

Industry Seminar – 16 November 2016

Risk and Authorisations Presentation

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Good Morning and welcome to this, the second day of the GFSC's industry presentation. I am happy, nay amazed, to see so many of you interested in risk first thing in the morning, though I am, slightly immodestly, presuming a level of curiosity about the newest member of the Commissions senior team.

Slide: Risk & Authorisations

I am aiming to cover three things in my speech today, Risk Based Supervision, the role of the Risk Unit and the role of the Authorisation Unit.

So firstly, if you have heard about risk based supervision at discussions, read about it on our website, perused in detail the paper 'Risk Based Supervision in Guernsey' which the Commission published in February this year (and can still be found on our website), or perhaps learnt more about it following the receipt of a Firm Risk Assessment letter – then I apologise as the first part of this presentation might be slightly repetitive for you. However, for the people who haven't done all of the above I hope this next section might be enlightening as I plan to touch of some of the key principles and reasons for Risk Based Supervision.

Slide: Why do we need Risk Based Supervision?

The Commission is committed to carrying out 'good and effective' regulation by working to ensure that we deliver high quality prudential, financial crime and conduct supervision within the Bailiwick of Guernsey. However we, along with all other regulators in the world, need to be realistic, we don't have the resources to supervise every firm individually, and if we looked to get these resources perhaps through fees we would bankrupt the industry and even then provide no guarantees. Therefore we need to have a clear and systematic methodology to ensure that we apply the resources we have in the most effective and efficient manner – this is Risk Based Supervision.

Slide: Supervision under PRISM

This supervisory approach works on the fact that not all firms are equal, that firms with a greater impact, the most significant firms, would have a greater capacity to harm the economy of the Bailiwick. Therefore we should spend more time in ensuring that these firms are correctly run. However, we also can't ignore the firms where there is a higher risk of failure or issues and this

is why our Risk Based methodology, PRISM, uses both impact and probability risk in optimising our resource allocation.

To be clear though, we are not a zero failure regime, some firms will and must be allowed to fail in order to maintain market disciplines.

We have also been challenged on why we don't spend more time looking at the smaller firms, as these firms potentially have less resources for key controls such as compliance or training. Whilst these firms may have a higher probability of risk, their failure, whilst distressing for all involved, would not have the same impact on the economy of the Bailiwick. Therefore we have a lower risk appetite for significant issues at higher impact firms relative to issues at lower impact firms. For these smaller firms we are aiming to avoid sector-wide issues, such as wide spread mis-selling, but not individual failure.

PRISM is both a system and methodology that allows us to use the data we receive from firms to assess their current impact level and ensure we have the right engagement level with each firm.

It provides a structure to our supervisory activities which enables us to ensure consistency, across firms and sectors, and aids in the transparency of our actions and processes. A key aspect of this consistency is the panel held following each Firm Risk Assessment visit, where the judgements and proposed actions of our supervisors are challenged to ensure they are fair and consistent for the sector, and the Bailiwick.

Our supervisors receive alerts from the data we receive in our regulatory returns, market activities or changes in people at their firms to trigger the consideration of the risk at a firm, enabling reactive supervision for the smaller firms in the Bailiwick.

PRISM asks supervisors to make judgements on a range of risk types for each firm, across all sectors, enabling structured consideration of the same risks across the Bailiwick.

Finally all of this information is recorded on the PRISM system allowing us to ensure risks are being mitigated, progress tracked and where relevant trends analysed to try to identify the 'unknown unknown's'.

If you include the thematic work undertaken by each of our supervisory divisions during the year you can see the full supervision cycle explained on this diagram.

I also wanted to mention something about the last box on this diagram, the Risk Mitigation Programme, this is where the Commission, having identified issues at a firm which pose a risk above our appetite, ask the firm to undertake specific actions to mitigate this risk. This is a standard tool of a supervisor and reflects the trust the Commission places in the management of the firm to address the risk we have identified.

Slide: Risk Mitigation Programme – issues identified by risk type

In the last 12 months our supervisors have identified 273 RMP actions for our firms across all risk categories.

A significant proportion of these actions have been in respect of financial crime risks. Whilst this is influenced by the fact that we are an International Finance Centre, it would still suggest that a lot of firms have further work to do. I would therefore encourage everyone to listen carefully to the presentation following this from our financial crime team, who are highlighting the key areas where they have identified weaknesses or issues at the firms they have visited.

From the remaining risks you can see that operational, governance and conduct are areas where we regularly find that firms are not mitigating their risks appropriately. This could be because these are risks which are common to all firms in the Bailiwick, but it re-emphasises the importance of being alert to poor customer conduct, weak governance or frequent operational issues.

One last point to note, of the 273 actions which were identified by supervisors only 7 actions were referrals to enforcement, which is less than 3%, which supports the message that I know Simon Gaudion has been giving to industry – this is a tool of last resort for the Commission and is only used when we find extreme bad practice or material and continual breaches of the rules and regulations within the Bailiwick.

Slide: The role of the Risk Unit

So what is the role of the Risk unit in the Commission?

Well, in a three line of defence model, where supervisors are the first line, Risk is the second line of defence for our risk based supervisory approach and it forms part of the internal challenge and good governance which the Commission operates.

If any of you were here yesterday to listen to William's speech you will have heard him emphasise a number of ways in which good governance can be maintained and Risk are a key part of this at the Commission.

Risk Taking – the Commission does not say 'don't take risks' it focuses on understanding the risks you are taking. It is inherent within its name that risk based supervision is about taking risks – and our function is to ensure that we fully understand the risks we, at the Commission, are taking.

That processes being followed – PRISM is a methodology and process, which will only work effectively if it is actually being followed consistently. Risk ensures that risk based supervision processes are being applied properly throughout the Commission to ensure PRISM is working effectively.

Constructive challenge – at a recent training session it was highlighted that a team needs a range of things to be effective for example trust, but one thing that every team needs is ‘conflict’ or more appropriately ‘constructive challenge’. Without this we don’t recognise when the status quo is concerning or even dangerous – we are one of the voices of this internal challenge at the Commission (but we do it in a nice way!)

Management information – risk management is not effective if no one has a clear sight of what is actually happening in the business. We provide management information throughout the Commission on the risks at our firms but we also aim to look for trends or developments in the risk profile of our sectors to try to identify the next key risk area.

Development and change – a key to good risk management is flexibility – risk, and our financial sectors, do not stay the same and therefore we should not either. We need to be aware of how we can or should develop to stay on top of future risks or developments.

We are aiming to be the ‘Canary in the mine’ for the Commission, and the Bailiwick (though perhaps without such dire consequences for the Canary).

So that is the role of the Risk unit, but some of you may question why I am also talking about authorisations, which at its heart is part of the first line of the Commission. Risk is the second line of defence for our supervisory approach, but Authorisations does not use PRISM or risk based supervision as it is our ‘gatekeeper’ for any new entrants to our market. Due to my past regulatory experience I have been asked to oversee and guide our Authorisations Unit which is headed by Alison Gavey.

Slide: The role of the Authorisations Unit

So finally the role of authorisations.

Whilst many of you may have seen members of our great Helpdesk last year, and have probably talked to them since then, the authorisations unit also plays a larger role at the Commission.

At the core of it, our centralised authorisation team, is the first point of call for any new entrants, either known or unknown, to financial services in the Bailiwick.

The reviewing of applications and personal questionnaires is their specialist subject and they know everything there is to know about the online portal.

In the last year we have processed over 8,000 online forms and 500 applications across all sectors.

When the team is reviewing an application the key question they are looking to answer is whether the applicant has demonstrated how they meet the minimum criteria for licensing for that sectors rules. This is the key to any firm joining the Bailiwick and does include a consideration of how the business may affect the reputation of the Bailiwick.

If we believe this question has not been answered we will ask for more information. So I would encourage anyone making a new application to critically evaluate not only whether they have provided all the information detailed within our forms and guidance for an application but whether you have demonstrated how the proposed business meets the Minimum Criteria.

As always should you need any help in progressing an application or issues with the portal or systems our lovely ladies, and gentlemen, on the phones are here to help.

Thank you for attention and now there is a time for a couple of questions.