

9th Conference – 4th April 2019

Authorisations and Innovation Division

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Good afternoon, and welcome to the Authorisations and Innovation Division presentation.

I am proposing to provide you this afternoon with an update on matters within Authorisations, and developments we have seen in Innovation. I will spend some time focussing on how we have aimed to improve the service provided, and also talk about the things you and your clients can do to make your interactions with us as straightforward as possible.

To start, a quick recap on what has happened to the Authorisations and Innovation Division over the last year or so:

2018 brought with it a range of changes for the Division, not least the transformation in September of what was previously a unit into a division, with at the same time the merger of innovation into the division. Further change arose with the loss, albeit for good reason (retirement, relocation, and career change), of some experienced members of the Division. As much of this personnel change was known of in advance, we were able to plan for it, and where necessary, replacements were found with relevant experience and skills.

Slides: Authorisations

That said, there is always a learning curve where a number of new entrants are introduced into a team, and efforts in the final quarter of 2018 were focussed on providing appropriate training across the Division to ensure smooth transitions and a cross-fertilisation of skills.

This training continues and we are conscious of ensuring that we maintain appropriate levels of resource compared to the volumes of work we are receiving. On that, heading into the last quarter of 2018 there was a significant change in the volume of the workload being handled by the Division, with, for example, nearly 50% of the total investment applications for the year being received between September and December.

Bringing Authorisations and Innovation together has proven to make for a good fit, and although still relatively early days in its new configuration, the general acceptance, both internally and externally of the Commission, is proof of that. Whilst the ‘marriage’ is a successful one, it is still sensible, for the purposes of today, to focus on each area as an ‘individual’ in its own right.

Taking Authorisations first. 2018 proved to be another year of contrasts with a range of workflows, and continued diversity of applications passing across the desks and screens of the members of Division. We continued to adopt a risk-based approach to our assessment of application submissions, and for the majority of applications the Division undertook the review without any need for referral to the supervisory divisions. Where necessary though, the Division continued to work closely with colleagues in all of the supervisory divisions and utilised their specialist knowledge during the review of complex or technical submissions. You may have noticed us over the past couple of years refer to the use of Authorisation Review Panels, which are best described as the application equivalent of Risk Governance Panels, which many of you will be familiar with as a key element of our supervisory approach under PRISM. The use of Authorisation Review Panels continued into 2018 and indeed into 2019. Authorisation Review Panels can be called ad-hoc and at short notice. For those of you who have not heard of them before, this because they have been used in only a very small percentage of the overall total of applications received.

They are often used where the application involves an unusual aspect, whether that be the structuring, asset class, that the type of application is infrequently received, and when they tend to be different each time - a good example being applications for Non-Regulated Financial Service Businesses. We feel the use of the Authorisation Review Panels allows for consistent and fair decision-making with Panels formed from representatives of the Authorisations and Innovations Division, Supervisory Divisions, and other areas as required for example, Legal-Counsel and the Financial Crime Division.

I am frequently asked how many applications are we receiving, and, what are they? So let's look at some stats.

Slide: Authorisations Statistics

This slide reflects a pleasing increase over the last three years when we look across the industry as a whole, with 600 applications in 2018. Clearly each sector has ebbed and flowed over the three years and not followed the overall increasing pattern, and I will run through each sector's performance over the three years in a moment, but the upward trend appears to be continuing with levels of applications received in January and February 2019 either matching or outperforming the equivalent months in 2017 and 2018.

Starting with the pale pink blocks being investment. The Investment sector continued to see in 2018 the uplift it had started to experience in the latter stages of 2017, resulting in the latter quarter of the year experiencing a high number of applications. In particular, new applications for both Open Ended and Closed Ended funds including, Registered Funds and PIFs, exceeded levels seen in the previous year. 2018 saw the establishment of two Guernsey Green Funds, one being an existing fund which applied for designation as a Guernsey Green Fund, and the other being a new fund launch. There continues to be strong interest in the Guernsey Green Fund with a number of other applications in the pipeline. Anecdotally, we heard that the uplift in 2018 for

the investment sector may have been a reflection of Guernsey simply being talked about and coming to the attention of providers that have not previously used the jurisdiction for the structuring of their products. By its end, 2018 outperformed the levels seen in 2016. That said, 2018 also saw the introduction of a fee for a change of controller for investment licensees and with a mind to complete transparency, 33 such applications were processed during the year and are included in these statistics.

Moving up the charts to the lighter red blocks being Insurance. The overall levels of applications did drop slightly however, the trend of 2017 of the significant increase in ILS structures continued into 2018 for the Insurance sector with new Category 6 SPI cells exceeding the level for 2017. Our engagement with this sector over the application process for such structures also continued, and in November 2018 we issued a letter to the Chair of GIIA's Market Development Committee providing further clarity over our approach for these products on a range of matters including new cell applications, cell renewals, and collateral requirements.

The deep red block on the chart represents fiduciary applications. Overall, levels of fiduciary applications were down in 2018 compared to 2017 and full licence applications fell by 50%. The vast majority of applications for the Fiduciary sector throughout 2018 continued to be for discretionary exemptions, although the levels were slightly down on those seen for 2017. This draws the conclusion that there is an increasing cross over in activities between sectors as individual firms provide more services to their clients together with more firms carrying out a regulated activity on an ancillary basis to their main activity.

Finally the very thin green layers, purposely so to try to make them stand out, at the top of the charts are Non Regulated Financial Services Businesses and as you can see the NRFSBs have remained impressively consistent over the past three years.

Our assessment turnaround times are dependent on the standard of the applications received, and it is pleasing to note that once again only a small number of applications submitted did not proceed to the approval stage during 2018. In 2017, over 95% of the applications submitted were approved, in 2018 this figure rose to 98%. All of the applications which did not receive approval were either withdrawn by the applicant or lapsed. However, there was need on a few occasions to return applications that were felt to be of poor quality, a reflection of the completion of the submission documentation, as opposed to the quality of the business itself. Whilst disappointing, we have in these cases taken the time to provide feedback to the entities involved to help ensure that this is not repeated, and indeed we were able in a couple of instances to accept revised application submissions.

Slide: Service Improvements

In the vein of assisting applicants in understanding our requirements, we issued in October 2018 guidance to assist individuals in prescribed positions to meet the Fit and Proper Standard set out in the relevant Minimum Criteria for Licensing in the Regulatory Laws. This guidance is for

individuals who are, or intending to hold one of these positions, or the entities looking to employ them. In addition, we have as I mentioned earlier issued guidance around our treatment of ILS applications.

Other examples of where we have sought to improve the service provided include that we now no longer require a wet signature on application forms, which removes a layer in the process and means we can accept applications in their entirety by email.

Conscious that speed to market is often key in launching new products, we keep under review the methodology of how we allocate work amongst the team. Whilst it is generally on a first come, first served basis we do of course feed the fast track applications and self-certification regimes, which continue to be well used into that approach. Of course in attempting to provide an efficient service it does not mean we are compromising on our reviews which are fulsome albeit risk based.

As I say, we are continually reviewing our approach to allocating applications as the receipt of applications is not smooth curve, for example, we may review applications in clusters by types as that is often how they are received, perhaps determined by the time of year, for example with ILS renewals. Upon receipt of the applications, we check for any deadlines flagged (but be aware we are good at spotting not so genuine ones so please do not just bung in a deadline with the hope of turning your application around quicker). Early communication of deadlines though does help us endeavour to meet them. This is often achieved by meeting with potential and existing licensees to discuss proposed and ongoing applications. On the whole the quality of applications continues to be high and early communication such as this ensures the authorisation process remains as effective and efficient as possible.

Finally on service improvement, those of you who are regular users of the online Personal Questionnaire and Online Appointment Portal will know that the portal has been subject to a number of glitches over the last few months resulting for example in the duplication of entries. Our IT development team have been working hard to resolve these issues, which have arisen partly because of the increase in the usage of the portal. That development work is starting to bear fruit and continued intensive work in this area over the next 6 weeks should lead to an improved system for users.

I would like spend the next couple of minutes looking at ways you can help us to help you make sure that applications do go swimmingly.

Slide: Submissions

As I mentioned earlier we no longer require “Wet signatures” for application forms. Forms can now be signed and scanned to Authorisations@GFSC.gg. Using email rather than post quickens the process for us as we don’t have to scan the post into our system, saving us time, and meaning we can start work on the applications sooner, which in turn speeds up response times for you. I understand that some entities have controls around sending emails which means they prefer to

send in USBs. We are however able to accommodate encrypted zip files or the use of Egress, and you are very welcome to use these options. Otherwise please send in emails. But what about the cheque for the fee you might ask? We clearly cannot expect you to email those to us. However, we do now include on all the relevant application forms our BACs payment details, and again would encourage you to submit the fees by BACs. We are currently reviewing our processes to ensure the payment of fees is as straightforward as possible, but for the time being, please do remember to include a reference with your payment that will aid our reconciliation of the fee with the application – as our mantra ‘no fee no work’ still holds true.

Slide: Helping us to help you

Another way to help the process is to make sure all the relevant Online Personal Questionnaires and Online Appointments are submitted. In most cases where an OPQ is required an OA will also be required. Awaiting OPQs or OAs is probably the most common factor in causing delays in the application process. We have recently amended decision trees for when to submit an OPQ or OA, and we will continue to work on these to provide further guidance.

Please send in the fee (and by BACs). I will not dwell on this as I have just covered it but I have had a number of conversations with entities disputing the fees requested (or rather required). I have no discretion over the fees and these conversations just distract us from getting with the job. The fee consultation process is the most appropriate time for discussion over the fees, although as you will be aware, the Commission announced in October 2018 a freeze on fees for 2019 and 2020.

Finally, be as clear as possible about deadlines, we do look for them and try as far as possible endeavour to meet them but they must be reasonable.

Do all of that and you will help the processing of your application enormously, subject to, of course, and it is in the small print of this slide, the due diligence of the parties associated with the application.

Slide: Chasing on Applications

One quick minute on chasing if I may. We understand you have to chase us, as you yourselves are being chased by clients. But if everyone chases ... we start to feel like we are running up the down escalator or... we end up going round in circles and... it causes us (and you) headaches and... we, particularly me, need a little lie down...

Clearly this is my attempt to inject some humour to this point but we do understand that you need to chase us. Please though, do try to limit the amount of times you do. If not you will hear from me directly, especially if you beat recent examples my team have seen of one analyst being chased 3 times a day, every day for two weeks on the same application, or one entity chasing rather imaginatively in 4 different ways, to the authorisations team by phone and email, to the

helpdesk, and to the supervisory team. On that, contrary to popular belief, we do speak to our colleagues in the supervisory teams. I am aware that it is often the law firms acting for your clients that chase us and as many of them will not be represented here today I will be sending them a copy of my presentation to make the point to them too.

Slide: Support

Before I moved over to the Authorisations and Innovation Division, I often heard praise heaped on the helpdesk, about helpful the helpdesk was, and it was true the helpdesk was incredibly helpful, however, it has really become a victim of its own success. It is my suspicion that people started to find it easier to ring the helpdesk rather than look at the guidance or FAQs for themselves. We are now encouraging those seeking help to email their queries to us at Support@GFSC.gg. Probably in 9 out of 10 cases when speaking to people we would request further details by email anyway. The helpdesk handles a range of queries from new users to those more familiar who are experiencing technical issues. As far as possible the enquiries are handled by the Helpdesk themselves and where more technical support is required they are passed over to our IT team. On the latter an email helps to ensure nothing is lost in translation.

Asking for emails rather than answering telephone calls has helped to improve the customer service we provide, we are quicker in responding as we are not tied-up on the phone, nor are we tied up with logging the calls, the email thread does that for us, and we can direct people to the relevant FAQs or other guidance.

Help is still there, we are just offering it in a different, more efficient, more informed manner. Helpdesk has only ever been one or two members of my team it is not a helpdesk of call centre proportions!

Slide: Innovation

So to move to innovation.

The Commission's innovation hub, the Innovation Soundbox, continued to welcome all conversations and engagement during 2018 and into 2019. The Commission recognising though that the Innovation Soundbox had been in place for a couple of years reflected on how we could reaffirm its purpose, and demonstrate the Commission's continuing commitment to supporting innovation within the Bailiwick's financial services industry.

Slide: Soundbox Sprint

As a result the Commission hosted a one-day event on Friday 22 June 2018 – the Soundbox Sprint. All the credit for the success of this event quite rightly goes to Gillian Browning and her team. The Soundbox Sprint provided an exciting opportunity for the participating teams to

develop digital solutions to address one or more of three pre-set challenges including how technology could be used to:

1. Optimise efficient and effective client due diligence (and hence reduce costs for Bailiwick businesses).
2. Improve administration.
3. Help the financially excluded.

The event was a considerable success with entries submitted by 10 teams which included representatives of 35 Guernsey businesses including banks and other financial institutions, accountants, lawyers and technology companies. Those participating were able to share and discuss how to unlock the potential of FinTech for the benefit of the Bailiwick and to highlight the capability of local firms in this important and growing area.

The entries were considered by six judges drawn from across the financial services sector and included the Commission's Chairman. Each entrant had the opportunity to pre-book a surgery with subject matter experts, such as regulators, politicians, accountants and lawyers, in order to enhance their solutions. The day concluded with the presentation of prizes, including The Bailiwick Innovation Awards (Gold, Silver & Bronze) and The SoundBox Sprint Support Awards, (Gold, Silver & Bronze), to teams from PwC, Midshore Consulting, Barclays, C5 Alliance, The ID Register and Guernsey Community Savings with the latter being the overall winner with a community savings concept. Indeed, you may have seen recent press coverage of the Guernsey Community Savings' progress with its plans and the Commission is pleased to have played a part in that.

Slide: Round Tables

Feedback from the Soundbox Sprint was particularly positive about the roundtable discussions held as part of the day's proceedings. So we decided to follow up on the Soundbox Sprint by holding further roundtables – Soundbox Dashes - through 2019 focusing upon specific financial innovation subjects commencing with the first one that was held on 18 January 2019 on the topic of the Global Financial Innovation Network (“GFIN”). The purpose of the roundtable was to consider how to best optimise our involvement in GFIN.

Slide: GFIN

The Commission, in collaboration with 11 financial regulators and related organisations including the UK FCA, Australia's ASIC, the Ontario Securities Commission and the Dubai Financial Services Authority, announced on 7th August 2018 the establishment of the Global Financial Innovation Network, building on a proposal earlier in the year to create a 'global sandbox'.

The network will seek to provide a more efficient way for innovative firms to interact with regulators, helping them navigate between countries as they look to scale new ideas. It will also create a new framework for co-operation between financial services regulators on innovation related topics, sharing different experiences and approaches.

GFIN has three main functions:

- to act as a network of regulators to collaborate and share experience of innovation in respective markets, including emerging technologies and business models;
- to provide a forum for joint policy work and discussions; and
- to provide firms with an environment in which to trial cross-border solutions.

There are now 30+ members of GFIN. The Commission is one of the founding members of GFIN and sits on the Coordination Group. We have also confirmed we are of the jurisdictions willing to participate in the cross-border trials for which the window for applications ran for one month closing on 28 February 2019.

The GFSC received three formal applications during the window for applications, and the process has now started of liaising with the other jurisdictions which were also identified by those applicants who chose Guernsey, in order to coordinate our response to their applications. At present, we cannot disclose any further details however, GFIN is very keen to be as transparent as possible, and expects to issue regular updates on the pilot and other work streams. Further windows for applications are likely and this initial one has been a useful learning tool for preparing for those future windows. GFIN is holding an annual meeting at the end of this month, which we will attend and at which we intend to present on our experience of Fintech within the jurisdiction, including the use of Regtech for solving issues around administration and client onboarding and initiatives like electronic agents. We continue to be happy to accept applications outside of the GFIN arena and approaches can be made to Innovate@gfsc.gg.

Finally, thank you for your time today and a quick reminder of the three key email addresses when dealing with the Authorisations and Innovation Division:

Authorisations@gfsc.gg

Support@gfsc.gg

Innovate@gfsc.gg