering;



- Combating Cash Smuggling;
- Infection Prevention and Control COVID-19 Course; and
- Arms Smuggling and Trafficking.

Citizenship by Investment Program

The Citizenship by Investment (CBI) Program has continued to be one of the major contributors to the St. Kitts and Nevis economy. Although it is recognised that this area can pose a threat to AML/CFT in the jurisdiction, the following measures have been implemented to reduce the associated risks:

- Rigorous due diligence investigations on each applicant by independent agencies;
- Restrictions on proposed applicants from designated high-risk jurisdictions; and
- Transparency in the application and review process.

The latest Henley and Partners Passport Index Global Ranking for 2021 has listed St. Kitts and Nevis as #25 of 110 jurisdictions. The Federation is ranked # 1 in the Organization of the Eastern Caribbean (OECS) and second to Barbados in the Caribbean region. The Federation also performed well in the 2020 Financial Times CBI Index scoring perfect tens (10s) in the following categories:

- Due Diligence;
- Timeline;
- Ease of Process;
- Product Certainty; and
- Mandatory Travel Restrictions.

The applications for CBI continue to be issued to the CBI Unit through licensed TCSPs who are subject to AML/CFT oversight by the FSRC. Based on the above, this Sector is rated **MEDIUM**.



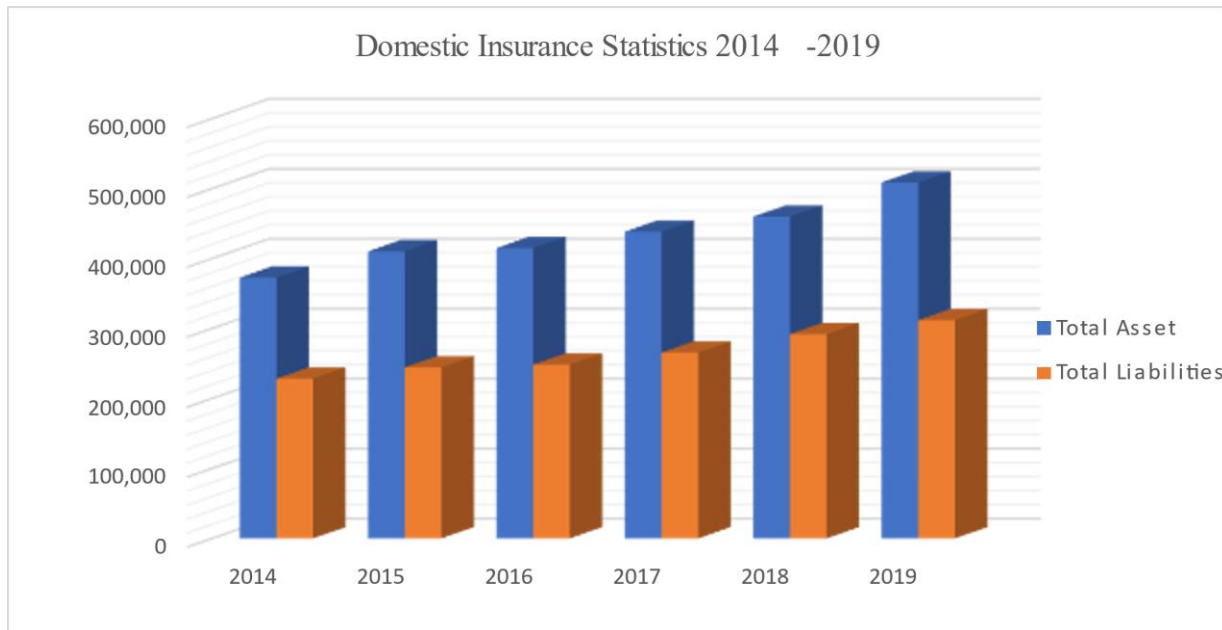
INSURANCE SECTOR

Domestic Insurance

The FSRC continues its AML/CFT and prudential oversight of the Insurance Sector in the Federation of St. Kitts and Nevis. This Sector is traditionally rated low for AML/CFT. At the end of 2020, there were 16 registered insurance companies, 3 insurance brokers, 16 insurance agents and 28 sales representatives.

Total assets for the Domestic Insurance Sector as at 31 December 2019 amounted to approximately EC\$508 Million. The Sector continues to record a steady growth in total assets as reported for 2019. Total liabilities also increased in keeping with the trend over prior years. Figure 5 shows the annual growth of assets and liabilities for the period 2014 – 2019.

Figure 5

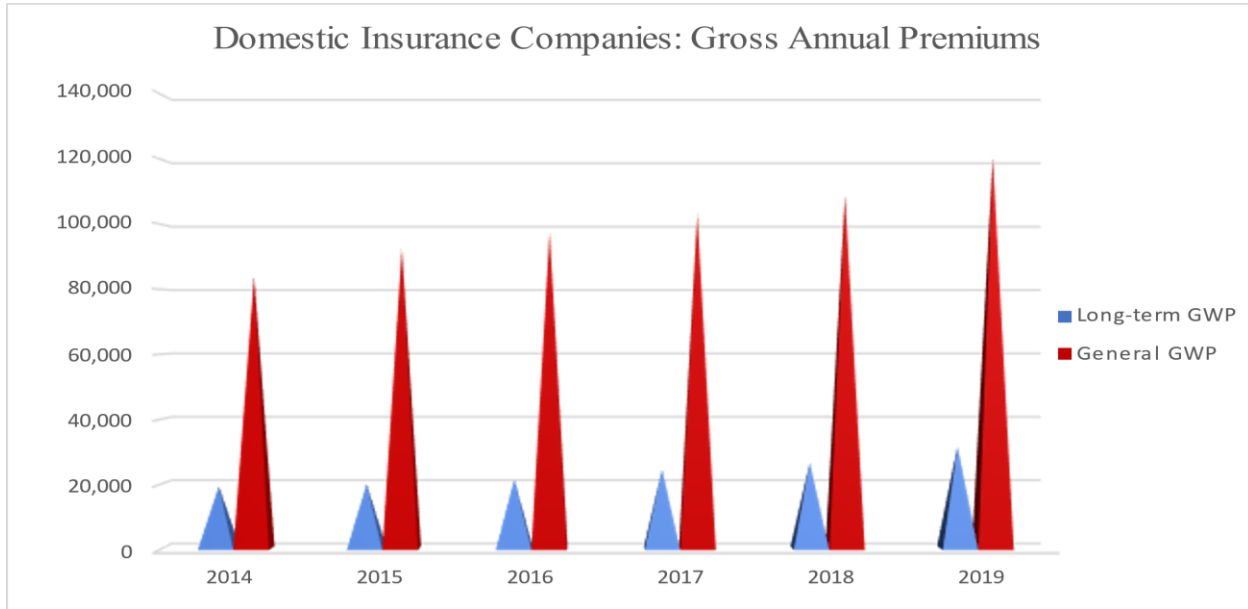


Source: *Quarterly Financial Returns, Financial Services Regulatory Commission (FSRC) St. Kitts Branch*

There continues to be an increase in premiums recorded annually, with general insurance recording higher premium income and growth when compared to life insurance business. Figure 6 depicts the gross annual premiums recorded for the domestic insurance sector for the period 2014 – 2019.



Figure 6



Source: *Quarterly Financial Returns, Financial Services Regulatory Commission (FSRC) St. Kitts Branch*

The FSRC continues its risk-based approach to supervising the Domestic Insurance Sector. AML/CFT supervision remains an integral component of its supervisory framework. Apart from onsite examinations, the FSRC also conducts off-site analysis and produces quarterly risk assessments on each registered insurance company. Table 7 shows the number of on-site examinations conducted for the period 2014 - 2020:

Table 7

	2014	2015	2016	2017	2018	2019	2020
No. of onsite Examinations (companies)	2	3	1	1	1	2	2
No. of onsite examinations (Broker)	0	0	0	0	1	1	1
No. of follow-up examinations (companies)	0	1	0	1	0	1	1



Spot Checks						2	0
Total	2	4	1	2	2	6	4

Source: Financial Services Regulatory Commission (FSRC) St. Kitts Branch

Some of the issues identified during these onsite examinations for the period 2019-2020 were:

- i. Inconsistent collection and maintenance of KYC documents.
- ii. Insufficient training of staff on AML/CFT manual and procedures.
- iii. Absence of Compliance Officer/Reporting Officer.
- iv. Inadequate record keeping practices.

The FSRC has been consistent in following-up on recommendations made to regulated entities, through spot checks and requests for information, and is generally satisfied with the continuing efforts to rectify the deficiencies identified.

During the period 2019 – 2020, as a result of the responsiveness of the insurance companies during the on-site and off-site monitoring, it was not necessary for the FSRC to issue AML/CFT based sanctions and enforcement actions for the Domestic Insurance Sector. For this period, two (2) STRs were filed for the Sector. This low number of STRs is consistent with the risk rating of low previously assigned to the Domestic Insurance Sector.

The FSRC continues to provide opportunities for on-going training on national legislation and regulations and AML/CFT principles for various stakeholders. Throughout 2019 - 2020, the following training were supported:

- AML/CFT training session on 25 March 2019;
- AML/CFT Conference under the theme “*Understanding the Financial Supply Chain of Funding Terrorism and the Brave New World of Risk Assessment*” on 3 July 2019;
- Targeted training for Compliance Officers for an Insurance Agent between August to September 2019;



- Training on the AML/CFT Laws and Regulations of St. Kitts and Nevis for a licensed insurance company on 22 September 2020;
- Training on the Mutual Evaluation process and St. Kitts and Nevis NRA were held on 4 March 2020 and 11 March 2020.
- Targeted training for Compliance Officers of two (2) Insurance Agents, October – November 2020

COVID-19 Response (Domestic Insurance Sector)

In response to the COVID-19 pandemic, in 2020 the FSRC conducted outreach with the Sector to ascertain the impact of COVID-19 on the local operations of the insurers. Insurers indicated that a number of strategies were being implemented, including:

- Using alternative forms of customer payment;
- Working remotely from home;
- Updating manuals to include changes considering Covid -19; and
- Allowing customers to upload claims applications online to company's website.

The FSRC allowed the regulated entities to submit documents electronically and gave a 6-month grace period for the submission of all 2019 Audited Annual Financial Statements.

Based on the size of the Domestic Insurance Sector, the number of registered insurance companies and the products offered, the level of vulnerability associated with the Sector remains **LOW**.

International Insurance

Table 8 indicates the number of International Insurance Companies, Insurance Managers and Insurance Brokers licenced in St. Kitts and Nevis for the period 2018 - 2020.

Table 8

	2018	2019	2020
Number of Licensed International Insurance Companies	260	224	219
Number of Licensed Insurance Managers	19	18	16
Number of Licensed Insurance Brokers	3	3	3

Source: Financial Services Regulatory Commission (FSRC) St. Kitts and Nevis Branches

The International Insurance Companies licensed in Nevis offer:

1. General Insurance (4 as at 31 Dec 2020)



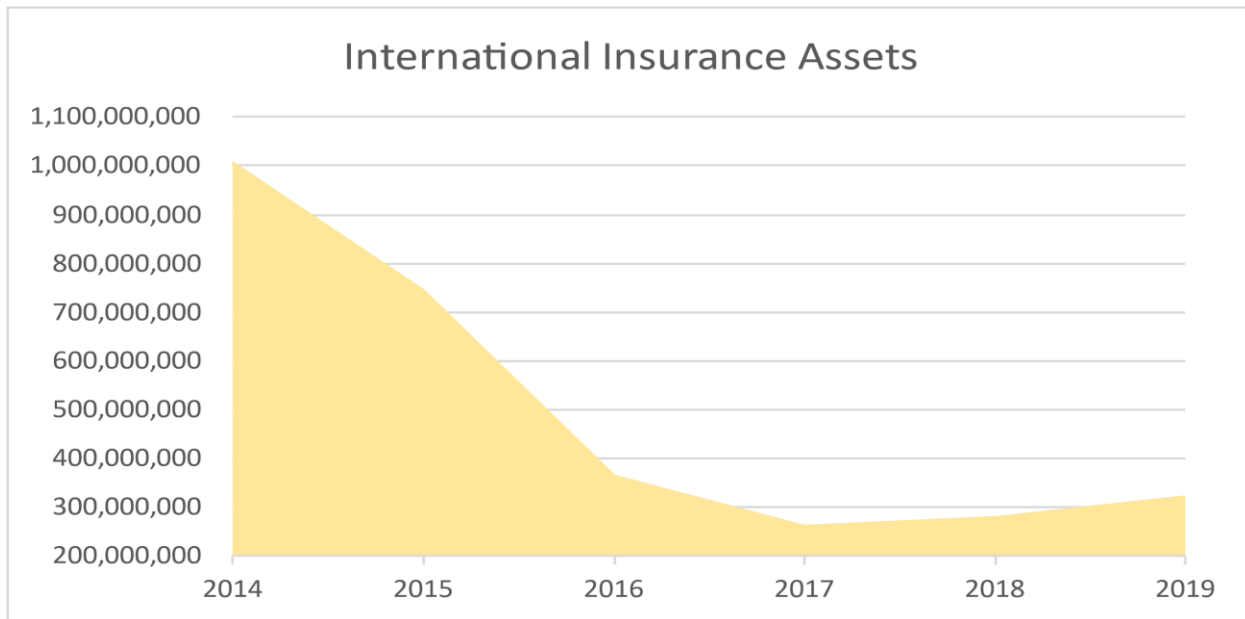
2. Long-term (Life) Insurance (3 as at 31 Dec 2020)

3. Reinsurance (19 as at 31 Dec 2020)

There were also 161 Captive insurance companies and 15 Allied Reinsurance Companies as at 31 Dec 2020.

At the end of 2019, total assets for the International Insurance Sector amounted to approximately USD\$323,240,400 (EC\$872,749,080), representing approximately 14% increase over the prior year (2018). Figure 7 below shows the movement in the value of total assets for the period 2014 – 2019.

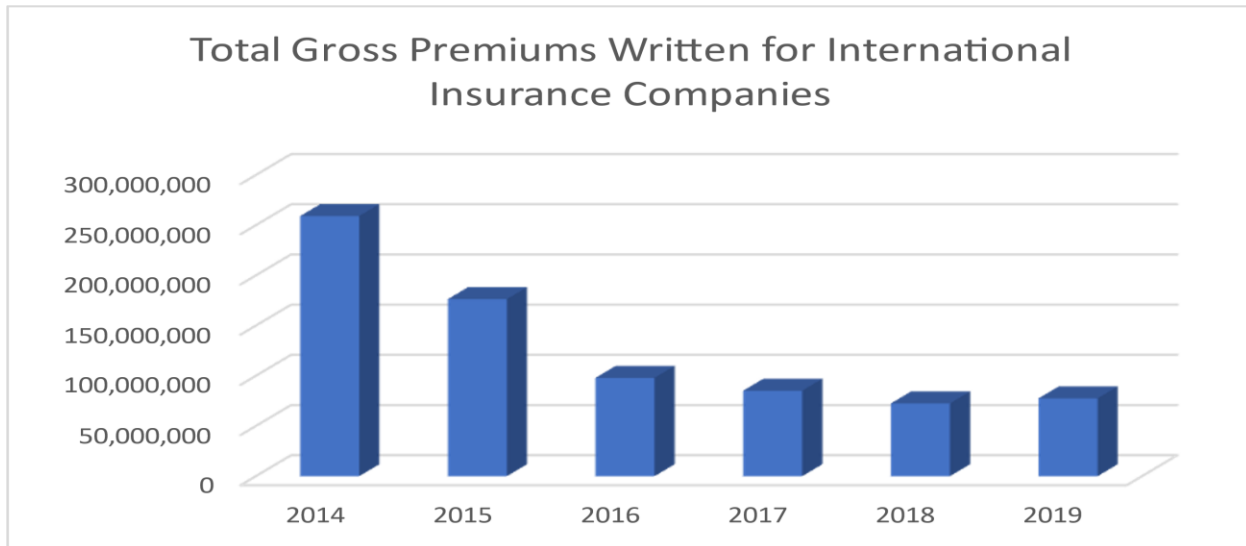
Figure 7



Source: Financial Services Regulatory Commission – Nevis Branch

Gross premiums written for the period 2014 – 2019 are displayed in Figure 8 below. The total gross premiums (expressed in US dollars) for this Sector recorded an increase in 2019 when compared to 2018.

Figure 8



Source: Financial Services Regulatory Commission - Nevis Branch

The international insurance companies operate through insurance managers which are licensed by the FSRC – Nevis Branch. As part of the annual licensing requirement, insurance managers are required to submit updated information on beneficial ownership of the international insurance companies. The insurance managers are also required to implement AML/CFT controls to mitigate ML/TF risks. During the year 2020, there were 2 spot checks of insurance managers focusing on AML/CFT.

During the period 2019 – 2020, there were no STRs reported for the International Insurance Sector. There was also no enforcement action taken by the FSRC – Nevis Branch during this period.

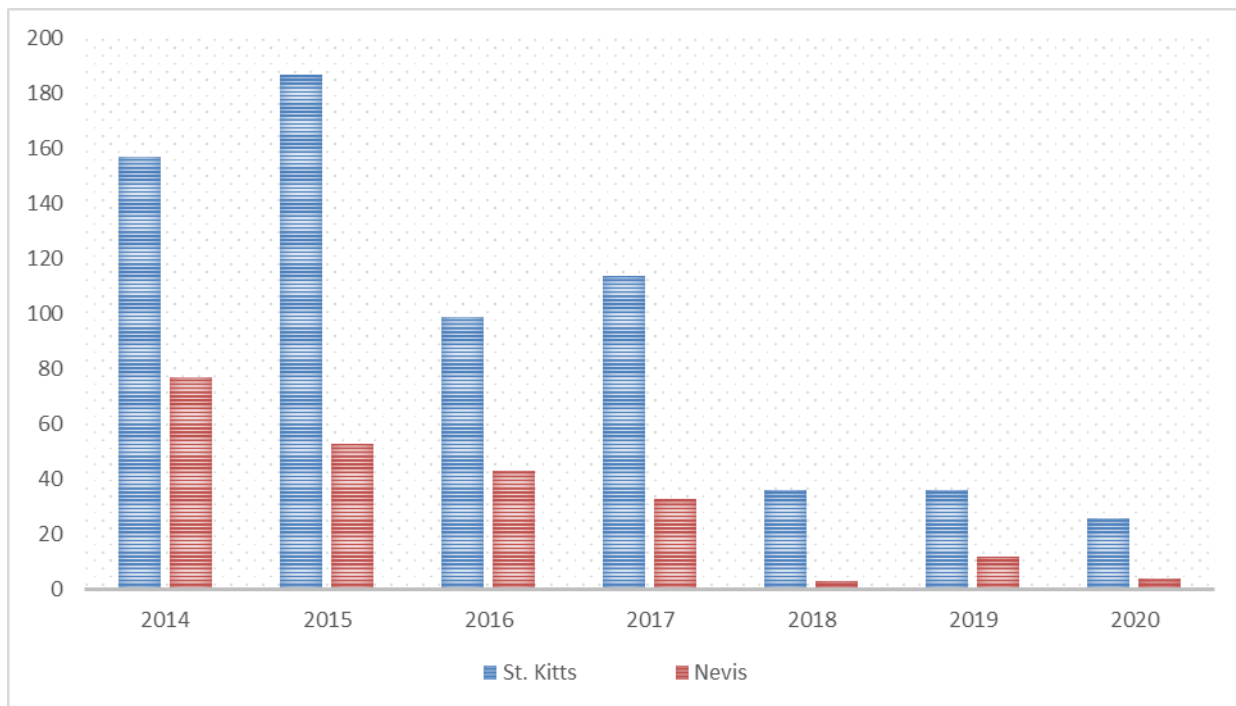
As the international insurance companies underwrite off-shore risks, the Sector's vulnerability rating remains as **MEDIUM**. The nature of the AML/CFT controls currently in place by the FSRC mitigates the risks involved in this Sector.



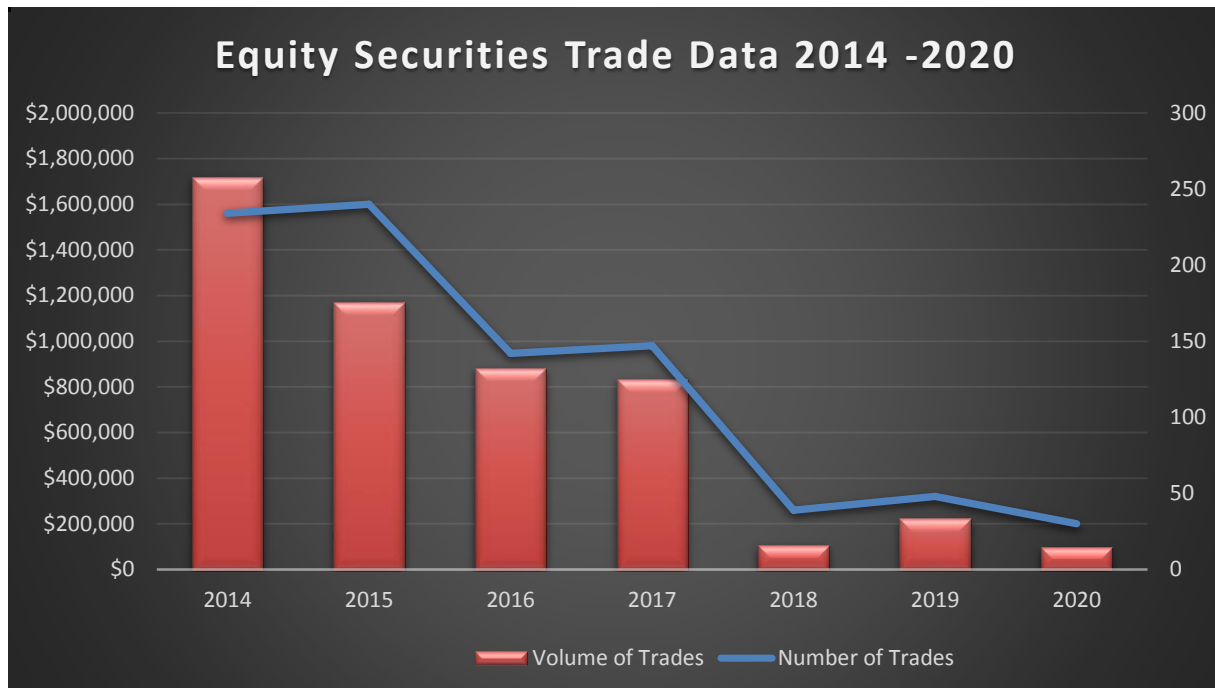
SECURITIES SECTOR

For the period 2019-2020, the Eastern Caribbean Securities Regulatory Commission (ECSRC) continued its oversight of the two (2) licensed banking institutions in the Federation of St. Kitts and Nevis that offer services in the Securities industry. The Securities business constitutes a small portion of each bank's operations and presents minimal exposure to the institutions. Figures 9 and 10 show the number of trades and the volume of trades respectively, for the period 2014 – 2020.

Figure 9



Source: Eastern Caribbean Securities Regulatory Commission (ECSRC)

**Figure 10**

Source: Eastern Caribbean Securities Regulatory Commission (ECSRC)

The FSRC conducted one (1) AML/CFT examination and (1) follow up inspection for the Securities Sector during the period 2019 - 2020. Based on the results of its off-site risk assessment process, the ECSRC has determined that the off-site assessment was sufficient for the prudential oversight of the broker-dealers operating in St Kitts and Nevis.

The ECSRC's Compliance Department undertakes monthly reviews of the securities brokerage operations via a Brokerage Risk Log and Risk Metre. There were no STRs reported for the Securities Sector for the period 2019 – 2020.

The staff of the ECSRC attended the following AML/CFT Training Workshops in 2020:

- ACAMS 2nd Annual AML and Anti-Financial Crime Conference – Caribbean (1 – 2 December 2020);
- ECCB/ACAMS Webinar Series: Raising Awareness and Reducing Risks – Understanding Emerging Money Laundering Issues in the Region (24 Sept; 20 Oct & 19 Nov 2020).
- World Bank RBA Toolkit: training covers the basic concepts of AML/CFT and the Financial Action Task Force 40 Recommendations, with a focus on risk-based supervision. Attended Module 1 (12 – 13 May 2020); and
- ACAMS24+ (24-hour online Summit) held on 2 – 3 June 2020.



Overall, the activities in the Securities Sector do not present significant AML/CFT vulnerability given the small size of the Sector, the limited trade activity and the number of licensees in the jurisdiction. Consequently, the Securities Sector is assigned a **MEDIUM LOW** vulnerability rating.



BANKING SECTOR

As at 31 December 2020, the Banking Sector is comprised of the following:

- Six (6) Commercial Banks;
- One (1) Finance Company;
- Two (2) International Banks; and
- One (1) Development Bank.

The following monitoring and supervisory regime remain in place for the Banking Sector:

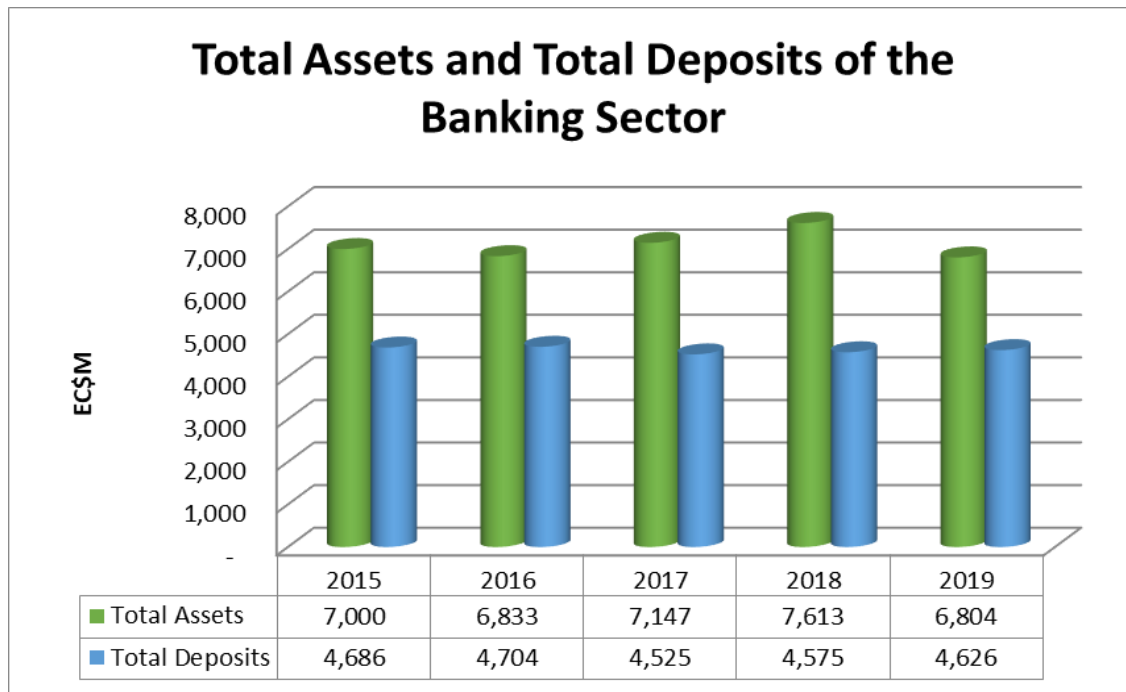
- The Eastern Caribbean Central Bank (ECCB) reviews and approves the licences for Commercial Banks and Finance Companies under the Banking Act, 2015. The ECCB is also the prudential Regulator for these entities;
- The FSRC is the AML/CFT/CPF Regulator for the commercial banks and the finance company; and
- The Ministry of Finance, NIA reviews and approves the licences for Offshore Banks. The FSRC – Nevis Branch is the prudential and AML/CFT/CPF Regulator for these entities.

In 2019, the Ministry of Finance, NIA licensed one (1) new international bank under the Nevis International Banking Ordinance, 2014.

Figures 11 and 12 depict the Total Assets and Total Deposits respectively for the years, 2015 – 2019, for the regulated entities licensed under the Banking Act, 2015 and for the years, 2016 – 2020 for the International Banks licensed under the Nevis International Banking Ordinance, 2014. The newly licensed International Bank had its first full year of operations in 2020, hence resulting in the significant increase in the financial information reported in that year.

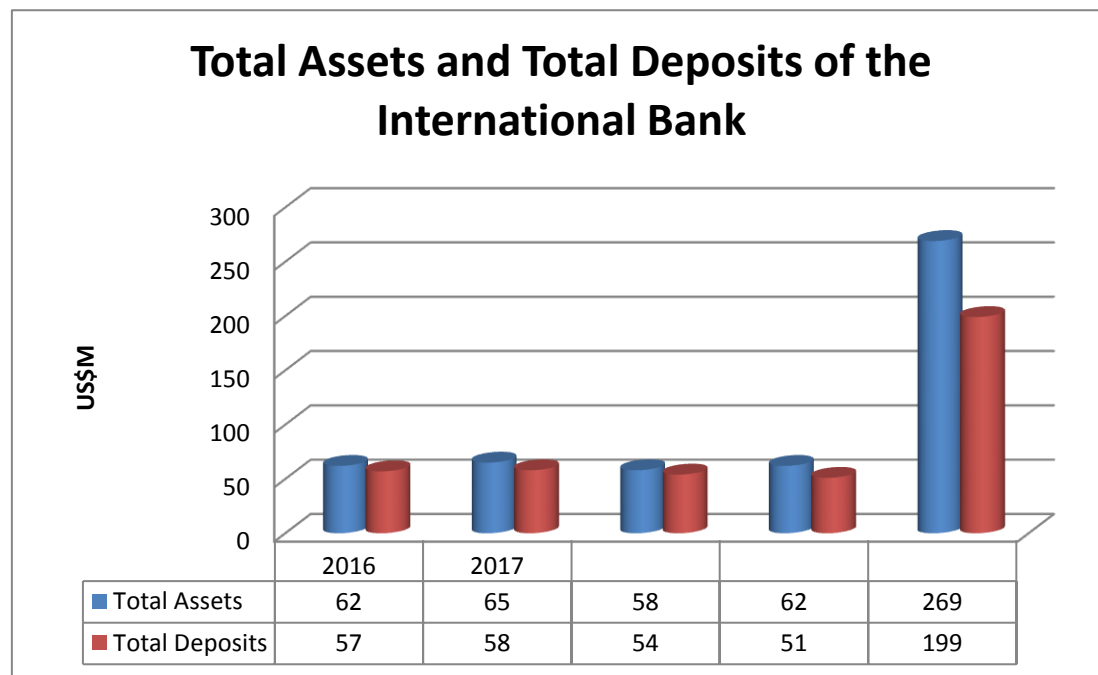


Figure 11



Source: Eastern Caribbean Central Bank Statistics

Figure 12



Source: Financial Statements of International Banks



As highlighted in the 2019 NRA Report for St. Kitts and Nevis, the deposits recorded for this five-year period represent in excess of 50% of the entities' deposits. This illustrates the cash intensive nature of these entities and the increased vulnerability to financial crime.

The follow-up process analyzed the responses from a questionnaire which was disseminated to all entities within the Sector. The licensed entities within the Banking Sector continue to offer the same products and services including wire transfers and escrow accounts. These products are considered to have an inherently high level of vulnerability due to high cash intensive nature and the non-face-to-face components involved. The regulated entities which were assessed in the previous NRA continue to maintain the compliance staff complement of 23 within their respective compliance departments. Upon review of the data collected, the regulated entities have maintained their AML/CFT compliance framework and policies and procedures which include the following:

- Customer Due Diligence procedures;
- Enhanced Due Diligence procedures for high-risk customers including Politically Exposed Persons (PEPs);
- Risk assessment procedures;
- Training programs; and
- Independent Audit.

There were no instances where it was necessary for any banking entity to be sanctioned for non-compliance nor were there any reports of any internal breaches in its system which would create vulnerabilities in its risk management systems.

During the years 2019 – 2020, the Banking entities maintained their commitment to ensuring that all staff members including the compliance staff members have received continuous and ongoing training on matters relating to AML/CFT and emerging trends. Table 9 below outlines the number of training sessions conducted with staff members of the banking sector for the years 2019 – 2020:

Table 9: Internal Training

	2019	2020
Compliance Staff Members	37	52
Other Staff Members of Banking Institutions	39	31

Table 10: External Training

	2019	2020
Compliance Staff Members	25	24
Other Staff Members of Banking Institutions	2	2



The training sessions covered the following:

- Matters relating to money laundering and terrorist financing;
- Policies and Procedures;
- AML/CFT Laws and Regulations;
- Risk factors;
- Recognizing unusual or suspicious activities and transactions;
- KYC procedures; and
- Emerging ML/TF threats and vulnerabilities.

Representatives of the regulated entities also participated in the following AML/CFT Workshops/Conferences hosted by the FSRC:

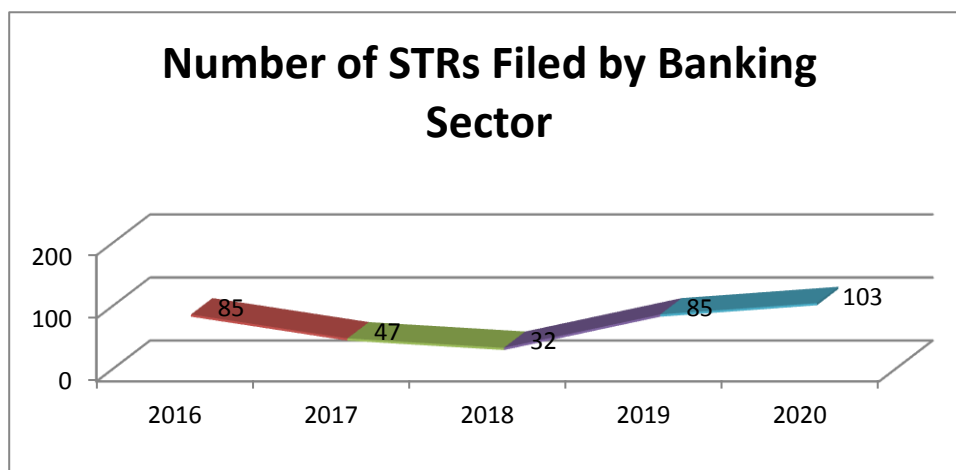
- Two (2) conferences hosted by the FSRC – St. Kitts and Nevis Branches respectively in 2019;
- One (1) quarterly training session hosted by the FSRC – St. Kitts Branch; and
- Two (2) quarterly training sessions hosted by FSRC – St. Kitts Branch.

These training sessions covered the following topics:

- Common deficiencies identified during on-site examinations;
- Developing an enterprise-wide risk assessment;
- Results of NRA;
- Mutual evaluation; and
- Terrorist Financing.

Over the assessment period, a total of 187 Suspicious Transaction Reports (STRs) were filed with the Financial Intelligence Unit (FIU) from the Banking Sector. Figure 13 depicts the trend of suspicious transaction reporting over the 5-year period.

Figure 13

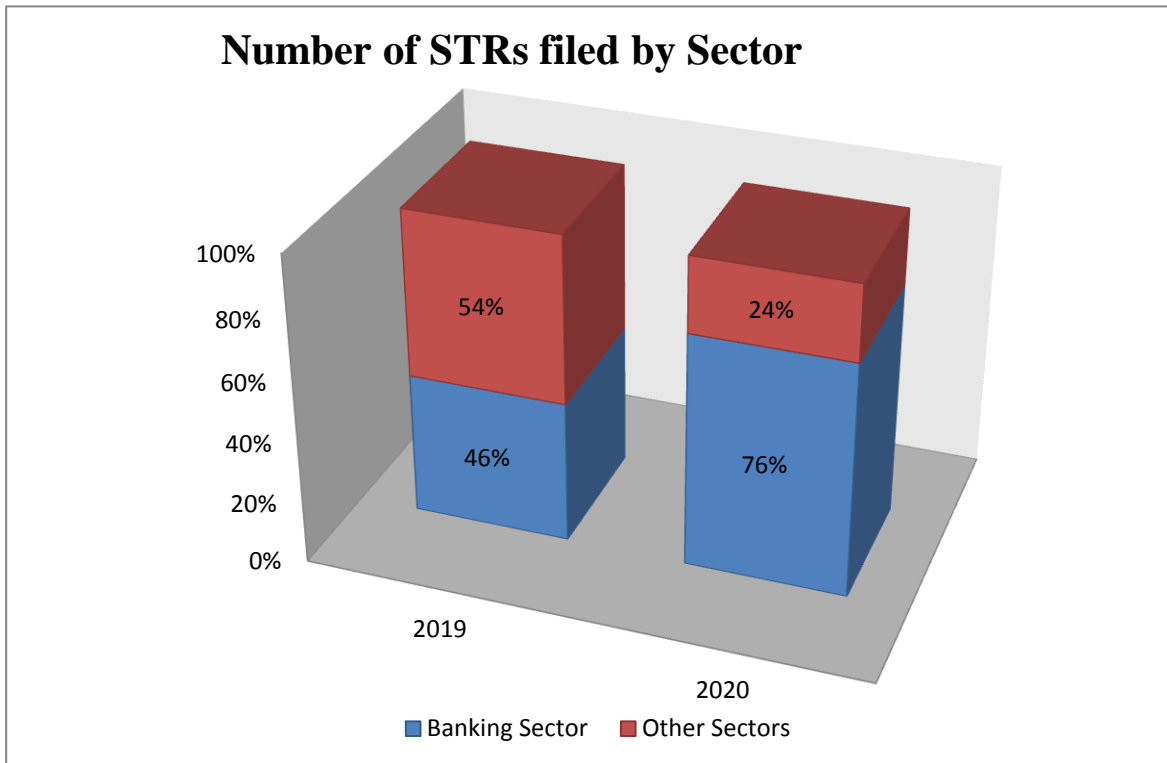


Source: Licensed Regulated Entities under Banking Act, 2015



The Banking Sector remains the highest reporting sector within the financial services industry as depicted in Figure 14. There was a notable increase in the filing of STRs for the years 2019 and 2020 as a result of a surge in irregular credit card transactions. The entities have enhanced their monitoring systems to facilitate real time alerts. These improvements have allowed for more effective and timely reporting of suspicious activities as required by the local legislation and international standards.

Figure 14



Source: Financial Intelligence Unit (FIU)

Supervisory Powers

Banking Entities licensed under the Banking Act 2015

During the assessment period, two (2) follow-up examinations were conducted on commercial banks by the FSRC. Collectively, the banking entities had ten (10) deficiencies identified during their on-site examinations. The follow-up examinations revealed a significant decrease in deficiencies, an increased level of overall compliance including enhanced KYC measures and consistency in due diligence and monitoring procedures. Based on the above, the overall vulnerability rating of the banking entities remains at **MEDIUM**.



International Banks

During the assessment period, the FSRC – Nevis Branch has conducted one (1) follow-up examination on the existing international bank and one (1) full scope on-site examination on the newly licensed international bank. The risk management systems of these entities were determined as satisfactory and the overall rating of each entity was medium low. There were noted improvements or developments in the following:

- Compliance function;
- Written policies and procedures;
- Monitoring systems; and
- Risk assessment procedures.

Based on the results of these examinations, the overall vulnerability rating of the international banks is now **MEDIUM** due to the adequate risk management systems and internal controls.

COVID 19 Measures

There have been some minor changes noted in the onboarding process and monitoring of customers since the impact of the COVID-19 pandemic in St. Kitts and Nevis. Whilst the banking entities have introduced more virtual elements to the application process, face-to-face interaction is still required to complete such transactions.

Development Bank of St. Kitts and Nevis

During the follow-up period, the following factors have been noted to demonstrate the Development Bank's commitment to enhancing its compliance function and improving its AML/CFT framework:

- A Compliance Officer has been approved by the FSRC;
- Written AML/CFT policies and procedures have been developed and approved by the Board of Directors of the Development Bank;
- In-depth training has been provided to the Compliance Officer and one (1) representative of the Compliance Department from the FSRC;
- Risk assessment and KYC procedures have been implemented; and
- A draft Compliance Program has been developed.

The commitment of the Board of Directors to address compliance matters has been noted during follow-up examinations during 2019 and 2020. Based on these improvements, the Development Bank is now assessed as having **MEDIUM** vulnerability.



OTHER FINANCIAL INSTITUTIONS

Money Services Businesses (MSBs)

As at 31 December 2020, 16 Money Services Businesses (MSBs) were licensed under the Money Services Business Act, Cap. 21.21. Table 11 shows the number of licences (2014 – 2020).

Table 11

Class	Description	No. of Licensees						
		2014	2015	2016	2017	2018	2019	2020
Class A	Transmission of money or monetary value in any form, the issuance, sale or redemption of money orders or travelers' cheques, cheque cashing, currency exchange.	6	5	3	8	9	4	6
Class A Restricted	E-payment operators that were granted 'restricted' Class A licenses under limited conditions. These were designated as payment systems by the Eastern Caribbean Central Bank in accordance with the Payment System Act, Cap. 20.57.	0	0	0	3	3	3	1
Class E	Micro-financing and lending	4	3	8	8	9	9	9
Total		10	8	11	19	21	16	16

Source: FSRC MSB Database

Money Transmitters

Table 12 details the consolidated inbound and outbound transactions facilitated by the Class A Licensees for the period 2014 to 2020.

Table 12

2014	2015	2016	2017	2018	2019	2020



	In-bound	Out-bound	In-bound	Out-bound	In-bound	Out-bound	In-bound	Out-bound	In-bound	Out-bound	In-bound	Out-bound	In-bound	Out-bound
No. of Transactions	30,545	44,656	34,698	61,819	44,836	88,680	46,123	93,037	47,642	77,215	49,964	94,747	61,684	77,058
Amount (EC\$'000)	24,430	30,142	33,412	77,022	32,277	63,027	36,817	69,353	41,149	63,774	40,046	70,641	52,037	57,952

Source: MSB Reporting Forms – Class A

Micro-Financing and Lending

During the period 2019 to 2020, eight (8) examinations of MSBs were conducted.

Table13

Years	On-site Examinations	Follow-up Examinations	Total
2019	1	4	5
2020	2	1	3

Source: FSRC Records

The MSBs’ established systems of internal control, record keeping, quality of risk management and quantity of risk with respect to money laundering (ML) and terrorist financing (TF) were assessed during the examinations by the FSRC. Evaluations were also conducted on the adequacy of the MSBs’ compliance management system.

Subsequent to the on-site examinations, the FSRC conducted follow-up examinations to provide the necessary guidance and support to MSBs. The MSBs have addressed some of the deficiencies noted during the FSRC’s onsite examinations; and continue to address the remaining deficiencies.

In addition, the STRs filed by MSBs during the period 2014 to 2020 are detailed in **Figure 15**.

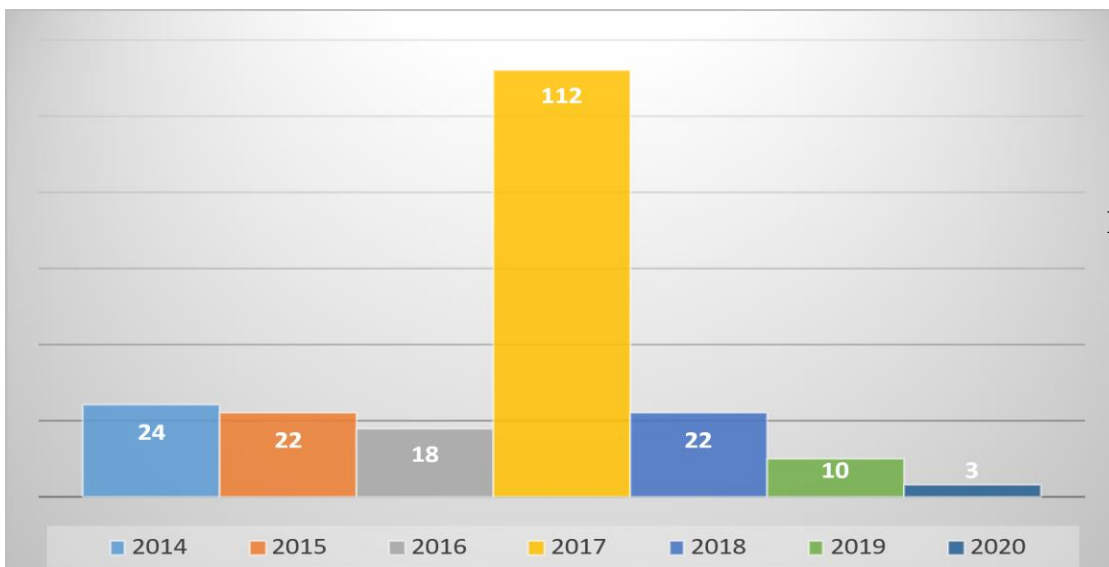


Figure 15

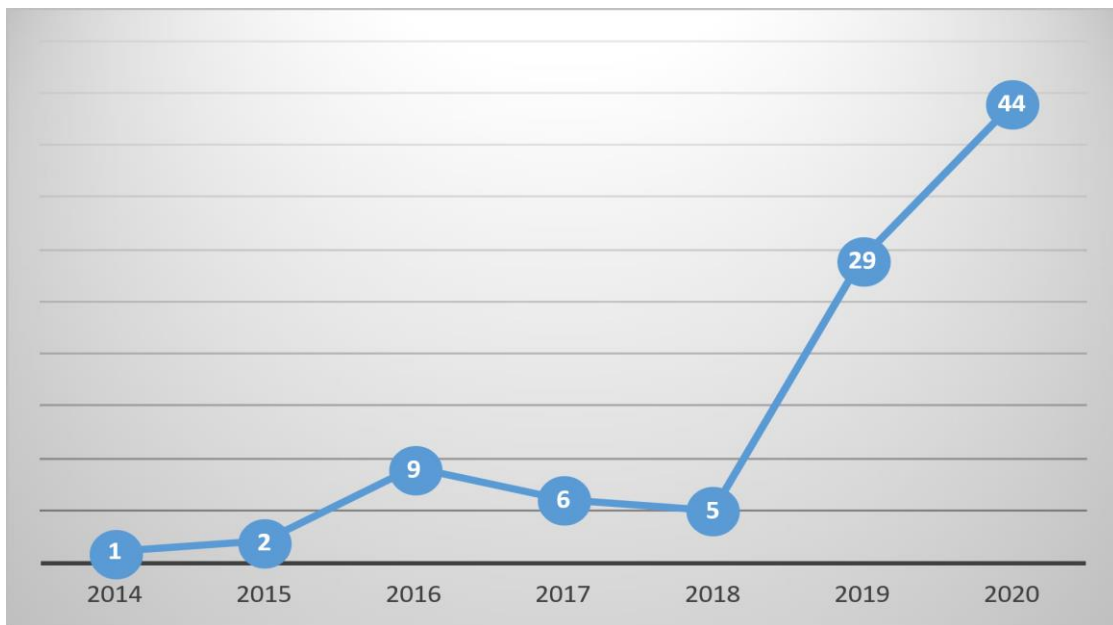


Source: Financial Intelligence Unit Statistics

There has been an increased emphasis on training in the MSB Sector which is reflected in the increase number of training session.

Figure 16 details AML/CFT training sessions for the period 2014 to 2020.

Figure 16



Source: MSBs Data

The training sessions held by the MSBs focused on diverse topics, including the following:

- The Financial Supply Chain of Funding Terrorism;
- Conducting Risk Assessments;



- AML/CFT Refresher Training;
- COVID-19 ML/TF Risks and Policy Responses;
- Transaction Monitoring;
- Pandemic Proofing – Risk and Compliance Program;
- Recognition of Suspicious Activities and Transactions;
- Fraud Prevention and Risk Assessment;
- AML/CFT Policies and Procedures Review;
- Enhanced Due Diligence Procedures;
- Fortifying Compliance Strategies to Fight Human Trafficking; and
- FSRC AML/CFT Compliance Training (6 Modules).

Enforcement Actions

The following enforcement actions were taken:

- Cease and desist orders;
- Licence renewal deferral; and
- Non-renewal of licence.

Based on the factors above, the vulnerability rating for MSB Sector has improved to **MEDIUM HIGH**.

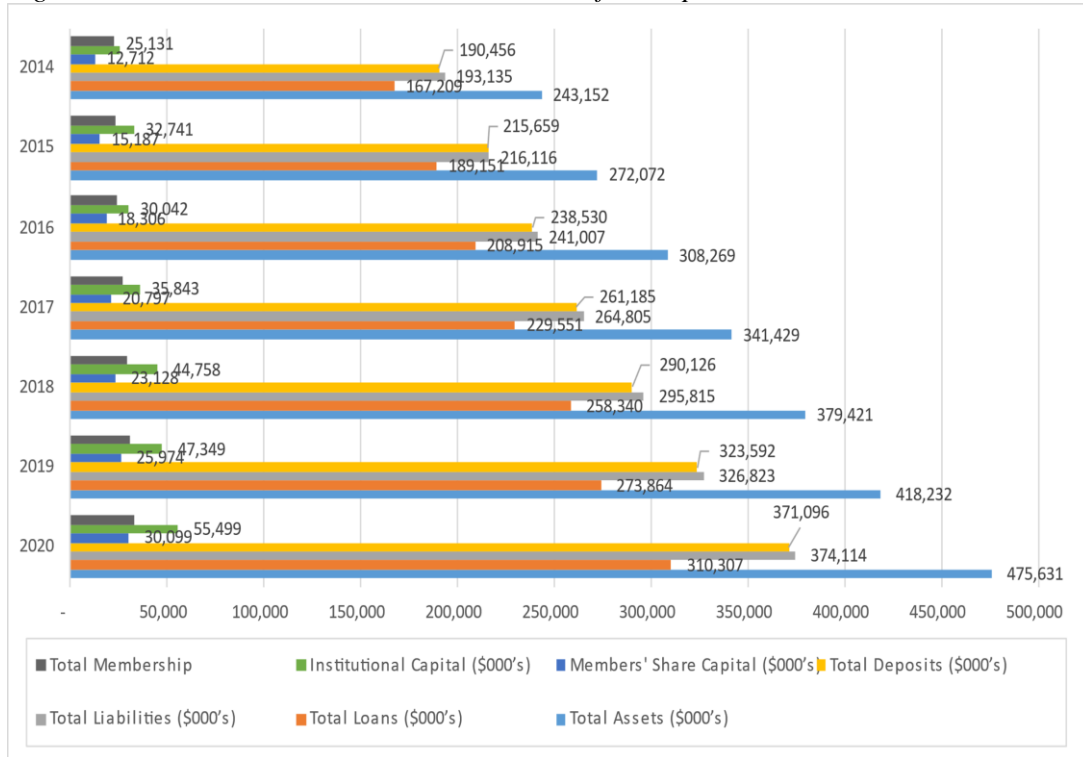
Credit Unions (CUs)

The Credit Unions (CUs) operating in St. Kitts and Nevis realized growth in total assets, loans, deposits, member shares and membership during the seven (7) year period 2014 to 2020.



Figure 16

Figure 17: CU Consolidated Prudential Statistics for the period 2014 to 2020



Source: CU Audited Financial Statements 2014 to 2019 and Credit Union Reporting Forms 2020

During the period 2014 to 2020, 16 examinations and 13 on-site monitoring of CUs were conducted and are reflected in **Table 14**.

Table 14

Years	On-site Examinations	Follow-up Examinations	On-site Monitoring	Total
2014	2	1		3
2015		1		1
2016		1	1	2
2017	2	2	2	6
2018	1	1		2
2019	1	1		2
2020		1	10	11

Source: FSRC Records

Deficiencies noted during on-site examinations included, but are not limited to, the following:

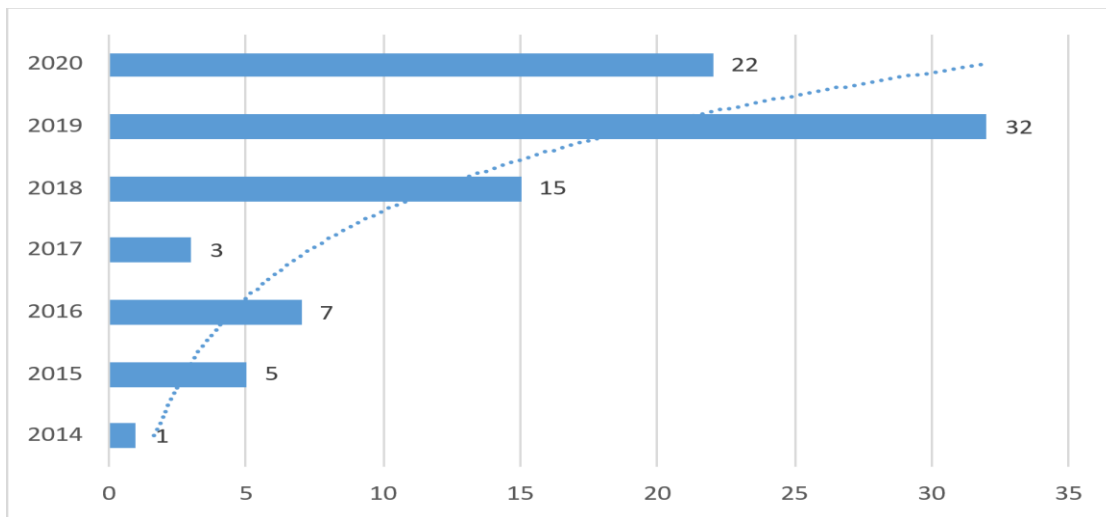
- Strategic and Governance Issues;
- Inefficient Internal Audit Function;
- Lack of Due Diligence Information



- Absence of a Suspicious Activity Register and Register of Enquiries; and
- Absence of a Compliance Officer and/or a Reporting Officer approved by the FSRC.

Subsequent to the on-site examinations, the FSRC conducted follow-up examinations and on-site monitoring to provide the necessary guidance and support to the CUs. **Figure 18** summarizes the number of training opportunities afforded to CUs over the period 2014 to 2020.

Figure 18



Source: CUs Data

The topics presented include, but are not limited to, the following:

- Virtual Currency and Blockchain;
- FSRC AML/CFT Compliance Training (6 Modules);
- Suspicious Activity Reporting;
- Enterprise Risk Management;
- De-risking, Re-risking and Correspondent Banking Relationship;
- Terrorist Financing;
- Creating a Risk Based AML/CFT Program;
- KYC and CDD;
- When Disaster Strikes: Addressing Your Business Continuity Plan;
- Beneficial Ownership;
- Compliance: The Overview; and
- Managing AML/CFT Risks in a Block Chain Environment.

COVID-19 Response

On 27 March 2020, the ‘FSRC Directive to Address the Impact of the COVID-19’ was issued to the Credit Union Sector. In light of the COVID-19 pandemic and public health measures enforced, the



FSRC provided guidance to CUs on the holding of their Annual General Meetings (AGMs) by issuing the “Regulatory Guidelines for Credit Unions ‘Options for AGMs in Special Circumstances’”.

Enforcement Actions

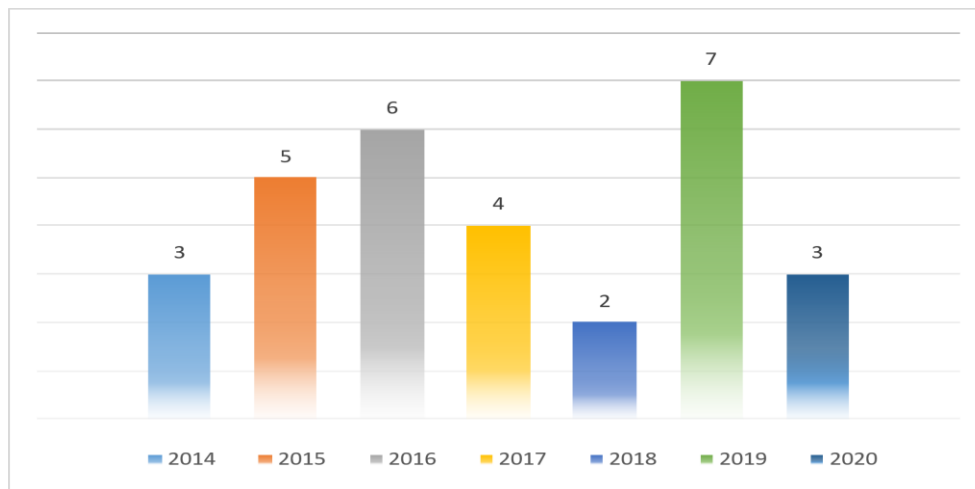
The following enforcement actions have been imposed on CUs during the period under assessment:

- Cease and desist orders;
- Licence renewal deferral; and
- Non-renewal of licence.

Cease and Desist Orders were issued to two (2) Credit Unions in the years 2016 and 2018 respectively. The Orders were removed in 2020. In addition, during the registration renewal process of CUs, the registration certificate renewal was deferred for CUs with outstanding compliance matters.

The STRs filed by CUs during the period 2014 to 2020 are detailed in **Figure 19**.

Figure 19



Source: Financial Intelligence Unit Statistics

There have been improvements in the CU Sector over the 2019 – 2020 period including their increased focus on training and compliance.

The rating for the CUs therefore remains unchanged at **MEDIUM LOW**.

**DESIGNATED NON-FINANCIAL
BUSINESSES AND PROFESSIONS**



Trust and Corporate Service Providers (TCSPs)

As of 31st December 2020, there were 93 TCSPs in the Federation. There were 45 TCSPs in St. Kitts and 48 TCSPs in Nevis.

Full scope and Follow-up onsite examinations and off-site monitoring are conducted to determine compliance with AML/CFT laws and regulations. The planned examination schedule for 2020 was impacted by the COVID-19 pandemic. The majority of the examinations were conducted remotely with requested documents/files being submitted electronically or via remote access. During the years 2019 and 2020, 56 examinations (Full scope, follow-up and spot check) were completed.

Table 15

Year	St. Kitts	Nevis	Total
2014	8	7	15
2015	8	11	19
2016	19	14	33
2017	17	21	38
2018	12	17	29
2019	4	28	32
2020	3	21	24
Total	71	119	190

In St. Kitts and Nevis, each TCSP is subject to an examination at least once every five years using the FSRC comprehensive Risk-based framework.

In 2019, the FSRC – St. Kitts Branch issued one warning letter to a TCSP. There were no AML/CFT related sanctions issued by the St. Kitts Branch in 2020.

The FSRC – Nevis Branch however, imposed AML/CFT related sanctions as follows in 2019 and 2020:

Table 16

	2019	2020



Warning Letters/Cease and Desist Orders	2	8
Licences Restricted	4	12
Licences Surrendered	1	4
Licences Denied	0	1
	7	25

For the 2021 renewal period, all TCSPs were required to provide updated information on the progress that have been made in addressing any outstanding deficiencies that were identified following their last examination. The determination of whether or not to renew a licence took into account the progress that was made to implement corrective measures. The overall risk profile of the TCSPs is also revised following this assessment.

During onsite examinations, Examiners from the FSRC would conduct a risk assessment on the operations of the TCSP to determine the quality of oversight of risk management. Consideration would be given to the TCSP's products and services, customer base, size and geographic locations of customers. The assessment would also be based on the impact, or potential harm that could be cause by the inherent risks identified then weighted by the estimated probability of those circumstances actually occurring.

As at 2020, the significant activities of TCSPs were the formation of corporations, companies, trusts and foundations, the provision of registered office services and the provision of Citizenship by Investment services.

Overall, quality of **risk management and oversight has** improved significantly as:

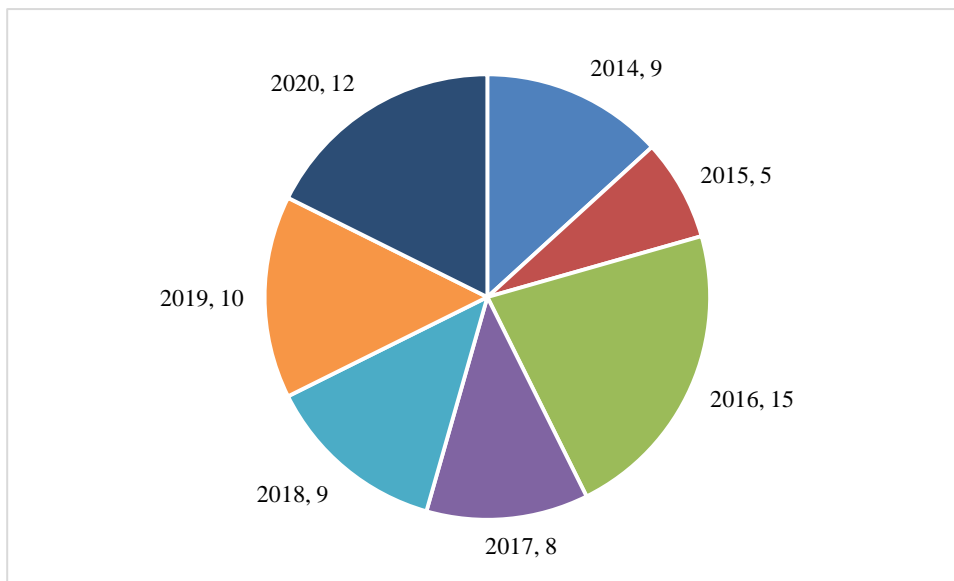
- 100% of TCSPs had adequate record keeping and risk-based policies and procedures to mitigate against money laundering and terrorist financing risks relative to their size, scope and complexity,
- 100% of TCSPs undertook adequate training of their staff relative to their size and scope,
- No TCSP reported breaches of confidentiality by staff,
- The majority of the TCSPs had Compliance/Reporting Officers that were approved by the FSRC Board of Commissioners. 100% of TCSPs maintained suspicious transaction report registers and registers of enquiries,
- The majority of the TCSPs implemented an independent audit function as part of their AML/CFT policies and procedures.
- 100% of TCSPs have adequate written risk assessment procedures in place relative to their size, scope and complexity.



Consequently, the main method that would be used by the FSRC to assess TCSPs' compliance with AML/CFT laws and regulations would be through off-site monitoring through the annual renewal process and when there are trigger events such as changes in directorship, ownership or management.

The FIU reported that 10 STRs were filed in 2019 and 12 were filed in 2020. Figure 20 below provides information on STR filings over the review period, 2014 – 2020.

Figure 20



Source: Financial Intelligence Unit (FIU)

The rating for the level of vulnerability for the TCSPs Sector has therefore been revised to **MEDIUM** taking into consideration the strong supervisory and monitoring mechanisms that have been employed by the FSRC – St. Kitts and Nevis Branches and the responsiveness of the Sector.

Gaming Sector

The FSRC has conducted a number of onsite examinations on some gaming entities. Two full scope examinations and two follow-up examinations were completed in 2019. There were no full scope examinations conducted in 2020, however there was one (1) follow-up examination conducted in that year. The deficiencies identified during these examinations underscored the need for more AML/CFT training, awareness and supervisory oversight.

Some improvements in the Sector were observed in respect of the compliance function over the period 2018 – 2020. The rating for the Sector remains as **HIGH**.



The FIU reported that there were seven STRs filed during 2019 and 2020. The FSRC continues to provide outreach to the Sector through newsletters, public statements and advisories.

Other DNFBPs

There was one (1) full scope inspection conducted on an accountant, while there were no inspections or follow-ups on the remaining DNFBPs in 2019 and 2020. There were no STRs filed during the two-year period, however, outreach was provided to this Sector through advisories and monthly newsletters.

The rating for these Sectors remains as **HIGH**.



The Federation of St. Kitts and Nevis remains committed to ensuring that it conforms to international standards as they relate to AML/CFT/CFP. The National Strategy brings the Federation one step closer in constructing a robust AML/CFT/CFP regime. The Plan comprises fifteen (15) objectives and a number of key actions that emphasizes the Federation’s commitment to domestic coordination to further enhance the supervisory oversight of each Sector going forward.

Figure 21

