Mid-year review: risk-based regulation in action
Welcome and mid-year review
John Harris, Director General

Keynote – JFSC risk appetite
Lord Eatwell, Chairman

JFSC risk data
Darren Boschat
Head of Supervisory Risk
Mid-year review 2017
John Harris, Director General, JFSC
Major priorities

- Focusing regulation on the greatest risks
- Interacting efficiently and effectively with Industry
- Facilitating market access and development
- Safeguarding the sustainability, efficiency and independence of the JFSC
Focusing regulation on the greatest risks
Supervision and risk

Risk model

› More consistent and focused view of risk
› Improved IT functionality to track regulatory activity
› Risk event capture forms
› CRM case management work
Cyber security outreach

Industry survey

Cyber security masterclass and presentations
Mis-selling campaign: interaction

15,000
People engaged with the campaign on Facebook in the first week

3,336
Individual views of victim’s story of losing her life savings

5,639
Individual views of campaigns films

500%
increase in Twitter activity on JFSC channel

39,200
Impressions in first two weeks of campaign

LinkedIn
Reach for first two weeks of campaign 40,156
Mis-selling campaign: reach

Presented campaign to:
› Jersey Consumer Council / Industry Public Seminar
› Financial Conduct Authority
› Isle of Man Financial Services Authority
› FIN-NET
› IOSCO
› Group of International Finance Centre Supervisors
Financial education

Outreach in schools

2,250 students presented to since programme began

1,213 students presented to during this academic year
Next in 2017...

**Supervision and data collection**
Consultation to follow in second half of 2017

**NRA and MONEYVAL**
Action plan, NRA, data set (JFSC work started, wider engagement still to come)

**Mis-selling campaign**
Phase 2 - research and development of the campaign. Launch in Q4
Interacting efficiently and effectively with Industry
Industry interaction

› Raising JFSC profile
› Increasing accessibility for Industry
› Outreach programme eg. Beneficial Ownership drop in sessions
› Chairman’s visits
› Industry events/seminars
› Social media and email updates
› Consultation and surveys
Companies Registry and digital channels

- Centrally held Beneficial Ownership Register
- Registry systems platform
- Digital channels – extend the use of a single log-on for JFSC external systems
- Digital channels – new data services (APIs) “Our computers talking, to your computers”
Centrally held, accurate and up to date information

Jersey
37,000 legal entities/
300,000 Beneficial Owners and Controllers

UK
4.3m legal entities
3,100,00 BO and Controllers

Denmark
325,000 legal entities

Latvia
228,435 legal entities

Estonia
120,000 legal entities
500,000 BO and Controllers

Czech Republic
760,000 legal entities

Finland
295,000 legal entities

Sweden
730,000 legal entities

Ireland
200,000 legal entities
300,000 BO and Controllers

Romania
900,000 legal entities
1,500,000 BO and Controllers
Supportive regulatory environment for Fintech outreach

Proposition Development Groups
› Discussion around different opportunities and proposals

FCA International Innovate Seminar
› Met with 90 global specialist Fintech regulators in April
Fintech - enquiries and requests for support

- Crowdfunding
- Blockchain
- CDD
- Digital currency related
- Cloud storage
- E-gaming
- Robo advice
- Telephone call monitoring

2016-2017
Next in 2017...

New website
Project in progress
Launch in 2018

› Start point vision for stakeholders
› Elaborating business requirements
› Writing site specification
Facilitating market access and development
Facilitating market access

- Funds regime review phase 1 (JPF product launched in April)
- Basel III implementation – consultation on liquidity launched in April (closes 26 July)
- MiFID – strategic direction decision (consultation with key stakeholders in relation to a watching brief position due to Brexit)
Supporting Government with EU and AML/CFT matters and development eg: AMLD IV and EU Blacklisting

Advice, analysis and data

Beneficial Ownership debate Brexit
Next in 2017...

**Funds regime review phase 2**
- Public funds focus, manager led products

**Basel III implementation**
- Feedback following consultation paper, revisions to prudential reporting systems and codes to follow

**MiFID**
- Consultation on enhancements to the IB codes in second half of the year
Safeguarding the sustainability, efficiency and independence of the JFSC
Cyber and Information security

Enhance internal environment:
 › Cyber and data protection officers recruitment
 › User awareness

Organisational readiness
 › Succession planning and leadership development programme (Commissioners and Executive Board, staff review and discussions)
Revenue sustainability

Further discussions to come on Schedule 2 fees

- Insurance (May)
- Funds (July)
- Banking (October)
- Investment Business (April)
- TCB (2018)
Next in 2017...

› Changing recruitment focus using different mediums
› Enhanced induction programme
› Talent management and succession planning
› Supervisory competency framework
› Focus on defining the supervisor of the future
Greater understanding of the ‘sociology of risk management’

Mathematical techniques of risk modelling

Determination of ‘risk appetite’
“The modern risk-management paradigm held sway for decades. The whole intellectual edifice, however, collapsed in the summer of last year.”

Alan Greenspan, October 2008
“I made the mistake in presuming that the self-interest of organisations, specifically banks and others, was such that they were best capable of protecting their own shareholders.”

Alan Greenspan
Introduce flexible systems
Learn from mistakes
Adapt to changing marketplace
Reducing risk to the public of financial loss due to dishonesty, incompetence, malpractice or the financial unsoundness of financial service providers

Protecting and enhancing the Island’s reputation and integrity in commercial and financial matters

Safeguarding the Island’s best economic interests

Countering financial crime both in Jersey and elsewhere
Risk management in financial services is a shared responsibility between regulator and Industry.
## JFSC severity survey scores

<table>
<thead>
<tr>
<th>Risk</th>
<th>Industry severity score</th>
<th>JFSC severity score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Terrorist financing</td>
<td>90%</td>
<td>90%</td>
</tr>
<tr>
<td>Money laundering</td>
<td>72%</td>
<td>71%</td>
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<tr>
<td>Breaching sanctions</td>
<td>72%</td>
<td>69%</td>
</tr>
<tr>
<td>Fraud</td>
<td>55%</td>
<td>56%</td>
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<tr>
<td>Business disruption</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Incompetence</td>
<td>26%</td>
<td>28%</td>
</tr>
</tbody>
</table>
For an effective supervisory system to be effective it must embody forward thinking.

Our approach to the allocations of supervisory resources can not be static.

We must be agile.
Risk based supervisory approach in the JFSC is a means of improving our thinking about the Industry, our understanding of the risks to which it is exposed, and the efficiency of our activities in achieving and protecting the statutory goals.
Best done if we do it together
JFSC risk data

Darren Boschat, Head of Supervisory Risk, JFSC
Uncertainties...

...that extend beyond Jersey

...that can arise from the way JFSC organises itself

...that arise from the entities the JFSC supervises
Legal and structural requirements

Resources and activities

Effectiveness
Risk description

Cyber threats

Conflicts of interest

Fraud

PEPs

Compliance monitoring

Outsourcing

Bribery and Corruption

Terrorism

Money laundering

Sanctions screening

Enhanced CDD

Misleading statements

Disclosure rules

Loss of data
Risk data

Source → Risk Event → Consequence

Prevention → Mitigation

Inherent risks
- Scale
- Business model
- Strategy
- Structure

Causal risks
- Governance, risk and compliance
- Financial controls
- Financial crime controls
- Conduct of business controls

Impact risks
- Financial failure
- Financial crime
- Conduct risks
Panel discussion

Facilitated by Debbie Prosser, Deputy Chairman

Panel members:
Lord Eatwell, Chairman
John Harris, Director General
Darren Boschat, Head of Supervisory Risk
Andrew Garbutt, Regulatory Risk Consultant
Thank you