

## **Financial Intelligence Service**

**Bailiwick of Guernsey**

**Annual Report 2008**

## Contents

### Message from the Senior Officer

1. Introduction
2. Terrorism Financing
3. Money Laundering Reports
4. International assistance
5. FIS Activities
6. Training and feedback
7. Objectives

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## MESSAGE FROM THE SENIOR OFFICER

I am delighted to introduce to you the 2008 annual report, the Guernsey Financial Intelligence Service's 7<sup>th</sup> and final Annual Report.

2008 has again seen a busy and productive year for the FIS and in my annual report I will provide an overview of the work undertaken and results achieved. The investigation and the prosecution of financial crime continues to be one of Law Enforcement's priorities and the FIS plays a central role in pro-actively supporting the successfully delivery of this important area of work. Together with all the other local stakeholders who are responsible for the oversight and enforcement of all AML/CFT activity within the jurisdiction the FIS also plays an integral role in delivery of the Bailiwick's Financial Crime Strategy. The overarching objective of this strategy is to reflect and assist in the delivery of a coordinated approach by each of the key stakeholders and resources engaged in countering money laundering, the financing of terrorism and other financial crime, including tax evasion within the jurisdiction. Its purpose is also to ensure the Bailiwick follows best international standards and acts effectively and proportionately to any threat to either its financial stability or security.

The enactment of the Disclosure (Bailiwick of Guernsey) Law, 2007 and subsequent regulation has prescribed the form and manner for the disclosure of Suspicious Transaction Reports (STRs). In addition, this law enables the FIS to request additional information relating to STRs from the reporting financial institution without the need to first obtain a judicial order. This innovative legislation has already proved to be of great assistance to the FIS thereby enhancing its overall effectiveness. It will also make possible the implementation of a new electronic STR reporting requirement which forms part of a major IT project which will go 'live' in late 2009 / 2010.

2008 had promised this jurisdiction an evaluation by the International Monetary Fund against the FATF 40+9 recommendations; this however was postponed for an undetermined period due the "credit crunch" and the global recession. The FIS continues to play an integral international role with the Egmont Group of FIU's and is a member of the training working group and is involved in several important international projects that will assist all member FIU's.

In 2008 the FIS embarked on a major training and up skilling programme, the highlight of which was the hosting of the National Policing Improvement Agencies Financial Investigation training. Twelve students undertook and successfully passed this one week course, including Customs Officers, Police Officers and member of the Income Tax. The continued up skilling of staff will be one of the priorities for 2009 and further NPIA courses are planned.

Looking forward; 2009 will provide further opportunity to improve the focus, coordination and impact of the FIS team as it becomes one of three key but none the less distinct elements that comprise the Financial and Economic Branch of the Law Enforcement Division of the Customs and Immigration Service. These changes together with others came about as a consequence of an internal review of law

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enforcement's approach to tackling financial and economic crime. Pleasingly, the Review described the FIS's achievements as "impressive and consistent". However, not wishing to be complacent the Review wished to take advantage of the future implementation of civil forfeiture legislation and to further strengthen the impact of law enforcement's collective efforts against AML & CFT model by bringing together the Mutual Legal Assistance roles, criminal financial investigations, confiscation, civil forfeiture and financial intelligence functions into one larger Unit. This new structure will enable clear and coordinated leadership through one line management system resulting in even greater resource focus, improved and more consistent best practice and effectiveness against AML and CFT.

Detective Inspector Antonia Read completed her four year contract as Director FIS at the end of 2008 and has returned to operational policing duties. I would like to take this opportunity to thank Detective Inspector Read for all that she achieved whilst being responsible for the FIS and the contribution she made to towards the internal effort to counter AML/CFT through her active participation in the EGMONT Group.

I will assume responsibility for the operations of the FIS in 2009 and I can provide assurance that despite the organisational changes I have just outlined the role of the FIS will not change. The FIS will remain the central repository for financial intelligence in accordance with the Egmont definition. The strategic aims of the FIS will continue to remain clearly focussed on the provision of quality criminal intelligence, with regard to all crime in conjunction with the Bailiwick's Financial Crime Strategy.

I would finally like to praise the staff of the FIS for which none of this would have been possible without their support, dedication and commitment, together with the continuing support from our various stakeholders to whom I am also very appreciative.

Martyn Waters

Senior Investigation Officer

## 1 INTRODUCTION

### The Bailiwick of Guernsey

The Bailiwick of Guernsey comprises the principal islands of Guernsey, Alderney, Sark, and Herm. The islands form part of the British Isles, but politically they are not part of the United Kingdom. The Crown has devolved most matters of government to the Bailiwick, apart from such areas as defence and foreign affairs. The system of government that exists in the islands has resulted in a comparatively stable economic environment, and this in turn has encouraged the development of the financial services industry.

The remarkable growth of the finance sector in the Bailiwick has raised the profile of

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the islands on the global finance scene. Matching this growth has been the resolve of the Bailiwick's government to combat the potential for money laundering that such expansion brings. The financial services regulator and law enforcement agencies have sought to develop strategies and policies that will be effective in preventing and detecting money laundering in the islands, through legislative and procedural measures.

### Government Policy

Each year Guernsey's government, The States of Deliberation, publishes a business plan in order to set out its strategic objectives and common corporate policies to facilitate the most appropriate allocation and management of government resources to implement these policies. Following the establishment of the new machinery of government and the restructuring of company taxation, the need to constrain expenditure and attain best value from public resources has never been higher on the political agenda.

The States of Guernsey Government Business Plan reflects the Home Department's corporate policy on law and order to reduce serious and organised crime, particularly money laundering and financial crime. This clearly demonstrates that despite the ever increasing need to reduce public expenditure government continues to prioritise the importance it places on its international responsibilities to prevent money laundering and to counter the financing of terrorism.

Further information and a full copy of the Business Plan can be found at [www.gov.gg](http://www.gov.gg).

### Financial Crime Strategy

Within the Bailiwick, a number of fora exist to ensure that relevant stakeholders within the AML/CFT regime meet regularly at both a strategic and tactical level. These forums encompass law enforcement, the Guernsey Financial Services Commission, Law Officers of the Crown (the island's Attorney General's Office) and other key stakeholders responsible for the oversight or implementation of elements of the AML/CFT regime. .

### The Financial Intelligence Service

The Financial Intelligence Service is one of three separate teams which comprise the Financial and Economic Crime Branch within the Law Enforcement Division of the Customs & Immigration Service. The FIS has a compliment of twelve staff including, a senior intelligence officer, three Customs Officers, three police officers, two dedicated financial investigators, an analyst, an office manager and an administrative assistant.

The FIS's strategic aims are:

- the provision of quality intelligence with regard to all financial crime, with a special emphasis on combating money laundering and countering the

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financing of terrorism;

- the provision of full international co-operation, within the law, to competent and relevant overseas authorities; and
- the provision of services to enhance the co-ordination and the development of criminal intelligence to combat financial crime.

### Partnership Working

The Guernsey Police and the Customs & Immigration Service have over the years developed a strong partnership in relation to law enforcement, with particular success in the arena of financial crime.

## 2 TERRORIST FINANCING

Disclosure reports to the FIS of terrorist financing suspicion have remained low during 2008 with a total of 6 reports being made. None of the reports developed into terrorist financing investigations.

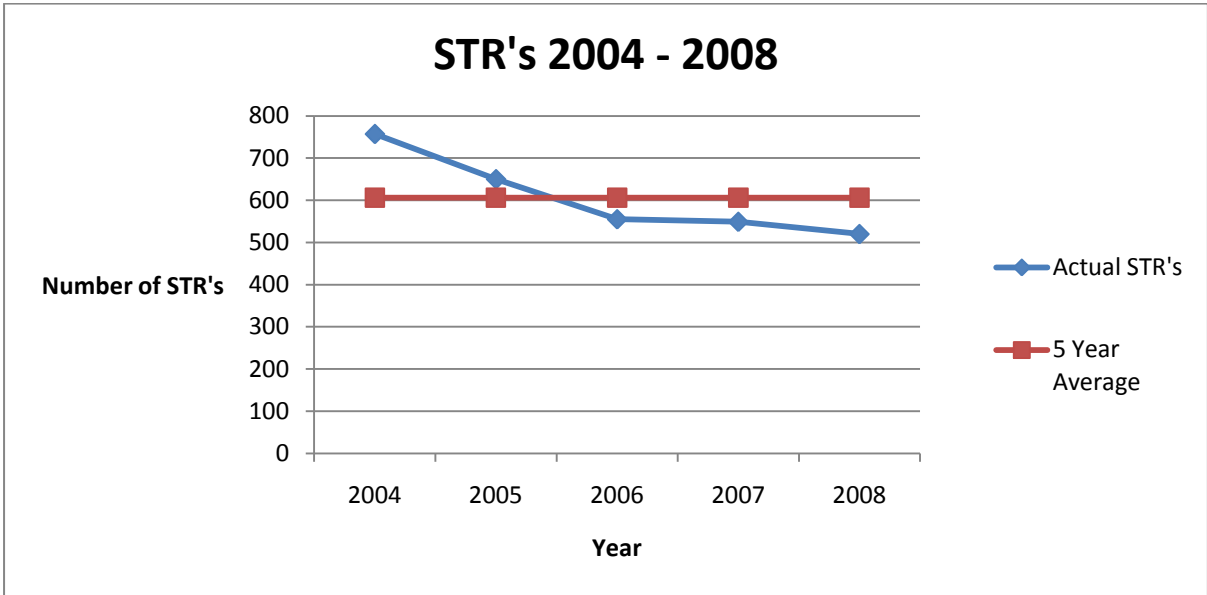
The Bailiwick, through the FIS, continues to monitor developments in terrorist financing both locally and in the wider, international context, via the Terrorist Finance Team, which meets regularly to consider local reports, international developments and current threats or trends. This is made up of representatives from law enforcement, the financial services regulator and the Law Officers of the Crown.

In addition, FIS representatives have continued to attend regional meetings with terrorist finance investigators in the UK, which has proven useful in building on relationships already formed with the UK National Terrorist Finance Investigation Unit. It is anticipated that this forum will continue to meet regularly and will assist in developing relevant intelligence and disseminating it to the most appropriate teams.

## 3 MONEY LAUNDERING REPORTS

### Disclosure Analysis

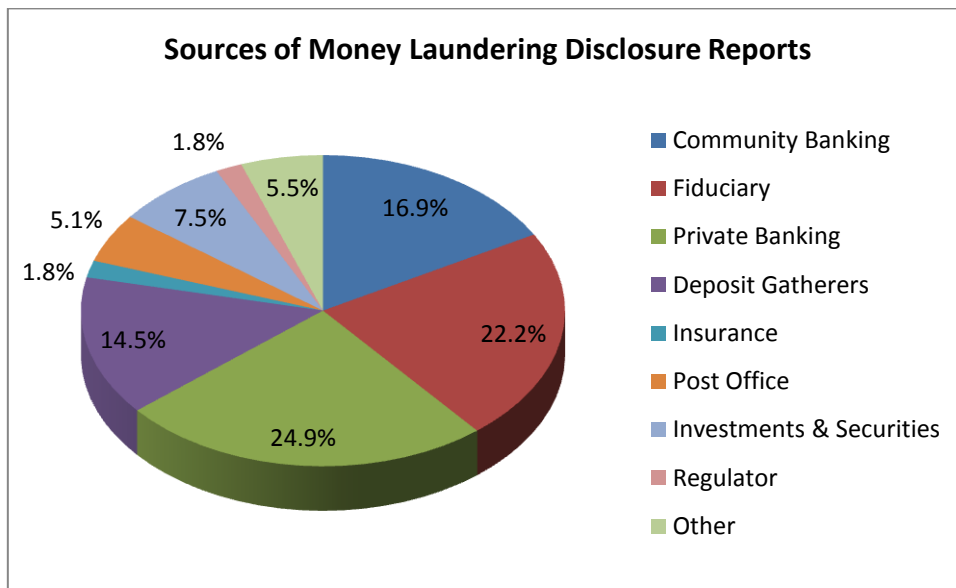
Statistics for the year 2008 do not represent a complete analysis of all disclosures made during the year, as a proportion are still being investigated and there is a natural overlap between the end of one year and the start of the next. They do, however, give a reliable illustration of trends and developments seen during the period.



During 2008, 519 disclosures were received, which is a slight decrease on 2007. Taking a view over the last four years, the figures remain fairly consistent, having fallen from a peak in 2004 - the slight drop in numbers is not thought to be attributable to any particular factor.

### Sources of Money Laundering Disclosure Reports

The following chart depicts the institution types from which money laundering disclosure reports are received. This has also remained relatively consistent over the years, with the majority of reports being made by the banking and fiduciary sectors, which would be expected given the nature of the businesses operating within the Bailiwick.



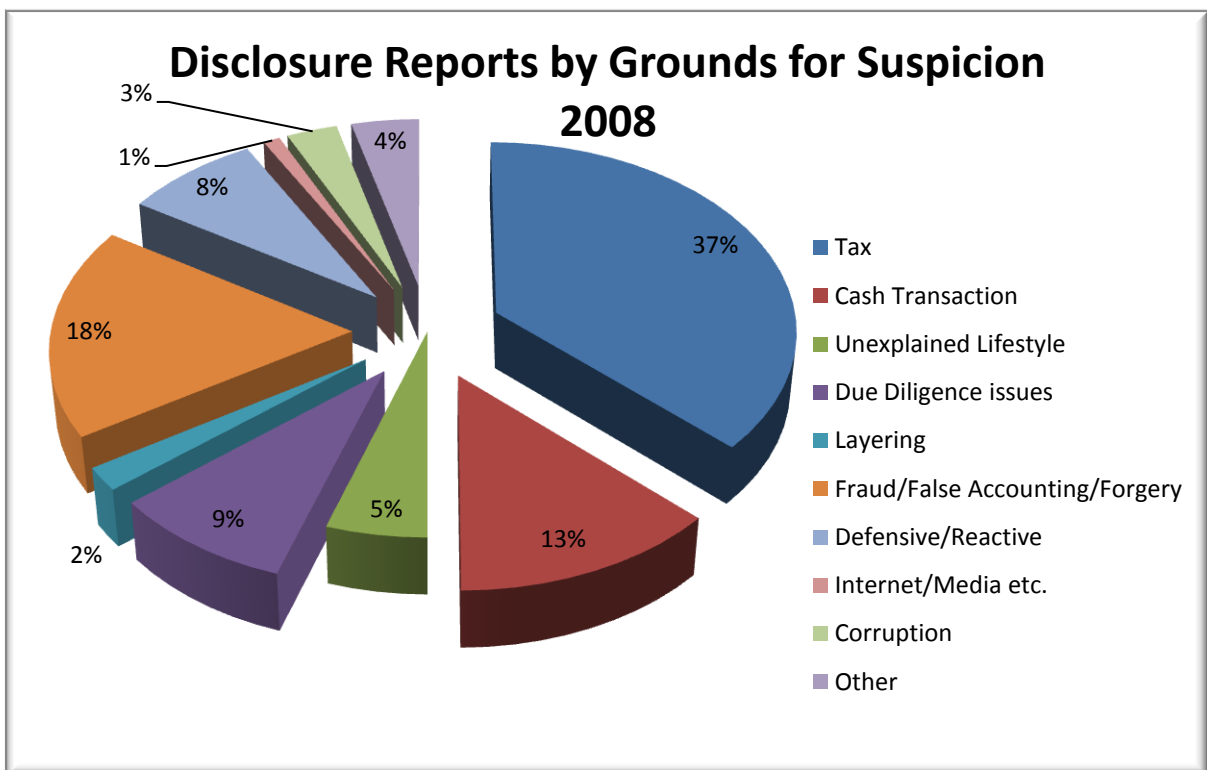
During the latter part of 2008, the FIS began to receive reports from newly defined “Prescribed Businesses” (included within the above category “Other”).

Legislation introduced towards the end of the year gave estate agents, legal professionals and accountants (when conducting certain types of business such as real estate transactions, management of assets and company formation), collectively known as Prescribed Businesses, similar anti money laundering responsibilities to businesses providing financial services. The new laws required risk-based procedures for addressing money laundering and terrorist funding vulnerabilities in line with the already regulated sectors, tackling such areas as enhanced due diligence, record keeping and reporting of suspicion.

### Disclosures by Grounds

The grounds on which financial services businesses base their suspicions are carefully analysed to identify any emerging trends. Any notable changes in trends are considered as possible trigger points in directing anti money laundering prevention and education activities.

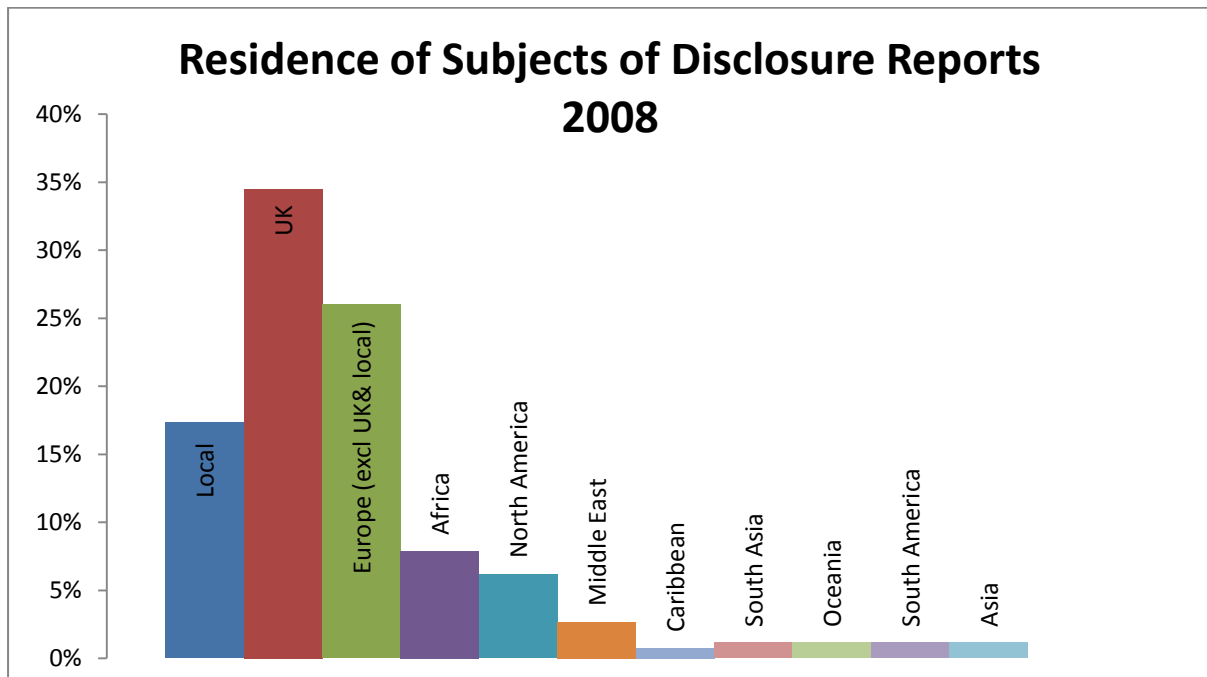
Analysis of the grounds for reports in 2008 when compared with previous years shows that the figures have remained relatively consistent. Tax evasion continues to be the most frequent cause for suspicion, followed by fraud and transactions involving cash.





## Jurisdiction in which subject resides

Trends relating to the countries or jurisdictions where subjects of reports reside are also of interest. The chart below gives an overview of such information for 2008. Subjects are classified by the jurisdiction of residence, or if the subject is a company or trust, its place of administration. In line with previous years, the majority of disclosures received have centred on residents of the UK, Europe and Guernsey local residents, which is to be expected given the island's proximity to mainland Europe.



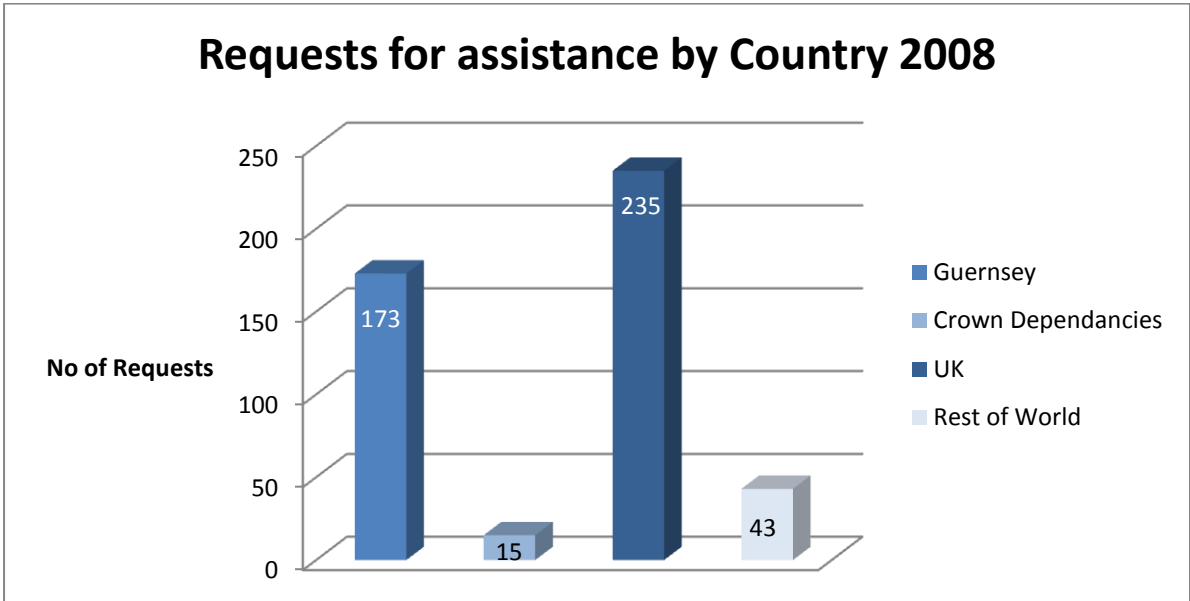
## 4 INTERNATIONAL ASSISTANCE

### Requests for Assistance

The FIS receives a wide range of requests for assistance each year from local law enforcement and overseas agencies and monitors the progression of the cases into the evidential arena.

As part of its commitment to international co-operation, the FIS is keen to assist other jurisdictions by sharing intelligence where this is required in support of a criminal investigation. The nature of requests varies significantly from simple checks to establish any previous criminal intelligence, to more complex matters involving organised crime groups.

During 2008, 466 requests for assistance were received, slightly fewer than the previous year. Of these, 59% were received from outside the Bailiwick, which is consistent with the 2007 data. The following chart shows the sources of requests for assistance:



### International Organisations

During 2008, the Financial Intelligence Service continued to play an active role within the Egmont Group of Financial Intelligence Units, with representation on the Training Working Group. The working group’s project to publish sanitised cases for the benefit of FIUs and associated bodies continues, with FIS personnel managing the editorial processes.

The FIS is also an active member of CARIN, the Camden Asset Recovery Inter-Agency Network, and participated in the 2008 meetings.

### Memorandums of Understanding

The FIS does not routinely require a Memorandum of Understanding in order to exchange information, but acknowledges that some organisations do need a MoU before they can exchange information. Where such a requirement exists and there is an operational need, the FIS is able to enter into such agreements. At present the FIS is party to 13 MoUs with international partners.

## 5 FIS ACTIVITIES

It is often difficult to quantify the effect of FIS activities and the intelligence produced from suspicion reports; by its nature, intelligence cannot be used directly in support of a prosecution and due to the suspicion based regime within the Bailiwick, disclosure reports may need significant development before they add notable value to a criminal investigation.

As an indication of the effectiveness and value of intelligence submitted by reporting institutions, approximately 16% of all formal Letters of Request and Production Orders served in Guernsey during 2008 were preceded by a disclosure report and the sharing of intelligence with the jurisdiction concerned. The actual significance of

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the intelligence forwarded cannot be fully evaluated, but this indicates that a proportion of reports received do contribute directly to active investigations.

The FIS continues to regularly support local law enforcement agencies by the provision of financial intelligence on suspects already under investigation, or by proactively compiling intelligence reports for consideration of further investigation. During 2008, FIS financial investigators were also allocated as single points of contact in respect of local operations, thereby providing a dedicated resource and level of expertise to the investigations.

## 6 TRAINING & FEEDBACK

### Industry Training

During 2008, the Bailiwick of Guernsey authorities saw full implementation of several new pieces of financial crime legislation, including new Financial Services Business Regulations, and a new Handbook to industry, which had been issued in December 2007 by the Guernsey Financial Services Commission. As a consequence of these significant changes, training events were held by the FIS during 2008 for financial institutions and the new Prescribed Businesses on a sector-specific basis.

Training was also provided in London to 45 Money Laundering Reporting Officers representing e-gaming operators licensed by the Alderney Gambling Control Commission, covering the role and responsibilities of the FIS, issues surrounding suspicion reporting, and case studies.

In addition to these formal presentations the FIS continued to provide speakers at the request of a number of local forums including the Guernsey Training Agency and the newly introduced Non-Profit Organisation registrar.

### FIS Training

In order to continue the development of specialist knowledge within the FIS' own staff, several tailored training sessions were held during the year, including specific training focused on open source research techniques, analytical products and new legislation.

## 7 OBJECTIVES

### IT Developments

Following a review of its current IT provisions and with the endorsement of the Financial Crime Service Authority and States of Guernsey Home Department, it was agreed to commence development of a financial intelligence database in conjunction with the planned replacement of the CEINS intelligence database. This project not only benefits from economies of scale in terms of shared development but will also improve intelligence exchange between the organisations and other key stakeholders. Development and implementation of the FIS module of the system, which will incorporate on-line submission of money laundering suspicion reports, commenced in early 2008 and a user group comprising representative Money

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Laundering Reporting Officers from the various financial sectors was formed to assist with the design and detailed specification. The development continued throughout the year and is proving to be a challenging and intensive project, with real demands placed on FIS resources. It is, however, regarded as crucial to the effectiveness of the financial crime effort and should bear fruit early in 2010.

### Legislation

Several new pieces of legislation were introduced or implemented in 2008;

- The Disclosure (Bailiwick of Guernsey) Law, 2007 consolidated offences of failing to disclose suspicion from other statutes and formalised information sharing gateways. It also authorised the enactment of a power to obtain additional information following the submission of a suspicion report and to prescribe the form and manner in which such reports are made – these were provided in the Disclosure (Bailiwick of Guernsey) Regulations, 2007.
- The Forfeiture of Money, etc in Civil Proceedings (Bailiwick of Guernsey) Law, 2007 introduced a new civil regime allowing the authorities to apply for the freezing, and subsequent forfeiture of cash, or funds in a bank account, believed to be derived from unlawful conduct or to be intended for use in unlawful conduct. This law allows the court to reach its decision based on the lower standard of proof - the balance of probabilities and was enacted in September 2008.
- The Cash Controls (Bailiwick of Guernsey) Law, 2007 introduced the requirement for persons travelling into and out of the Bailiwick of Guernsey to declare cash amounts of EUR10,000 or more, or the equivalent amount in another currency, to a Customs Officer, this was enacted in April 2008.
- The Criminal Justice (Proceeds of Crime) (Restriction on Cash Transactions) (Bailiwick of Guernsey) Regulations, 2008 came into force in December 2008 and prohibit the sale or purchase in the course of certain businesses of precious metals, precious stones or jewellery where the payment is made in cash and exceeds £10,000.
- The Criminal Justice (Proceeds of Crime) (Bailiwick of Guernsey) (Amendment) Law, 2007 and the Drug Trafficking (Bailiwick of Guernsey) (Amendment) Law, 2007 came in to force very late in 2007. This has provided Law enforcement with new investigatory powers, including Account Monitoring Orders and Customer Information Orders, has redefined the meaning of criminal conduct to include drug trafficking and strengthened the money laundering offence provisions.

These new legislative developments complement and enhance the already strong legal provisions existing in the Bailiwick. The effects will be monitored and regularly reviewed to ensure that the Bailiwick's measures are robust enough to counter existing and future trends and methods used by criminals.

## Bailiwick of Guernsey Financial Crime intelligence and Investigation Teams Initial Contact Points for Overseas Authorities

**Within the Bailiwick of Guernsey are a number of agencies involved in mutual assistance matters relating to criminal investigations. The following information will enable you to make contact with the most appropriate department to provide you with assistance.**

**Time Zone:** GMT.

### **Financial Intelligence:**

If your enquiry is one relating to intelligence only, concerning the financial aspects of an investigation, contact:-

#### **Financial Intelligence Service**

Hospital Lane  
St. Peter Port  
Guernsey  
Channel Islands  
GY1 2QN  
Tel: + 44 (0)1481 714081  
Fax: + 44 (0)1481 710466  
E-mail: [director@guernseyfis.org](mailto:director@guernseyfis.org)  
Website: [www.guernseyfis.org](http://www.guernseyfis.org)

The FIS office is open between 9.00 am and 5.00 pm Monday to Friday with the exception of Public Holidays.

It is also possible for other EGMONT FIUs to contact the FIS using the EGMONT secure channels of communication.