

**10<sup>th</sup> Conference – 22<sup>nd</sup> April 2021**

**Risk and Operations**

**Conor Osborough, Deputy Director**

Thank you Katherine.

Now carrying on from what Katherine has just outlined, over the last year we have continued to work on our Augmented Intelligence projects and have enhanced our SupTech (or Supervisory Technology), alongside our more traditional PRISM system, by creating two new internally developed tools; one called COMPASS and the other COMET. Now, those keen eyed and eared among you will notice the uncanny link between the first two letters of these names and my own initials. Obviously, this is purely coincidental and is no way subtly linked to my own self-promotion. That said, I will now take a few moments to outline, at a high-level, both of these tools and our ideas for the future.

The first, COMPASS, utilises a machine learning algorithm, in essence an artificial neural network, to identify higher-risk funds based on information submitted to us and that takes into account key supervisory judgements. This approach has a number of benefits for us by providing a systematic way of identifying higher-risk funds and by reducing the time-lag between data being submitted to us and taking appropriate supervisory actions. It also provides a good starting point for supervisors to understand the risk profile of a new fund.

Alongside this tool we are continuing our efforts, with some degree of success, to develop a system to automatically analyse external auditor reports and management letters using Natural Language Processing techniques. We, like a number of other financial regulators worldwide recognise the rich vein of information contained within the unstructured text of documents submitted to us and are developing ways to automatically mine and then efficiently and effectively analyse these important data sources. To this end, we have recently issued guidance relating to the quality of scanned documents submitted to us via the Online Services portals under the FAQ section of each; so if you haven't seen this guidance yet, it may well be worth familiarising yourself with it.

The second tool is called COMET and it enables trend analysis of data within banking returns with respect to concentration risk and the prediction of future trends and movements. It combines data from our annual returns together with selected macro-economic data as part of the analytical model and visualises the output for a supervisor, helping them to identify the 'wood from the trees' as it were.

Both COMPASS and COMET have been developed, piloted and tested in-house at the Commission and in 2021 we will look to further consider how they could be expanded to include additional data sets and sectors within the analysis. An obvious example would be to consider how these tools could be adapted and applied to help with financial crime supervision as we lead up to the next MoneyVal visit and beyond. Not only that however, we have ambitions that are more aspirational. Consider an automated document checker that would feedback to potential licensees where an application is missing critical information, or, a system that uses Augmented Intelligence to automatically detect concerning networks within the Bailiwick's financial services sector worthy of further supervisory investigation. These are the types of ideas that we are exploring as we further enhance our Supervisory Technology over the coming years.

To be clear, the aim here is not for these tools to replace our supervisory judgements but rather carry out the first level, data-heavy analysis to enable our supervisors to focus their time and supervisory judgements more productively on the key risk areas. These tools should help to ensure that we spend our time focusing on high-risk firms and protecting consumers and investors.

I hope that this has provided a high-level summary of our direction of travel and how we do, and continue to plan to use, the data that firms submit to us. If you have any questions, please feel free to come and speak to either Katherine or me. Thank you.