

AML Focus

OCTOBER 2024

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Collaboration is key

Welcome to the second edition of AML Focus, our newsletter highlighting the work being progressed by the Authority to assist with the Island's fight against money laundering, terrorist financing and proliferation financing.

These pages reflect the high level of activity as we continue to capture and analyse data to inform our picture of risk, as well as feed into the Island's next National Risk Assessment, with a focus on the sector specific risk work taking place in collaboration with industry.

We have published the findings of targeted thematic reviews and questionnaires in recent months to share examples of good and poor practice, relevant case studies and learning points for industry.

Even if you work in a different sector to those featured in our reports, you are encouraged to read the content and consider any action necessary to ensure your own risk-based compliance regimes are effective, up-to-date and properly documented. Feedback or questions are always welcome in relation to our reports.

Our main objectives are to enhance compliance and mitigate the risks of financial crime in order to maintain the Island's

reputation as a well-regulated international finance centre.

We appreciate the uptick in data requests is increasing the workload for compliance teams that are already stretched. With this in mind, we are working proactively with industry bodies to build knowledge and capacity, and to offer practical assistance and guidance for compliance professionals.

I hope that many of you have taken the opportunity to attend the joint workshop with the Alliance of Isle of Man Compliance Professionals or to book a place at the Manx Museum for our forthcoming repeat of this presentation and Q&A session.

We will continue to deliver a comprehensive programme of outreach and engagement, including our ongoing AML Wednesday social media campaign, which recently celebrated its first anniversary.

Collaboration is fundamental to everything we do at the Authority. We want to work with you in the best interests of the Isle of Man, so please contact the team at aml@iomfsa.im to discuss any issues or suggest topics for future newsletters, webinars or presentations.

Ashley Whyte, Head of AML/CFT Supervision

We have published a calendar to highlight the dates of our outreach and engagement for the months ahead.

The 'at-a-glance' timetable for 2024/25 offers a snapshot of our forthcoming data requests, thematic reviews, inspections, events, consultations and reports.

The intention is to keep stakeholders informed of developments by providing advance notice of the Authority's key milestones where possible.

It is hoped that publishing the calendar online and updating it on a regular basis will assist firms with their forward planning, particularly in relation to anticipated demands on compliance functions.

Keeping you informed

[Link: View our online calendar](#)



Acting on your feedback

■ Action Plan Update captures progress on themes from industry survey

We are pleased to report on the progress achieved in response to feedback from Island firms.

An Action Plan Update has been published highlighting the work that has taken place over the past 12 months to address a number of key themes to emerge from a recent industry survey.

In addition to capturing the actions delivered through targeted projects and business-as-usual activities, the report sets out how the Authority intends to deliver further improvements in relation to Inspections, Transparency, Communications & Outreach, People Strategy and Innovation.

We made a series of commitments in line with the findings of an independent industry survey conducted by Island Global Research in 2023.

The confidential questionnaire invited comments on the effectiveness of the financial regulator in relation to our



FURTHER READING

Action Plan Update September 2024

Industry survey full report

Industry survey executive summary

role, objectives and responsibilities, our approach to supervision and oversight, and our engagement with industry.

The submissions and stakeholder

interviews highlighted the areas that regulated and registered firms thought were working well and matters where they felt there was scope for improvement.

We are using the feedback to inform our strategic priorities and enhance our relationship with the firms we regulate and oversee.

The Action Plan Update uses a 'You Said – We Did' approach to explain the positive action taken and how the survey findings are continuing to shape our plans.

Chief Executive Officer Bettina Roth said: 'We always welcome honest and constructive feedback from our stakeholders and wanted to demonstrate how we are acting on what the industry is telling us. Working collaboratively is a priority for the Authority and the Action Plan Update reflects our commitment to listening and learning, with a view to strengthening our engagement with Island firms.'

Authority to host compliance event

- Presentation will be recorded and shared



We are hosting an event for senior compliance professionals as part of our ongoing programme of engagement with the finance sector.

The session, which is scheduled to take place at the Manx Museum Lecture Theatre on Tuesday 22 October 2024, will cover a range of key topics including:

- Fitness and propriety
- Role of the compliance officer
- Role of the Money Laundering Reporting Officer
- Role of senior management
- Compliance framework
- Reporting and escalation

- Highlighting relevant case studies

A short presentation will be followed by an open question and answer panel discussion. There will also be an opportunity for attendees to discuss matters more informally with senior executives from the Authority before and after the main session.

The event is targeted at Head of Compliance role holders, or equivalent, and all the places have now been reserved. However, the presentation and Q&A will be recorded and shared with all stakeholders via the Authority's website.

Those who are attending are reminded that doors open at 8:45am, with the presentation scheduled to start at 9:15am. The event will finish at 10:30am.

Flexible and pragmatic approach

We recognise the challenges facing Island firms in relation to the recruitment of suitably qualified compliance professionals and are working proactively to help address the situation.

A collaborative approach is taking place with industry bodies to build capacity, enhance training, and provide practical guidance within the compliance area. We also take a pragmatic approach to the appointment of controlled function holders where appropriate. We deal with applications on their merits and take into account a range of factors in relation to the individual, the hiring firm, and the risk environment.

We look at all the appropriate options and try to be as flexible as possible. For example, if there is evidence of an appropriate training plan to support to an individual's development at a firm, we are prepared to consider a person who may not, on the face of it, meet the guidelines. In practice, this allows an officer to take up a senior appointment, including as MLRO or Head of Compliance, at a firm with a strong Board and a healthy compliance culture.

[Link: Dear CEO letter](#)

Conference to focus on financial crime

A flagship event is being organised next week to strengthen efforts to protect the Isle of Man from the harmful impact of financial crime.

The Countering Financial Crime Conference is taking place at the Villa Marina on Wednesday 9 October 2024.

It will bring together a diverse group of experts, practitioners and policymakers,

with speakers sharing their professional insight in relation to counteracting money laundering, terrorist financing, proliferation financing and other financial crime.

The conference is being organised by the Authority in conjunction with a number of other Island agencies to support efforts to exchange knowledge, build

capacity and shape the development of robust strategies to maintain the integrity of the financial services sector.

It will also provide an opportunity for the Island to demonstrate its commitment to countering financial crime, as well as showcase the steps being taken to reinforce its position as a leader in this vital area. Ticket sales have now closed.

Thematic reviews helping to inform picture of risk

■ Data is crucial to update of Island's National Risk Assessment

Thematic reviews, surveys and questionnaires continue to be an important part of the Authority's supervisory approach.

They offer an efficient and effective way to identify common issues and inform our picture of risk across different sectors.

The data you provide is crucial in terms of informing not only our sector-specific risk assessments, but also the Island's National Risk Assessment and preparations for MONEYVAL.

Feedback from recently evaluated countries emphasises the need for diverse and granular data that can be

sliced and diced in many different ways.

All firms are encouraged to note the findings of our recent projects and take the necessary action to ensure their own risk-based compliance regimes are effective, up-to-date, and properly documented.



Accounting profession

We have published the findings of a thematic review relating to the Island's accounting profession.

Inspections were conducted to test the effectiveness of Customer Risk Assessments ("CRA") at a total of 51 external accountant, tax adviser and/or payroll agent businesses.

A CRA is an important part of a firm's compliance and risk management framework to help detect and prevent money laundering, terrorist financing and the proliferation of weapons of mass destruction.

The CRA thematic report sets out the findings of the review, including learning points for firms, examples of best practice and case studies.

As part of the thematic exercise, we reviewed the existing data for 196 firms within the accounting profession. Officers from our AML/CFT Supervision Division then examined CRA templates, and relevant policies, procedures and guidance at 51 selected firms.

The gathering and analysis of CRA data



[Link: Watch our video clip for further insight](#)

provided us within an insight into how CRAs are being used to evidence a firm's understanding of the risks they face in relation to their customers. Observations will inform updates to the AML/CFT Handbook and sector-specific guidance documents, as well as the Island's National Risk Assessment.

By identifying trends and highlighting

examples of good and poor practice, we aim to help firms meet their obligations in respect of the AML/CFT Code. This work supports our objectives of protecting consumers, reducing financial crime and maintaining confidence in the Island's finance sector through effective regulation.

[Link: CRA thematic report](#)

Proliferation financing

We have released the feedback to a questionnaire issued to supervised entities relating to proliferation financing (PF).

Responses provided by a total of 586 firms will help to inform the Island's next National Risk Assessment, as well as raise awareness of evolving PF risks.

The Proliferation Financing Questionnaire Report highlights examples of good practice and areas for improvement.

The project forms a key part of the work being carried out to understand the procedures and controls put in place by Island firms to support the effective prevention of proliferation of weapons of mass destruction.

Analysis of the data will assist the Authority, in conjunction with other Government agencies, to determine the steps needed to help firms meet their PF obligations in respect of the Anti-Money Laundering and Countering the Financing



of Terrorism (AML/CFT) Code 2019.

The Authority issued the PF questionnaire through its STRIX AML system in January 2024 and achieved a 98% response rate. Information submitted by industry provides an insight into the level of understanding of PF among firms and the training provided to members of staff.

It is considered vital for the Isle of Man to remain alert and ready to respond to emerging threats in all aspects of international financial crime, part of which includes conducting the National Action Plan.

[Link: Proliferation report](#)

[Link: Proliferation factsheet](#)

Estate agents

The findings of the initial phase of a thematic review relating to estate agents have been published.

Information was gathered via a questionnaire issued earlier this year to all 20 businesses registered under the Designated Businesses (Registration and Oversight) Act 2015 to carry out estate agent activities in the Island. The questionnaire followed the analysis of existing data from statistical returns, inspections and business meetings held with firms from the sector.

The 67 phase one questions were broken down into four main sections to capture data under the key themes of sales and purchases, lettings and rentals, risk factors and controls. The responses will

help to inform the Island's National Risk Assessment, as well as further updates to the AML/CFT sector specific guidance.

The Estate Agents Phase One Report sets out the findings of the questionnaire, including the Authority's observations, and examples of best practice.

The estate agency sector is an important part of the Island's economy, with transactions totalling £532.85 million taking place in 2023. The thematic review will enable the Authority to gain a better understanding of the policies, procedures and controls put in place by estate agents to assess their business and customer risks.

[Link: Estate Agents Phase One Report](#)

Survey to capture KYE information

We are working alongside other Government agencies to capture the data required to update the Island's NRA. Thank you to everyone who has contributed so far.

One area where the Authority needs to enhance its data collection is in relation to 'staff integrity' in order to gain a better understanding of how firms conduct onboarding checks and undertake screening of their employees.

We recently issued a short survey via our STRIX system to gather information about 'Know Your Employee' practices in the Banking, TCSP, and Insurance (Life) sectors.

Responses will be aggregated at a sector level to inform sectoral risk assessments, and no reference will be made to individual firms.

Don't miss AML Wednesdays



Is AML Wednesday part of your weekly routine?

Our engagement programme includes posting an item on LinkedIn each week to highlight AML/CFT-related news, reminders and guidance.

AML Wednesday recently celebrated its first anniversary on LinkedIn and we're looking forward to sharing more great content with you in the weeks and months ahead.

Please email aml@iomfsa.im with ideas for future topics and be sure to follow the Authority on LinkedIn... as well as AML/CFT content we post general updates, job opportunities, and links to consultations.

[Link: Authority LinkedIn](#)

Video spotlight on introduced business

Helping to raise awareness of best practice

The first in a series of events organised jointly by the Authority and the Alliance for Isle of Man Compliance Professionals (AICP) took place recently to explore a key aspect of the AML/CFT Code 2019.

The session covered a range of issues relating to 'introduced business', including the requirements stemming from the Island's MONEYVAL evaluation in 2016.

Presentations by Head of AML/CFT Supervision Ashley Whyte, and AML/CFT Senior Manager Lucy Hendy provided additional background and highlighted important definitions and terminology, as well as raising awareness of best practice.

A number of scenarios provided by AICP members were used to explore practical examples of how the requirements of the AML/CFT Code are applied in relation to

introduced business. Further discussion took place regarding retrospective reviews of existing customers.

Content included in the session has been recorded by the Authority and published on the Webinars section of our website in order to share the information with all stakeholders.

The AICP committee and members are continuing to work collaboratively with the Authority in order to strengthen mutual understanding and provide relevant guidance and training.

A further workshop was held recently to take a broader look at the Island's compliance framework and the role of the compliance officer. The session is being repeated at the Manx Museum in October for senior compliance officers – see separate news item.

[Link: Introduced Business webinar](#)

Factsheet raises awareness of Human Trafficking

We have published a factsheet to raise awareness of the risks relating to Human Trafficking and how to report suspicions to the appropriate authorities.

The United Nations Office on Drugs and Crime defines Human Trafficking as: "The act of recruitment, transportation, transfer, harbouring or receipt of persons, by means of the threat or use of force or other forms of coercion, of abduction, or fraud, of deception, of the abuse of power or of a position of vulnerability or of the giving or receiving of payments or benefits to achieve the consent of a person having control over another person, for the purpose of exploitation."

The Human Trafficking factsheet is the latest in a series of publications aimed at providing guidance on how to identify and report different aspects of financial crime. You'll find further information about Money Laundering, Terrorist Financing, and Proliferation Financing on the AML/CFT section of our website.

[Link: View our factsheets](#)

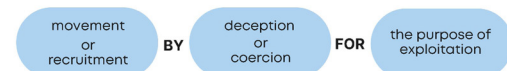
HUMAN TRAFFICKING

What Is Human Trafficking?

The United Nations Office on Drugs and Crime defines human trafficking ("HT") as:

"The act of recruitment, transportation, transfer, harbouring or receipt of persons, by means of the threat or use of force or other forms of coercion, of abduction, or fraud, of deception, of the abuse of power or of a position of vulnerability or of the giving or receiving of payments or benefits to achieve the consent of a person having control over another person, for the purpose of exploitation."

As such it is generally accepted that HT is made up of 3 elements:



The Main Forms of Human Trafficking

- Labour exploitation
- Sexual exploitation
- Organ harvesting
- Forced marriage
- Criminal exploitation

This list is non-exhaustive and a person may be trafficked for other reasons should the trafficker consider it beneficial to their business.

The Scale of Human Trafficking

Given the hidden nature of HT it is almost impossible to understand the full scale of the issue. However it is estimated that there are 50 million people across the globe who are experiencing conditions which constitute modern slavery or HT.

It is estimated that the exploitation of these victims generates **\$150 billion** in profits annually.



Inspections provide valuable insight into BO compliance

■ Beneficial Ownership guidance to be updated in response to feedback

The Beneficial Ownership Act 2017 came into effect on 21 June 2017, following commitments made to the UK in 2016. The Act established the Isle of Man's Database of Beneficial Ownership in order to collect information on the identity, and interest held, of persons owning or controlling an interest in an Isle of Man-registered legal entity which is greater than 25% of the total ownership or control of that entity.

Whilst the Database is maintained by the Companies Registry, it is the responsibility of the Authority to oversee and ensure compliance with the requirements of the Act.

In the spring of 2023, the Authority began testing the levels of compliance with the Act, including a programme of on-site inspections focusing on Corporate Service Providers ("CSP" - Class 4 licence holders) acting in the role of 'nominated officer.' Since then, inspections have been conducted on 26 CSP nominated officers of varying sizes.

The inspection programme has offered valuable insight into how the requirements of the Act have been



Beneficial Ownership compliance

interpreted by industry in the years since its implementation. Overall, the levels of understanding of, and compliance with, the requirements of the Act have been positive.

However, the exercise has also highlighted some common themes, for example, a misinterpretation of Control in the context of Beneficial Ownership, and subsequently when, and in what way, Control exerted by a beneficial owner should be recorded on the Database.

Our [previous edition of AML Focus](#) outlined a new category of beneficial ownership that is now available for

selection as an option on the Database – Control as a Liquidator. It was deemed necessary to distinguish between the Control exerted by a liquidator and other forms of Control following conversations with nominated officers during the course of the inspection programme.

We have encountered a variety of corporate structures and approaches to recording beneficial ownership and received many interesting queries and challenges along the way – all of which have led to a very productive dialogue with industry. Having considered the feedback and findings observed through the inspections, the Authority is currently developing a new guidance document which intends to clarify a number of matters whilst building on the information available in the [existing guidance published in 2017](#).

The revised document will showcase further examples to assist nominated officers in fulfilling their duties. It is envisaged that the new guidance will be laid before Tynwald before the end of the calendar year.

In the meantime, please be mindful that the Authority is on hand should clarification be needed regarding anything related to beneficial ownership.

Any queries can be directed via email to: beneficial.ownership@iomfsa.im

Beneficial Ownership – Civil Penalties

The Authority may issue civil penalties for non-compliance with the requirements of the Act in lieu of criminal proceedings. To date, the following civil penalties have been imposed:

One CSP Nominated Officer has been required to pay civil penalties for six instances of a contravention of section 20(3) of the Act (failure to submit the information specified in subsection (5) (the required details) to the Department), which is an offence under section 20(8)(a) of the Act in the sum of £5,000 per contravention and collectively totalling £30,000.

A second CSP Nominated Officer has been required to pay civil penalties for two instances of a contravention of section 20(1) of the Act (failure to take all reasonable steps necessary to ascertain whether a legal entity to which the Act applies has a registrable beneficial owner), which is an offence under section 20(8)(a) of the Act in the sum of £5,000 per contravention and collectively totalling £10,000.

Exciting collaboration with UCM

We are partnering with University College Isle of Man (UCM) to support the delivery of in-demand training and education in business administration, compliance and anti-money laundering.

The collaboration aims to help students gain the relevant qualifications they need to pursue a career in the finance sector. Compliance and supervisory skills are currently much sought after in the Island, with many public and private sector organisations looking to recruit suitably qualified candidates across a wide range of roles.

UCM is helping to meet that demand through a course that combines the City

and Guilds Level 3 Diploma in Business Administration, with Microsoft Office Specialist (MOS) and International Compliance Association (ICA) qualifications.

The full-time, two-year course is tailored towards people seeking to work in business support roles, or those wishing to improve their administrative and supervisory skills.

Students learn about topics such as communication in business, principles of administration, managing personal and professional development, management information systems, and contributing to the success of an event. The MOS

element covers packages including Word, Excel, PowerPoint and Outlook.

The course also features modules on compliance and anti-money laundering and countering the financing of terrorism (AML/CFT), with the option to complete the ICA Certificate in Compliance.

Staff from the Authority, together with industry professionals, are assisting the delivery of these modules, providing information and first-hand knowledge about the Island's regulatory framework and AML/CFT landscape. A number of Authority officers have also volunteered to act as mentors to help students work towards their ICA qualification.

Fintech winner enters FIH Observatory

The winner of the Fintech category during this year's Innovation Challenge is the latest business to benefit from the support provided by the Isle of Man Financial Innovation Hub (FIH).

Umazi, which offers software solutions aimed at speeding up corporate identity verification, has entered the FIH Observatory coordinated by the Authority and the Department for Enterprise's Digital and Finance Agencies.

The collaboration is intended to encourage the growth of fintech innovation in the Island by providing appropriate pathways for firms to develop their propositions. The FIH acts as a single point of entry to access to the Island's innovation ecosystem by connecting firms with the Isle of Man Government and financial services regulator.

The initiative is part of efforts to embrace innovative new products and services while ensuring an appropriate level of compliance and consumer protection.

Work progressing to update legislation

■ Feedback gathered via public consultations

In our previous AML Focus newsletter, published in March 2024, the Authority, in conjunction with the Department of Home Affairs and the Treasury, highlighted the publication of two consultations in respect of proposed amendments to our AML/CFT framework.

The purpose of these consultations was to seek views and input regarding some key AML/CFT legislation updates, namely the aligning of Schedule 1 to the Designated Businesses (Registration and Oversight) Act 2015 with Schedule 4 to the Proceeds of Crime Act 2008, and the introduction of the 'Travel Rule (Transfer of Virtual Assets) Code 2024'.

The key objective is to harmonise our framework and ensure the Isle of Man, as a jurisdiction, is aligned with the Financial Action Task Force's globally recognised AML/CFT standards.

Following the closure of the consultations, and analysis and consideration of the



responses – which were all broadly supportive of the proposals – these projects have progressed well, and we are now at the final stages.

The updates are subject to approval from Tynwald, however it is hoped that the revised legislation will provide a refresh to the Island's AML/CFT framework, helping to ensure it is up to date and consistent with international standards.

The Authority wishes to thank everyone who has contributed to this process and provided valuable input.

Work taking place to update National Risk Assessment

■ Businesses urged to work in collaboration with Government agencies

Businesses are being encouraged to work in collaboration with Government agencies to support the publication of an updated National Risk Assessment (NRA) for the Isle of Man.

Work is under way to collate and analyse information already held, as well as to gather the additional data and feedback required to identify threats to the Island in relation to money laundering (ML), terrorist financing (TF), and proliferation financing (PF).

The NRA, which is scheduled for publication early in 2025, is fundamental to protecting the Island from financial crime and is a crucial element of the Island's commitment to meeting international standards.

The assessment looks in detail at current and emerging risks in relation to the Island's financial and specified non-financial sectors, and the measures in place to mitigate those risks. The findings will inform national policies and help to focus resources where they are most needed.



A 'ground up' approach will be used to inform the updated NRA, with sector and topic-based assessments helping to build an overall picture of risk.

Outreach with businesses will be ramped up in the months ahead to enhance awareness and invite input from industry. Government's AML Policy

Office, in conjunction with the Authority, will coordinate sessions for relevant professional and industry bodies to explain how firms can support the process, and what they can expect in terms of data requests.

[Link: NRA key milestones](#)

AML/CFT country lists updated after FATF plenary

The AML/CFT country lists have been updated following the June 2024 FATF plenary. The country lists have been amended by the Cabinet Office and can be viewed on the Department of Home Affairs website. In particular the Authority would like to highlight the jurisdictions:

- That are now subject to increased monitoring by the FATF and, as such, have been added to the list B(i) include **Monaco and Venezuela**;
- That have improved their AML/CFT/CPF regimes and met commitments in their action plans to address strategic deficiencies, therefore have been removed from the List B part (i) as of June 2024 include **Jamaica and Turkey**;
- Where there has been a decrease in the risk of ML and/or

TF and therefore removed from the List B part (ii) as of June 2024: **San Tome and Principe**;

- Where there has been an increase in the risk of TF and therefore added to the List B part (ii) as of June 2024: **Djibouti**;
- Added to the List C as of June 2024 – **Australia and Jamaica**;
- Added to the List D as of June 2024 – **Jamaica**;
- Removed from List D as of June 2024 – **Croatia**.

Most firms should already have carried out an evaluation for any impact on their own risk assessments and customer procedures arising from the changes. Further details regarding List B and steps to be taken can be found in this [previous news item](#).

Weighing the pros and cons of AI in the workplace

■ It is important to mitigate risks associated with Artificial Intelligence

The term Artificial Intelligence (AI) and its integration in generative applications, ranging from chat bots and text generators to video and audio creation, is a hot topic in the mainstream media.

However, many firms have been using machine learning and pattern analysis for a number of years. As AI becomes more embedded in our personal and work lives, it is important to consider and mitigate any risks.

Further questions are arising as to how generative AI may be appropriately adopted within the financial services sector. As the regulator, it is our responsibility to ensure that firms operate in a fair, transparent and secure manner.

The risks associated with generative AI for customer onboarding are generally in relation to the ability to generate convincing 'liveness' videos that could fool current technology used in the onboarding process.

The current cost and data requirements for this make it relatively out of reach for the 'common' criminal, but as "Moore's Law" continues, and processing power is increasingly available, the ability to take advantage of this form of generative AI becomes closer to mainstream criminality.

In some ways, AI might provide the answer to its own problem, with an AI model being able to identify when an AI model is being used. There are already tools available to identify AI generated text and images, with videos being next in line.



It is also important to understand the problem that using AI is going to solve. It is all too common to have new and exciting tools at our disposal when in the context of a smaller firm in a smaller jurisdiction the loss of the 'human touch' is significant to the interaction between consumers and firms.

If we asked AI to generate the "Pros and cons of using AI in customer onboarding," it comes up with the following –

Pros of AI in Customer Onboarding

- **Efficiency and Speed:** AI can automate many manual tasks involved in customer onboarding, such as identity verification, document validation, and risk assessment. This can significantly reduce processing time and improve customer satisfaction.
- **Enhanced Customer Experience:** AI-powered chatbots and virtual assistants can provide personalized

support and answer customer queries 24/7, enhancing their overall experience.

- **Improved Accuracy and Consistency:** AI algorithms can analyse large datasets to identify patterns and anomalies, reducing the risk of human error and ensuring consistent decision-making.
- **Risk Mitigation:** AI can help identify potential risks, such as money laundering or fraud, by analysing customer behaviour and flagging suspicious activities.
- **Cost Reduction:** By automating tasks and reducing manual labour, AI can help financial institutions lower operational costs.

Cons of AI in Customer Onboarding

- **Data Privacy and Security Risks:** AI systems often rely on vast amounts of personal data, which can be vulnerable to breaches and misuse. Regulators must ensure that appropriate measures are in place to protect customer data.
- **Algorithmic Bias:** AI algorithms can perpetuate existing biases if trained

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It's our responsibility to ensure firms operate in a fair, transparent and secure manner

It's essential to maintain a balance between automation and human judgment

on biased data. This can lead to discriminatory outcomes and unfair treatment of customers.

- **Lack of Transparency:** AI models can be complex and difficult to understand, making it challenging to explain their decision-making processes. This can hinder regulators' ability to assess their fairness and reliability.
- **Regulatory Challenges:** Implementing AI in a regulated sector requires careful consideration of compliance obligations. Regulators must develop clear guidelines and standards to ensure that AI systems are used ethically and responsibly.
- **Job Displacement:** The automation of tasks through AI may lead to job losses in the financial sector, raising concerns about social and economic impacts"

It is an interesting self-assessment and relies on large efficiency drivers based on big customer bases and large amounts of data. If you focus the model and ask this – "One pro and one con of using AI in customer onboarding for a firm with 100 customers based on the Isle of Man"

- **Pro: Efficiency and Speed:** Even with a relatively small customer base of 100, AI can significantly streamline the onboarding process. Automated tasks like identity verification, document scanning, and risk assessment can reduce manual labour and processing time, allowing staff to focus on more complex tasks or customer interactions.
- **Con: Potential for Overreliance:** While AI can be a valuable tool, relying too heavily on it without human oversight can lead to errors or missed opportunities. For a small firm with limited resources, it's essential to maintain a balance between automation and human judgment to ensure the quality of the onboarding experience."

The closing comment is important here



for any firm, not just small ones, "it's essential to maintain a balance between automation and human judgment". This has been the case for any new technology in the world of compliance.

When larger scale screening applications were created over two decades ago, the same arguments came to light. Not long after automated screening and call centres were introduced, Little Britain broadcast their famous TV sketch 'The computer says no!' This is a stark warning for the world of AI 20 years later if there is an over-reliance on AI for customer onboarding.

A more credible source perhaps is the [FATF articles and publications](#) where they continue to articulate how the misapplication of FATF standards can impact those who need access to the financial systems. Misuse of AI could contribute to these problems when biased models or incorrectly sourced information is used for automated decision-making processes.

So, how do you navigate this minefield of problems? A good start is the following good practice:

Technology Risk Assessment (TRA) – the foundation of the AML/CFT Code when it comes to introducing new processes to a firm. A TRA must carry out an assessment that estimates the risk of ML/FT posed by any technology to the

relevant person's business, the findings of which must feed into a firm's Business Risk Assessment (BRA). When you consider the risk factors in Section 7(3) a-g of the Code, it will also assist in the consideration of the below.

General Data Protection Regulation (GDPR) – considering a Data Protection Impact Assessment is an important part of any project, especially when considering automated decision making around natural persons.

These two assessments will enable you to consider the risks around data security, transparency and accountability. They will also introduce considerations around Bias and Discrimination, as regardless of the type of AI model being used it can be skewed in various ways. Algorithms must be designed and trained to prevent bias and discrimination, and firms must ensure their systems are transparent and explainable.

Arguably, you cannot afford to ignore AI products, but whether or not you choose to adopt them depends on your business model, risk appetite and budget. As with all new technologies it is the Authority's responsibility to ensure that international standards are adhered to and the Isle of Man becomes maintains a robust environment to counter money laundering, terrorist and proliferation financing.

Why are there so many thematic reviews and questionnaires?

A: Data is the lifeblood of a financial regulator. Everything we do depends on the information we collect – and how we use it.

We are asking a lot from businesses as we continue to gather evidence to maintain the Island's reputation as a well-regulated international finance centre. Firms will have noticed an uptick in thematic reviews and inspections, as well as a number of requests for data – including questionnaires and returns.

We will only ask for information that is absolutely necessary and in the best interests of the Island. The data firms provide is crucial in terms of informing not only our sector-specific risk assessments, but also the Island's National Risk Assessment and preparations for MONEYVAL.

Feedback from recently evaluated countries emphasises the need for diverse and granular data that can be sliced and diced in many different ways.



Why has headcount increased at the Authority?

The Authority's staff regulate or oversee a total of 665 firms across the Island's financial services sector.

The Authority's headcount has increased from 89 (in 2023), to its current figure of 100. This mainly reflects the strengthening of our AML/CFT and Enforcement Divisions to deal with current and future demands.

Treasury agreed funding across multiple Government agencies to enhance the Island's collective efforts to combat financial crime. The Authority has used its allocation to fund the recruitment of additional AML/CFT officers and investigators within our Enforcement Division.

How does the Authority ensure its staff have an in-depth understanding of the sectors they are supervising?

The Authority has in place a highly experienced senior leadership team with considerable knowledge across all sectors of the economy.

Learning and development opportunities are provided for our officers in many forms, such as structured on-the-job training, professional study, soft skills training, participation on internal and external training sessions, secondments, mentoring, project work and attending relevant conferences and seminars.

We expect our people to have equivalent knowledge, experience and, as appropriate, professional qualifications in line with the staff of the regulated entities we supervise and oversee. With this in mind we support staff to undertake relevant professional studies.

Our restructuring has also provided opportunities for our people to grow into new roles and responsibilities and for the Authority to onboard a range of new talent.

Why do inspections always end up in enforcement action?

The short answer is that they don't. The Authority is definitely not an enforcement-led regulator.

Statistics show that the Authority conducted a total of 725 inspections during the 2023/24 financial year. This included 18 on-site, 115 desk-based and 592 beneficial ownership inspections. Our internal referral governance panel, which determines the most appropriate use of our resources and remediation toolkit, met 17 times. Five matters were referred to Enforcement for possible investigation and three matters to Enhanced Supervision.

Enforcement action remains a necessary option where our officers identify more material contraventions. Civil penalties can be levied on regulated entities as a result of successful enforcement actions. Settlement agreements include the publication of public notices that raise awareness of the findings of our investigations, along with key learning points.

How does the Authority deal with firms where compliance issues are identified?

Cases are referred to our Enforcement Division where this is considered reasonable and appropriate. Our approach is rooted in a desire to be proportionate and pragmatic. Where our supervisory activities identify issues, we set out to work with the firm so that it returns to a compliant position. We have a full toolkit at our disposal and in most circumstances, remediation is our preferred course of action. Our remediation tools cover a broad range, including additional reporting, focused inspections and the use of directions.

We can also appoint external parties to gain independent assurance on the strength of controls and effectiveness of a firm's internal processes.

We would love to hear from you! Please send any questions to aml@iomfsa.im