

Industry Seminar – 15 November 2016

The Commission's Approach to Innovations

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Thank you Jeremy and Good afternoon

As I bring to a close this session on the Commission's approach to Innovation I suspect that the director of the Financial Crime Division is seen as the villain in this piece.

Anti-money laundering, countering terrorist financing controls, and the aml/cft handbook are hardly synonymous with fostering innovation. I don't doubt that within many of the organisations represented here today it has been said on more than one occasions "well the Handbook won't let you do that."

Today I would like to try to dispel such a perception.

Innovation may not be in the Financial Crime Division's title, and we cannot offer a new product for Guernsey's shop window like the private investment fund or manager led product,

But rather like Fiduciary's innovation sandbox and the Banking and Insurance Division's development of new rules to encourage the Insurance Linked Securities market we too have been playing our part in establishing a better regulatory environment within which good types of innovation may flourish.

When the Director-General joined the Commission in 2013 he kept hearing that the Handbook did not facilitate the use of technology in firms' processes for taking on clients.

This went on to become one of the key drivers for revising the Handbooks alongside the need to bring Guernsey's AML/CFT regime up to the FATF's current Standards.

The project to revise the Handbook has been ongoing for some time. Not least because of the wish to take onboard any recommendations arising from the 2014 Moneyval evaluation, the good results of which were published at the start of this year, but which had took rather longer than we expected.

However we used this delay to take forward the publication of an annex to the Handbooks on the use of electronic due diligence in the processes firms have to take to identify and verify their clients.

The issue of the annex broke new ground as no other supervisor at that time had set out its expectations on the take-up and use of technology in the AML/CFT framework - such developments being digital signatures, electronic certification and electronic verification.

In practical or non-tech terms it meant that firms wanting to invest in some of the smartphone and tablet “apps” on the market or develop their own electronic application to onboard clients could now do so knowing what safeguards and steps the regulator expected to see them take.

I appreciate that we didn’t get it all quite right but where we got it wrong we listened and promptly acted to correct it.

Six months on we are hearing of the benefits this annex had. Firms are telling us that they are starting to use digital signatures within new online systems. It has been particularly encouraging that some of these developments have a local origin.

So it seems that even the Handbook’s image can be changed.

The wider project to update the Handbooks remains ongoing. As it involves changes to Regulations which are the responsibility of government, and as those regulations form the foundations of the rules and guidance we issue in the Handbook we have been working closely with Policy and Resources and the Law Officers on the revisions which need to be made.

Now you can expect to be consulted by both P and R and the Commission on those changes to the regulations, the rules and guidance in quarter one next year.

I have to caution that we have to work within the constraints of the International Standards set by the FATF and what those Standards require of AML/CFT regimes for IFCS like Guernsey with their pre-dominantly off-island client base but what we do want to do is not only issue a user-friendly Handbook but also provide the clarity firms need from it for the sensible development of new ideas.

In conclusion we cannot change international standards, but as you have heard from Gillian, Emma Jeremy and myself the Commission is fully committed to listening to you and ensuring that the good start made on creating the right environment for innovative ideas including Fintech continues.

Thank you ladies and gentlemen.