



Jersey Financial Services Commission

Business
Plan 2020

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› Introduction

This business plan sets out our priorities for 2020 and will help businesses, as well as the wider community, to understand our focus for the year ahead.

This document sits alongside our four-year strategic roadmap for 2020-2023, illustrating how we will implement the first year of our strategic journey.

› Chairman's statement

I find that I am reconciling competing emotions while writing this, my last Chairman's statement for the JFSC before I retire in April. First comes optimism for the future. Second comes pride in the achievements of the JFSC. Third comes a personal sense of impending loss. I will truly miss working amongst the community of islanders and those people further afield who all play important roles in the success of the JFSC.

“They are people of whom Jersey can be proud.”

Lessons from the past should and do inform the best decisions that we make about our future. This is why it is appropriate for me to celebrate the achievements of the JFSC since I joined as a Commissioner in 2010 and became Chairman in 2014. These achievements include the JFSC's development towards being a more agile regulator in the face of constantly evolving expectations, both of the JFSC and the Island that we serve.

Highlights from my tenure include the JFSC's work to secure and maintain market access into Europe under AIFMD and the exceptional work of our Registry in delivering Jersey's best-in-class register of beneficial ownership and control. There has also been the privilege of working with an outstanding Board of Commissioners,

together with the committed, hardworking, ever questioning, and occasionally irreverent, JFSC staff. They are people of whom Jersey can be proud.

With the focus of my fellow Commissioners on staying ahead of the dynamic financial crime threat, I remember well the Island's achievement through the 2015 MONEYVAL assessment. I am heartened to see the outstanding work already being done in partnership with Industry and Island agencies to achieve strong outcomes in the next assessment. The work that the JFSC has done to deliver the National Risk Assessment is a significant part of this – another example of the contribution made by the Island's financial services regulator.



I am proud also of the sometimes unsung contributions made by our staff to the community. For several years, we have supported the work of Jersey MenCap by helping landscape their Rozel pond project. For my part, I brought a Dutch Elm Disease resistant sapling from my Cambridge college. The challenge of checking a tree onto a flight and the decision of colleagues that I should dig it in myself will not be forgotten (I am not a natural gardener). This is but one example of the frequent contributions to Jersey life made by the JFSC's people.

As I prepare to hand over to the next Chair, I am optimistic for the future of the organisation because of the calibre of its people. I am proud of the foundations for success that we have laid together and, on a personal level, I will miss so frequently engaging with the Island community that the JFSC serves.

It has been an honour for me to serve as Commissioner, then Chair, and I must thank the people who have made the organisation what it is today. My fellow Commissioners, the Executive team and the wider body of staff are all uniquely talented. They have responded to change in the way we work, the uncertainty surrounding the role of regulators globally, and the occasional unpopularity that is the

fate of all effective regulators with a professionalism and dedication that is remarkable.

These are the people who have been integral in composing this business plan, which I hope you will find engaging. It is for them to deliver. I will look on with fond interest to see their future achievements bring success for the JFSC in its mission to serve Jersey. I shall no doubt visit, not least to make sure the elm tree flourishes.

John Eatwell
Chairman



“I am optimistic for the future”

› Our four-year strategic roadmap



The majority of our resources and energy are naturally dedicated to our core functions:

- › supervising financial services businesses
- › engaging regularly with our Island community
- › operating our Registry
- › updating our regulatory framework
- › authorising new businesses, including engaging with innovative business propositions.

In addition, we constantly aim to develop our approach so we stay ahead of the dynamic changes in the financial services sector.

Our ambitious strategic roadmap outlines what we expect to be our focus over the next four years. A longer term perspective, it underpins the deliverables set out in this 2020 business plan.



› 2020 priorities



Our key projects for 2020 can be categorised under our three strategic priorities to:

- › **Build even more effective supervision**
- › **Embed risk-focused choices throughout our work**
- › **Strengthen our organisational resilience.**

In each case, we will have a particular focus on the financial crime threat. While the forthcoming MONEYVAL assessment is driving an Island-wide programme in which we play an important part, we believe that our ability to tackle financial crime over a prolonged period is crucial to maintaining Jersey's international reputation.

› Build even more effective supervision



Build even more effective supervision

Good regulation requires effective legislation, policy, codes, guidance, reporting, data analysis, examinations, remediation oversight and enforcement. From this year, increased attention turns to analysis, examinations, remediation oversight and enforcement (collectively: **Supervision**).

We have already been working for the last three years to develop our approaches to day-to-day supervision and have made significant progress. In 2020, we will take this further.

While the core focus of our supervision activities for the year ahead will be to strengthen our effectiveness at fighting the financial crime threat, we will also develop further our approach to supervising business conduct and prudential matters.

As part of our programme to become even more effective supervisors and improve our regulatory framework, in 2020 we will be:

Focusing on fighting financial crime by:

- › conducting an increasing number of financial crime compliance focused examinations
- › completing the National Risk Assessment with the Government of Jersey and, where relevant, leading the implementation of any changes
- › identifying and proposing solutions for gaps in Jersey's Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) regime
- › building statistical evidence to show Jersey's effectiveness in fighting financial crime using supervisory risk data
- › exploring with Government the appropriate regulatory regime for non-profit organisations, money or value transfer services, and virtual asset service providers
- › developing our supervisors' capabilities through structured training and development so we are recognised as an AML/CFT centre of excellence

- › increasing significantly our engagement with Industry on AML/CFT risks and how to tackle them
- › preparing for the next MONEYVAL assessment under Government's leadership
- › completing our working group review on the potential for an initiative to control costs of KYC business models.

Developing our supervisory approach by:

- › redesigning, where appropriate, our day-to-day internal supervisory processes and the supporting technology, so we can continue to improve the way we use our supervisory data. This will allow us to make the most efficient use of our skilled resources and develop the most rounded and insightful perspective on the businesses we supervise
- › developing further our coordination between front-line supervisors and our Enforcement team and increasing our engagement with relevant regulated businesses. This will help us achieve the most effective case management process when we do uncover issues, so that remediation programmes, settlements and enforcement proceedings are focused on achieving the greatest benefit
- › conducting careful testing of our new risk system via an expanded examination programme so that we can refine, develop and further improve it
- › improving the way we record and manage information so we can demonstrate our supervisory effectiveness.

We have to continue to evolve in light of new challenges facing the Island and any potential responsibilities that we may take on in the future. In 2020 this is likely to include work in respect of developing a supervisory approach for Consumer Lending and Pensions regulation.

Resolution Authority

Having the capacity to participate in the orderly resolution of banks is an important part of being a competent and professional financial services centre. The Bank of England, for example, has set out its expectation that UK banks will be resolvable by 2022. Other major jurisdictions have similar targets. Jersey must have a resolution regime in place to demonstrate competence to the relevant UK and international authorities.

We have engaged positively with the Government of Jersey about the option of the JFSC carrying out this function, which we welcome. In the event that it sits with us, we will form a separate resolution function within the organisation and begin this important work. This will require careful and measured interaction with banks based in Jersey.

Closely related to this, we will develop our working relationship with Government's advisory body on the financial stability risks faced by the Island's economy as a whole, the (interim) Financial Stability Board.

The core focus of our supervision activities for the year ahead will be to strengthen our effectiveness at fighting the financial crime threat

› Embed risk-focused choices throughout our work



Embed risk-focused choices throughout our work

Making risk-focused choices is about concentrating our resources, and predominantly supervisory activity, on those regulated businesses that pose the greatest risk to consumers, Industry and Jersey's reputation. Achieving proportionate risk-focused choices is at the core of our success as a regulator, just as managing risk effectively is critical for businesses within our community.

For a number of years we have been working to develop our operational capacity so that we can focus dynamically on risk.

In 2020, we will enhance recently implemented systems to improve our data management and foster the relevant skills among our staff.

Rolling out risk systems across all our activities by:

- › tailoring supervisory interactions with regulated businesses based on the risk data that we collect and testing whether this improves our supervisory effectiveness
- › cleaning, refining and structuring our data to develop improved risk indicators
- › building on the 2019 risk model development by refining and enhancing it throughout 2020
- › assessing the outputs from our risk model, then calibrating the model to enhance our understanding of businesses, with a view to implementing a revised model by the end of 2020
- › enhancing the way we report on activities to demonstrate the alignment of risk, resources and outcomes.

Using data more effectively to inform our decisions by:

- › establishing a data management team
- › automating more processes related to the risk system so that we focus our people on complex rather than routine matters.

Managing the regulatory risk of innovation by:

- › publishing additional guidance to streamline interactions with our Innovation Hub
- › liaising with Digital Jersey, at Director General level, on Fintech
- › developing a coordinated approach to risk-assessing innovative business proposals across our Registry and authorisation functions
- › exploring new ways to work with Industry on new products.



› Strengthen our organisational resilience



Strengthen our organisational resilience

As we strengthen our organisational resilience, we will be able to assign our resources to tackle changing risks without compromising our effectiveness. This includes making sure that everyone who needs to do business with us can do so in the most straightforward way.

In 2020 we will focus on:

Enhancing our digital interactions by:

- › preparing for the automation of more stakeholder interactions by building on the success of current straight-through-processes such as the Jersey Private Fund application
- › building new portals, leading to better interaction with us
- › continuing to improve our website in line with user feedback.

Modernising our Registry by:

- › establishing a new Registry User Group
- › comprehensively rebuilding our registry systems
- › implementing the new Registry Law
- › amending rules and processes to clarify rights and obligations for registry customers
- › further improving customer access and experience through our portals and application programming interface (API).

Being even more accessible by:

- › ensuring our new portals facilitate more effective Industry interactions
- › supporting an externally-led review of our authorisations process to ensure we get the balance right between flexibility to support new business and robust checks to contribute to reducing the risk that investors and consumers may face.

Ensuring our finances are stable and sustainable by:

- › reviewing our cost controls and financial management approach
- › working with all our stakeholders to review our fee structures.

Developing and supporting our staff by:

- › centralising our operational risk assessments
- › implementing a new approach to staff career development
- › developing the next stage of our internal staff training programme, focused on financial crime
- › developing new employment options for temporary and part-time staff including 'return-to-work' parents
- › measuring our environmental impact.

› Key projects for 2020

Key projects for 2020	Goal	Build even more effective supervision	Embed risk-focused choices throughout our work	Strengthen our organisational resilience
Strengthening our effectiveness at fighting the financial crime threat	Implement FATF Recommendations and deliver effective AML/CFT supervision.	✓	✓	
Ensuring the continuous improvement of our workflow management system and digital platforms	Enhance the core platform used by our Supervision team to secure more efficient and effective operations. Deploy a single portal for interactions and submissions.	✓		✓
Implementing and refining our risk model	Enable our Supervision teams to focus on the top priorities.	✓	✓	
Modernising our Registry	Establish fully digital registry systems to simplify interactions for all customers while delivering enhanced intelligence, vetting and compliance		✓	✓



› 2020 income and expenditure

Our 2020 projections for income and expenditure involve raising £22.32 million in fees, compared to £19.55 million raised during 2019. This increase of approximately 14% is significant and driven by resourcing our largest ever capital investment programme and further developing our capability to combat the financial crime threat.

We have budgeted our operational expenditure to match our expected income during 2020 – resulting in a balanced net operating position before any potential litigation costs.

We have carefully constructed our 2020 budget to ensure that we have the flexibility in our human resources to deliver our capital projects, benefit from future economies and expand our work as may be required.

The table below illustrates the increased regulatory and registry fee income that comprises the majority of our revenue. Within the “Other income” line is the financial support that the Government of Jersey has committed to providing. The arrangements under which these amounts will be paid have not been finalised at this time.

	2019 (unaudited) £'000	2020 Projected £'000	Variance between 2019 (unaudited) and 2020 Projected £'000
Regulatory fee income	14,428	16,082	1,654
Registry fee income	4,443	5,268 ¹	825
Other income	677	967	290
Total Income	19,548	22,317	2,769

1. Registry fee income in our 2020 annual audited accounts will include £1.15 million to fund our capital programme for Registry, which it will be necessary to recognise in the P&L. No increase in registry fee rates will be required to raise these funds.

Dialogue on fees

Most of the fee levels required to fund our 2020 programme of work are already in place. Our recent fee consultations have prompted valuable dialogue with the Funds, Insurance, Banking, DNFBP, and Trust Company sectors, as well as Registry customers, about increases in fees which reflect the substantially rising cost of regulation.

We have explained the importance of our work to counter the financial crime threat, enhance risk, data and workflow management capacity, and match the investment Industry is making in technology. We will consult further with the Investment Business and Funds sectors during 2020 and fee increases in these areas will not have a full impact this year, due to the timing of these sectors' fee levies.

We have also included in our strategic roadmap our intention to consult more widely on the structure of our fees base and how we can ensure that it is as sustainable as it can be in the face of changing and competitive financial markets. The figures below show the forecast fee income from Industry sectors compared to the 2020 projected fees income.

	2019 (unaudited) £'000	2020 Projected* £'000	Movement £'000
Funds and Funds Business	6,501	7,189	688
Trust Company Business	2,935	3,377	442
Banking Business	1,817	2,055	238
Investment Business	1,404	1,483	79
DNFBPs	711	772	61
Insurance Business	863	980	117
Other Businesses	197	226	29
	14,428	16,082	1,654

*At the time of publication, fees for some sectors (e.g. Investment Business) are subject to further consultation so may change.

Capital programme

Our budget is critically dependent on achieving highly ambitious timelines for our capital investment programme. The programme will be subject to enhanced internal controls to ensure the rigorous management of all our capital projects on a phase-by-phase basis. In the event that we do not quite meet these timelines, other budgeted costs in 2020 will reduce.

The most capital intensive undertakings during 2020 are the combined £4.8 million investments to enhance our registry systems (£2.1 million) and implement Industry portals (£750,000), plus other key workstreams totalling £1.9 million. Both of these highly ambitious projects will bring substantial benefits to all stakeholders who interact digitally with us. These projects will also provide significant benefits in the future, particularly where we can demonstrate our supervisory effectiveness and do business more efficiently.

	2019 (unaudited)	2020 Projected
	£'000	£'000
Investing capital expenditure costs	2,817	4,756

Alongside the enhanced controls for capital projects, we will robustly manage our operating cashflows, as summarised below.

Cost control

We have kept increases in the cost of existing staff in line with Jersey retail price inflation, although wage inflation is often significantly higher in comparable areas of the private sector. In addition, the annualised cost of the AML unit, established half way through 2019 to meet MONEYVAL requirements, plus non-permanent staff costs to complete projects and workstreams, comprise most of a further £1.3 million to staff costs. We are also rigorously controlling travel and training costs. The main drivers of cost increases are computer systems and staffing costs to support our capital investment programme.

To deliver our strategic plans, we aim to stretch our existing resources wherever possible and maintain a flexible approach to using professional services and temporary resource. This is to avoid “locking in” higher costs. These higher costs are necessary for our projects, but not budgeted for on a permanent basis where this would not be necessary.

	2019 (unaudited)	2020 Projected*	Variance between 2019 (unaudited) and 2020 Projected
	£'000	£'000	£'000
Operating expenses			
Staff costs	(12,814)	(14,569)	1,755
Computer systems	(1,492)	(1,889)	397
Other operating costs	(4,369)	(5,805)	1,436
Total operating expenses	(18,675)	(22,263)	3,588

Future

In the final years of our strategic roadmap, we do not expect to require the same level of fee increase as our capital investment programme will be reducing. This will only be the case if drivers of cost, such as new functions, do not arise.

Our budget does not include what would be required to fund the JFSC taking up work related to a Jersey Resolution Authority or any work we might do with the (Interim) Financial Stability Board. Equally, it does not include costs for any other roles which we may be given, including potential work on Consumer Lending and Pensions regulation. We will transparently identify the costs of any additional work we may do.

› Appendix 1: Summary of key financials

	2019 (unaudited)	2020 Projected	Variance between 2019 (unaudited) and 2020 Projected
	£'000	£'000	£'000
Regulatory fee income	14,428	16,082	1,654
Registry fee income	4,443	5,268	825
Other income	677	967	290
Total Income	19,548	22,317	2,769
Staff costs	(12,814)	(14,569)	1,755
Computer systems	(1,492)	(1,889)	397
Other operating costs	(4,369)	(5,805)	1,436
Total operating expenses	(18,675)	(22,263)	3,588
Litigation costs	(215)	(600)	385
Investing capital expenditure costs	2,817	4,756	

Notes:

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