

Guidance for Direct Clients

Approach and considerations for maintaining accurate customer information

Background

Isle of Man Bank is undertaking a programme of work to refresh and revisit knowledge and understanding of its current customer base. In addition, in line with regulatory expectations, Isle of Man Bank is required to perform regular reviews of customers and also to take account of the external factors and environment which may have an influence upon its approach.

Isle of Man Bank is aware of the fact that its customers are varied, for example, in terms of their businesses, wealth management needs and risk profiles. Accordingly, Isle of Man Bank does not adopt a 'one size fits all' strategy to the risk management of its customer base. The narrative within this document will help to illustrate the practical application of the Isle of Man Bank approach and provide greater insight to the methodology applied.

Purpose of document

This document is intended to provide support and guidance to the Isle of Man Bank approach and considerations required when a review is being undertaken. It is not a definitive list. However it does aim to contain guidance upon various aspects that will need to be considered. The principles outlined in this document will also apply to new customers introduced to Isle of Man Bank in the future.

Some general points to note:

- Isle of Man Bank is conducting this review to ensure we understand the risks of customer relationships.
- The documents provided will form part of the Bank's records. Therefore, it may be viewed by external parties who, when they have read the document, should be satisfied that Isle of Man Bank does know their customer and the business.
- Whilst there may be much knowledge and information available in the public domain and internally, (and Isle of Man Bank will be pro-active in exploring these sources prior to any engagement with you) Isle of Man Bank will view the customer as being the primary source of relevant information.
- Isle of Man Bank seeks to work in partnership with the customer to achieve the appropriate level of information and understanding. The review process is not about how much information and data Isle of Man Bank can collect but about obtaining the appropriate level of information and knowledge that actually adds value and supports Isle of Man Bank's understanding and knowledge.
- Ultimately it is Isle of Man Bank's responsibility to demonstrate its understanding of the customer and to manage any risk associated with the relationship accordingly.

The following sections provide greater detail into the Isle of Man Bank approach for the various elements making up the review.

Section 1 covering:

- a) Describing the current activities
- b) Future plans & diversification
- c) Structure & ownership

Section 1

a) Describing current activities

- i. When describing the activities of a **company** Isle of Man Bank needs to be clear what that company actually does. Without understanding this key element, then its ability to understand the business and importantly the transactions that are likely to be seen over the accounts is much reduced. One might expect a trading company to 'behave' very differently than a company established more as a personal wealth vehicle. **For example**, the former may be far more active than the latter.

A comprehensive description is also important in really understanding the company. **For example**, we may see many companies described as 'Consultancy Company' or 'Administration Company'. If we take the consultancy company, for illustration purposes, there is a significant difference in business activity between a large consultancy company providing specialist advice to say major industry sectors and that of a sole consultant providing a bespoke consultancy service to a small range of clients. As we know, companies have many uses from trading to special purpose wealth vehicles and Isle of Man Bank must demonstrate appropriate knowledge of the company's activities within the review.

b) Future plans and diversification

Throughout the life of Isle of Man Bank's relationship with the customer, it is likely that there will be events that change the risk profile and potentially the transactional behaviour of the accounts. In order to help Isle of Man Bank manage the account it needs to take the opportunity, at review, to establish what changes there may be in the future. **Examples** may be :-

- Is the company in the process of selling or purchasing assets?
- Are there any upcoming activities which need to be considered e.g. the creation of a subsidiary?
- Are there any plans to diversify into any other jurisdictions or new businesses activities other than those previously advised or a move away from any jurisdictions/ businesses?

By addressing the future expectations, Isle of Man Bank will be better able to support the risk and relationship management of the customer. If no changes are envisaged Isle of Man Bank will need this to be confirmed.

c) Structure & ownership

The ability to know the ownership of the entities with which Isle of Man Bank does business is vital in its ability to satisfy itself that the wealth utilised to establish these entities and the underlying assets have been generated by legitimate means. Isle of Man Bank needs to be able to clearly describe the ownership and key parties.

Companies have many purposes and sizes. The level of enquiry will depend upon the specific profile of the relationship. The important feature is that Isle of Man Bank understands who owns the company, i.e. the beneficial owner/ shareholders and is able to really get to grips with knowing who 'benefits' from the assets/ activities of the company. In some cases such as personal wealth vehicles this may be one individual, conversely Isle of Man Bank could be dealing with a major Plc. Knowing the structure should help Isle of Man Bank understand ownership. Isle of Man Bank may seek to engage with the individual (s) within the company who have the most knowledge and understanding of the structure and ownership along with its underlying purpose.

Section 2

Rationale for Account

There is a requirement for Isle of Man Bank to understand their customers business and must maintain this information up to date. This must be founded on knowledge and will generally reflect the trading nature of why the business was created in the first place.

Once the facts are established then Isle of Man Bank is better able to determine and demonstrate within its records that the choice is logical and with a legitimate business purpose.

Section 3

Purpose of the account

Throughout this guidance there is reference to establishing the purpose of entities and understanding the purpose of the account as fundamental to Isle of Man Bank's ability to monitor the transactional usage. Knowing the purpose of the account provides indicators as to the types of transactions it can expect to see across the account and therefore spot the unusual. Isle of Man Bank needs to ensure that it has an appropriate level of detail to support its ability to effectively review transactions. **For example**, if the purpose is stated as 'trading company', this does not give as much insight as saying 'company involved in the refit and refurbishment of property owned by the company prior to marketing for sale'. The provision of the extra detail allows Isle of Man Bank to understand that it may expect to see the disposal of an asset and potentially a significant transaction if the proceeds of the sale are directed into this account in due course.

Section 4

Source of Wealth, income and funds

As will be apparent from this document, Isle of Man Bank needs to satisfy itself that the assets and funds of the entities with which it has a relationship have been derived from legitimate sources.

In order to do this it needs to understand the source of wealth or 'journey to wealth'. The source of wealth looks at how the customer has gained their wealth irrespective of whether the funds/assets are with Isle of Man Bank.

This will mean gaining the appropriate level of detail to demonstrate how Isle of Man Bank has achieved this. The level of detail may not be the same as each case may have a different risk profile. However, the principles remain the same; Isle of Man Bank must reach a stage whereby it has sufficient knowledge to make a rational judgement around the credibility of the source of wealth and to determine if it is plausible that the funds and assets of the entity have been acquired in a bona fide and legitimate manner. In some situations, it may be reasonable or required to obtain corroborative evidence.

Source of income – this can take many forms. For individuals it could be, for example, salary, director's remuneration, investment income. Companies may generate income e.g. from sales and investments. The important thing is that Isle of Man Bank satisfies itself that any income generated is legitimate and also to understand if the income was one off or if it is on-going. Isle of Man Bank must understand the nature of the activity that generated the income.

Source of funds - as with source of income this may take many forms and again Isle of Man Bank needs to understand the activity that generated the funds. It is not sufficient to accept that the source of funds is from a regulated firm e.g. HSBC, Barclays and so on. Isle of Man Bank is not able to rely on other institutions due diligence and compliance regimes in these situations and it must obtain sufficient understanding to determine the funds to be bona fide and generated by legitimate means. For trading companies this may often be self evident.

Information gaps - it should also be noted that it may be acceptable to have a gap in information, if that gap is assessed as non material to the particular relationship. However, Isle of Man Bank must be in a position to clearly document the gap, how the gap has been considered and the risk based rationale as to why it is considered to be 'non material'. Given that it is most unlikely that a one size fits all approach will be able to be applied, it should also be borne in mind that a gap that may be considered non material for one customer may be material for another depending upon the profile of the customer.

For companies, Isle of Man Bank will need to look at the owner(s)/ ultimate beneficial owner(s).

Some additional areas Isle of Man Bank will consider

- Are Isle of Man Bank in a position to be able to describe the economic activity that allowed the individual to acquire their wealth, along with the type and nature of the source(s) of wealth, e.g. 'has obtained their wealth through inheritance/salary/ investments/ directors remuneration/ dividends from his / her company XYZ Ltd'.
- A breakdown of the individual's employment history and remuneration over time may be appropriate and should cover their professional career. Information around an individual's early career and remuneration may not be held, however, if this has not significantly contributed to their wealth then this may be considered as a non material gap where supported with an indication of when any significant earnings commenced.
- If wealth has been inherited or gifted then an appropriate level of detail will be needed in proportion to the contribution the inherited or gifted wealth has made to their total net worth. For example, if the majority of the wealth was from an inheritance or gift, a greater level of detail and understanding will be required than perhaps an inheritance or gift that has not made any real material impact upon the wealth of the individual. The primary element is that Isle of Man Bank will need to be satisfied that the activity that generated the inheritance or gift does not give any cause for concern. Investments and property purchases frequently form part of individual's total net worth. Insight into the original purchase prices and current value can assist the assessment of the individual's journey to wealth.

- If the individual owns the company then Isle of Man Bank needs to understand how they acquired the company. Was it a start up business? If so, Isle of Man Bank will need information to allow for a description of the growth of the company. Company reports & accounts will be a further source of information.
- Detail around all geographic locations from which the wealth has been generated will support the overall risk assessment.
- A statement of assets and liabilities may be required depending upon the risk factors and profile of the case.

The primary purpose of the Source of Wealth assessment is to determine that it is reasonable that the individual could have acquired their wealth & assets by legitimate means and that from the knowledge and information gained, Isle of Man Bank is satisfied. It is important that Isle of Man Bank is able to document an explanation as to how the individual's journey to wealth is credible and that there are no unexplained material gaps.

Some additional areas Isle of Man Bank will think about

Companies

- The company accounts will provide a level of detail around the assets & liabilities. Isle of Man Bank may need additional detail but the accounts are a good starting point. It is important for Isle of Man Bank to understand what it does, its funding and to obtain an appropriate level of understanding that allows Isle of Man Bank to be satisfied that the funding, assets and purpose are legitimate from the information obtained.
- Understanding the growth of the company and its funding history is important. Understanding the funding arrangements that allowed the company to commence trading for example is an important aspect. However, the extent of enquiry should be in proportion to the company and the risk profile. **For example**, for larger companies that have been around for many decades or indeed centuries, Isle of Man Bank may not need to acquire definitive details around the start up and much background and history is likely to be available in the public domain. Conversely, Isle of Man Bank may come across companies whereby it would be appropriate to conduct a greater level of enquiry. **For example**; a private trading company set up by the beneficial owner (s) and not listed on any exchange.
- Isle of Man Bank will need to understand the company's journey from inception, covering funding, where that funding originated or originates (including geographically), the activities conducted that generated and generates the funds and wealth and how it could be determined that it is considered legitimate. However, it should be borne in mind that the level of information and detail will be dependent upon the company and its profile.

Section 5

Expected/Actual Transactional Activity

The purpose of this aspect of the review is to establish if the transactional activity over the account since the last review is in line with what was expected and the stated **purpose of the account**. If there are variances to what was expected then Isle of Man Bank may seek an explanation.

Isle of Man Bank will seek to consider how a particular transaction integrates with the customer's overall transactional behaviour. It is not necessarily about the size of the transaction but rather whether it is consistent with previous behaviour and the intended purpose of the account.

Isle of Man Bank acknowledges that for trading companies variances may occur as the company performs better or worse than projected. Accordingly, it may see a differential in turnover. However consideration may be given as to whether the company performance is reflective of the activity over the account.

Projected and Typical Activity

The purpose of this part of the review is to gain information that will assist with the management and control of the activity over the account in the future. Therefore, if a company intends to sell part of its business or an asset then that may indicate a significant transaction at a future date. This will be a one off transaction.

General note

If there are circumstances or events occurring that may result in a variance from past activity it would assist Isle of Man Bank's understanding and therefore its transactional review capability, if you were able to pre -advise. We will be grateful for your notification of any such circumstances or events as part of this review.

Section 6

Summary of Isle of Man Bank's approach to maintaining accurate customer

- Isle of Man Bank takes a risk based approach to the management of its customer base.
- Periodic reviews refresh its knowledge of the customer and Isle of Man Bank seeks to understand what risk means in the context of a particular customer.
- One size does not fit all customers.
- Isle of Man Bank seeks an appropriate level of information so that it understands as a minimum :-
 - Business purpose
 - Purpose of entity / structure
 - Purpose of account
 - Reason why the customer is offshore and why the jurisdiction has been chosen
 - Funding of account and business
 - Wealth behind the business and the relevant individuals and satisfaction that this wealth has been generated from legitimate activities.

Section 7

Isle of Man Bank customer review

Isle of Man Bank will contact you as we conduct each periodic review to request any outstanding information. It is important Isle of Man Bank receives a prompt response to questions so this information will be required within 30 days.

If 3 does not receive all of the information within this specific period we will contact you in respect of any outstanding matters. A further 30 day extension may be given at this point. If you are unable to provide all outstanding information by this extended date we will be unable to continue to operate the account and will formally notify you of our intention to withdraw banking services for that specific account. Any withdrawal of services would be effective from 60 days of issuance of our formal withdrawal notification.

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