

Industry Seminar – 16 November 2016

Financial Crime Supervision and Policy Division Presentation

Fiona Crocker, Director

Good morning ladies and gentlemen

For a financial services supervisor an onsite visit to a firm is good opportunity to observe its business culture.

We are not quite uninvited guests but when you do receive notice that we want to come and see you we are like that formidable relative to whom you can't say no when they announce that they are coming to stay.

So for this year's presentation we decided to apply the theme for the industry seminar of the interaction of business culture with regulation – literally.

The meaning of this slide will hopefully become apparent in a little while but as Katherine said please listen up as we are going to share with you our experience of the business cultures we see from interacting with firms during onsite visits.

Our session would not be complete if we did not mention Moneyval or the National Risk Assessment so I will also cover our engagement experience in those areas.

I have been a supervisor for nearly 17 years and during that period I have had the privilege to go out onsite and sit within the heart of many of your business for up to a week at a time meeting your teams, discussing your business and reviewing business risk assessments, board minutes and client files.

Almost invariably I am struck by how hospitable and helpful firms are which lends support to the Commission's view that most businesses are well organised and have an inclusive and supportive business environment within which staff can develop and clients prosper.

That good welcome includes firms who identify to us a "go to" person in their team who will locate documents we might need, copy papers and arrange for us to meet the people who are best placed to answer the inevitable questions that arise.

We have had some excellent help from firms' IT staff who set us up with access to document management systems, help us navigate the electronic filing system and who with good humour help the less tech savvy of our team – myself included – who have pressed the wrong button.

We even have people poking their head around the door of our “temporary” office to let us know that the sandwich van has arrived in case we forgot to bring our lunch.

In return we do our utmost to explain the purpose of our visit – which at its core is quite simply an assessment of how robust your controls are for managing the risks within the type of business you are and the client relationships you have.

We are also keen to ensure that the firm understands each step of the onsite process and the opportunities within that framework for the firm to show to us how good its control measures are.

Now we appreciate that people might be nervous when they meet with us. We do have a pretty good grasp on current practices from visiting up to 50 firms in a year but we can’t second guess what we do not know.

So for example if compliance matters are discussed in senior management forums other than Board meetings please let us know because it can sometimes feel when meeting your teams like a trip to the dentist

I know there is a popular image of us with jackboots and combats – but I can assure that we have not come along to pull your teeth.

Unfortunately once in a while we encounter a rather different environment. For my part I have sat before a male director of a firm who would very pointedly ignore the women on the team and only look at and discuss the firm’s business with the men.

I have been on a visit where the onsite team have been left to find their own way out of the building when the fire alarm went off and the fire engines arrived. No one had told us where the fire exits were or came to get us to show us the way out. I don’t know if it was a tactic to defer our onsite visit by attempting arson but clearly we made it out the building ok to go back to the firm another day.

I have given you a couple of my own vignettes which raised for me questions about the firm’s priorities, its attitude towards staff, and how well organised it was but the team also want to share their experiences of poor culture and business practices identified from some of our recent onsites.

So before I cover some other areas of interaction such as Moneyval and the NRA I am going to hand you over to Nick to take you through our onsite findings.

Case studies and video

The team will be delighted that you enjoyed it and there was no glimpse of our camouflage gear in sight.

Clearly we were not going to miss a good opportunity like today to cover some key regulatory messages around risk management, monitoring and source of wealth. I am not going to labour those messages as I think our case study did that.

I hope it has also shown why on occasion we have to refer a firm to the Enforcement Division for further investigation.

A key message we have sought to give this year at various fora is that proportionally it is still only a very few cases where the findings are so poor that we have had to refer a firm to enforcement.

Our cases study contained a lot of material which whilst not drawn from one firm the worst of it came from just five firms from 2 years' worth of onsite visits. This still represents a very small number of firms with whom we engage and remains consistent with our experience of onsite visits generally and from working with firms on other areas that their corporate culture is good and in particular the willingness to engage.

A good example of this engagement can be found within the Bailiwick's efforts to secure a successful outcome to the Moneyval evaluation, the report of which was published in January.

Firms and professional organisations who met the assessors had clearly worked very hard to ensure that the assessors understood that the industry took its AML/CFT obligations seriously.

Moneyval's recommendations are now being considered within the revisions to the AML/CFT Handbook which we plan to consult on in quarter 1 next year.

This willingness was also evident among the 60 firms taking part in the Bailiwick-wide National Risk Assessment to identify the Bailiwick's money laundering and terrorist financing threats and vulnerabilities.

We called each of these firms in advance of the commencement of this project in July to ask them to take part, and the vast majority were pleased to have this opportunity to do so.

They are presently completing a second survey which is asking for their views on the ML and TF risks within in their sector and the effectiveness of firms' controls to mitigate those risks.

We will have to wait until about this time next year for this States led project to conclude, but these firms will be making no small contribution to the Bailiwick's collective understanding on ML and TF risks we face.

We also find this culture of engagement in other areas of our supervision – we had a 98% return rate in the first year of the financial crime risk return and a 100% return rate for the surveys which form part of themed onsite work, such as a current project with the Investment Division on compliance and risk management controls in the fund administration sector.

We were also pleased to receive feedback from several firms of the good use they have made of the findings from our thematic review on financial crime training practices across the different sectors.

Now as I draw to close I am delighted that you enjoyed our case study because William has kept telling me to liven or shake up AML/CFT messages. But humour aside I hope what we have shown from our onsite visits sheds light on the seriousness of the financial crime issues behind the cases which Commission enforces.

I would like to repeat our Chairman's message from yesterday – please don't become one of our case studies.

Thank you for listening and as we have some roving mikes it is now over to you for questions.