

# Innovation Report 2022

# INNOVATION



Jersey Financial  
Services Commission

# Innovation Report 2022

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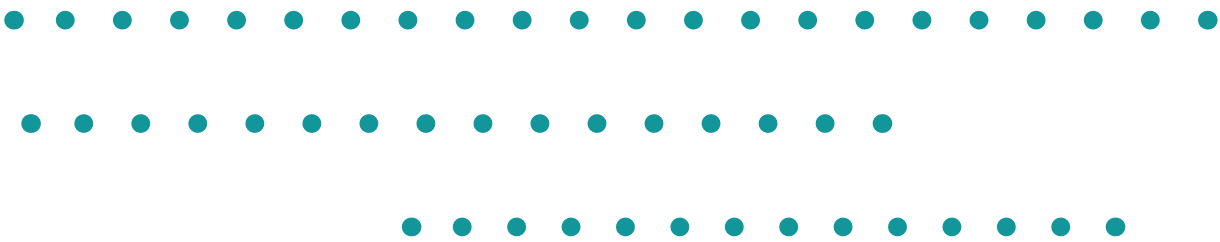


# Introduction

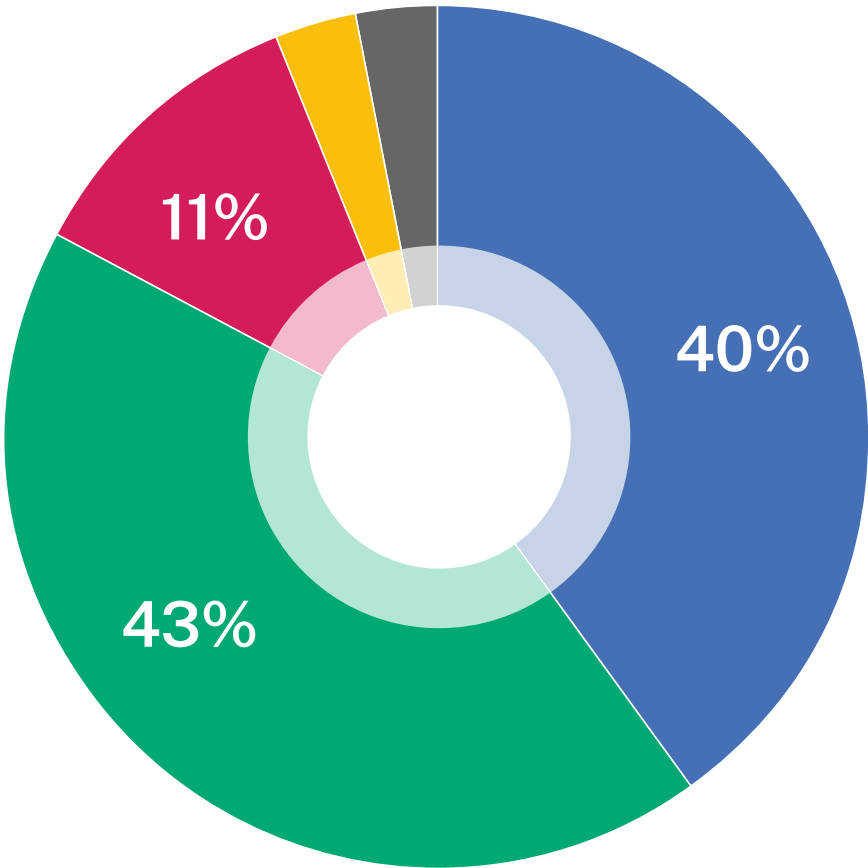
 Our Innovation Hub was established to ensure open and active engagement with businesses innovating within financial services.

The Innovation Hub (the Hub) provides a direct and dedicated point of contact for all businesses. This engagement allows the Hub to identify and respond to emerging risks and opportunities for the Island. It also helps us understand developing technologies that might be of interest to businesses.

The purpose of this report is to highlight significant activities we have undertaken throughout the course of 2022 and provide insight into the nature of the enquiries we have received. Particular highlights include the report we commissioned looking at the barriers to adopting regulatory technology (RegTech) solutions and the joint Consultation Paper we issued with Government on facilitating the adoption of Digital ID Systems. This report also provides a high level summary of the plans we have for 2023.



## 2022 Innovation Hub Enquiries



Regulatory technologies (40%)



Fund and Fund Services (3%)



Virtual assets/Blockchain/  
Web3 (43%)



Other (3%)



Banking/payments/Electric  
Money Institutions (11%)



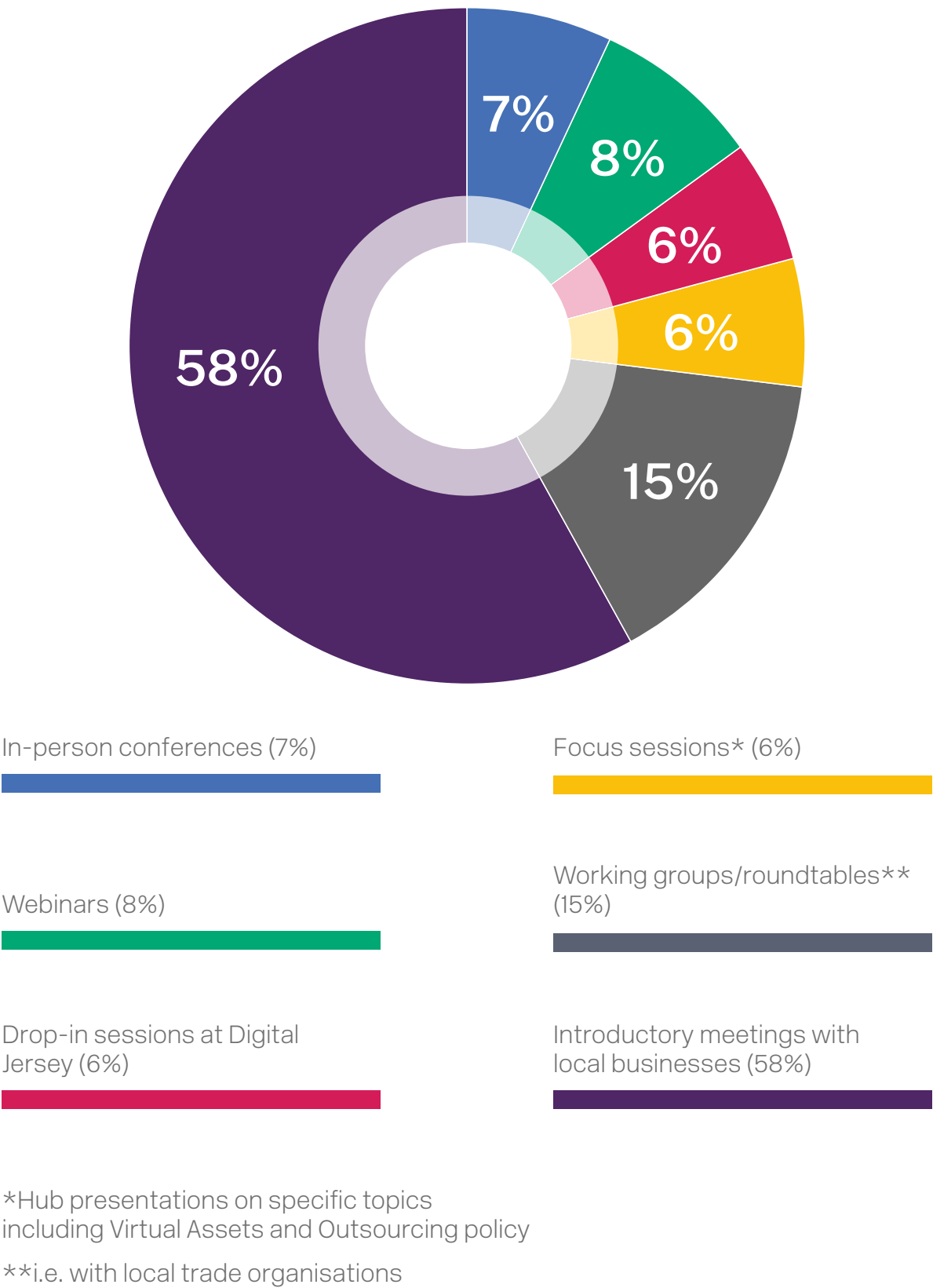
# Events

Within Jersey, our key stakeholders include technology firms and entrepreneurs, Digital Jersey, Jersey Finance and the Government of Jersey. Internationally we continue to engage with other regulators through the Global Financial Innovation Network (GFIN) and the International Organisation of Securities Commissions (IOSCO). The Innovation Hub is committed to enabling and facilitating technology-positive businesses through the development of clear and appropriate financial regulation.

In 2022 we demonstrated our commitment to open and active engagement with innovation-related firms and stakeholders. This engagement included meeting with academics, industry represented bodies, other regulators, governmental agencies and regulatory groups. On-Island, we offered more engagement and steer on the regulatory framework, through our drop-in sessions we held at Digital Jersey. Additionally, we recognised there was interest from industry in holding focus sessions and aligned these sessions with upcoming consultation papers.




Type of engagement





# Innovation Hub in 2022

 In 2022 we proactively engaged with both FinTech and RegTech sectors. We undertook 68 outreach and engagement sessions, including one-to-ones with firms and targeted sessions at the Digital Jersey (DJ) Hub. As well as this, we attended trade associations and working groups as part of Government MONEYVAL events.

We have shown our commitment to industry by providing assistance to those wishing to navigate the regulatory landscape and have provided resources on how to do so. Engagement ranged from organising monthly drop-in sessions at the DJ Hub, to presenting on our published RegTech report and providing ad hoc assistance to entities through our Innovation Hub mailbox.


The vast majority of entities approached the Hub mailbox directly; however, we did receive a number of queries via Digital Jersey referrals. A key theme that arose from the Hub drop-in sessions related to E-ID, signifying a real change in the narrative surrounding RegTech adoption.

It is important that as a regulator we prepare for the future. We aim to achieve this by ensuring our regulations are fit for purpose in a rapidly changing environment. The Hub will continue to collaborate as we drive forward a pro-innovation approach to regulating financial services. We will continue to provide early intelligence on innovations, especially when they are developed outside of the regulatory perimeter.

The Hub's role is to enable change, not only in the firms we regulate, but equally as important, at the JFSC, so that we can continue to regulate effectively and achieve our objectives. In order to work towards our goal of being a high performing organisation we need to challenge our own approach to regulation. We need to adopt 'SupTech' programmes to become more efficient and effective, to keep in step with the sweeping change that technology is instigating in markets and firms that we regulate. We began work in 2022 looking at how technology can change the interface between ourselves and regulated firms, by exploring how we can make our codes/handbook machine readable and executable and will continue progressing this throughout the course of 2023.



# RT Associates report

 In July, we hosted an event at the Royal Yacht Hotel to present the findings of an independent report we commissioned on the barriers to adoption of RegTech in Jersey. The report conducted by RT Associates employed deep-dive qualitative interviews following a quantitative survey to assess how local financial services businesses viewed RegTech adoption.

To support the joint ambitions with industry, we have intended to accelerate our internal capabilities and external support of RegTech adoption. This will include:

- › Increasing investment in our Innovation Hub supporting FinTech, SupTech and RegTech
- › Providing greater clarity on our regulatory expectations through expanded outreach and engagement
- › Collaborating with other agencies on skills development to support enlarged capability for us, government and industry
- › Clarifying and simplifying the regulatory framework to enable the digitalisation of regulatory content
- › Developing regulatory submissions so that they are 100% 'digital by design' by the end of January 2024

RegTech has the potential to free up large sums of operational and capital expenditure, which is currently spent on compliance. At the Hub, we have worked to encourage innovation and adoption in technology through our RegTech work, working collaboratively to unlock the complexities and costs of regulation in new and creative ways. By commissioning this report with RT Associates we were able to identify the shared challenges industry are facing, with the aim of helping to assess and mitigate those problems at the regulatory interface. The work conducted by the report has supported our objectives of being a key enabler of digitalisation, by creating an environment that supports digital adoption and avoids unintended regulatory obstacles.

An initial response to the RT Associates report was in the publication of 'Our Response' which sets out how the JFSC will address the recommendations set out in the report. This document sets out actions and commitments which the Hub will continue to drive forward into 2023.

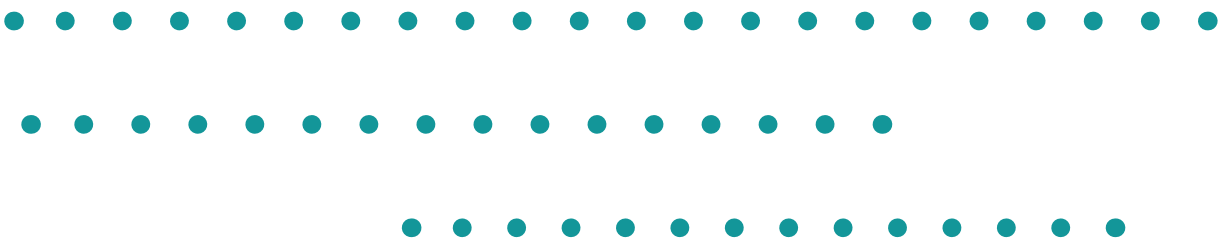
# Consultation

➤ Before we make any changes to our Codes of Practice, handbooks, fees, policies, regimes or legislation, we outline our proposals in consultation papers. We ask questions and invite feedback from Jersey's financial services industry, local agencies, trade bodies, and the general public.

In May 2022 the Hub issued a joint consultation with Government on facilitating the adoption of Digital ID systems. The aim of the consultation was to seek industry views on solutions to significantly increase the adoption of Digital ID Systems to meet CDD requirements. The consultation explored three previously identified barriers to adoption, which respondents were asked to affirm, elaborate upon, or dispute.

The output resulted in a feedback paper being published and committed to proceeding with option 1 - to provide further clarity around the existing regime, enhancing Section 4 of the AML/CFT handbook and incorporating Digital ID into Law. The paper also committed to proceeding with a modified version of option 2 – establishing an accreditation framework in which Digital ID Systems and their providers are accredited.

We also assisted in the publication of the revised Outsourcing Policy, due to the nature of outsourcing being intrinsically connected to technology. Further information can be found on our website.





# Global trends and initiatives

 The exact size of the FinTech industry is hard to define but we do know that the growth of FinTech will be dependent on a variety of factors, including regulatory changes, technological advancements and market demand. As we look forward into 2023 and beyond there are some clear trends which indicate the following technologies may start to gain market adoption.

## Open Banking and Data

Open Banking enables consumers and businesses to securely share their bank account and transaction data with trusted third parties to access financial applications and services. These services can include personal finance tools, mortgages, investment management applications and many more. According to Statista predictions, 63.8 million people will use open banking in 2024. This is almost five times more than in 2020.

### Jersey Prediction: 1/2 Years

**Requirements:** PSD2-lite requirements for mandatory inclusion.

The Open Banking Directory opened its platform to financial institutions located in the Crown Dependencies in 2022. This allows certain banks and financial institutions in Guernsey, Jersey and the Isle of Man to participate in, and benefit from, the open banking ecosystem.

Joining allows participants to voluntarily connect to Third Party Providers (TPPs) which are already enrolled in the OBIE Directory for PSD2. Businesses can also join the Confirmation of Payee (CoP) account name-checking service offered by Pay.UK which aims to help combat Authorised Push Payment (APP) fraud and protect customer funds.

The Innovation Hub is engaging with our partners at Jersey Finance, Government of Jersey and Digital Jersey to explore opportunities for the rollout of Open Banking initiatives in Jersey.

## Artificial Intelligence (AI)

When ChatGPT launched in November 2022, it thrust Artificial Intelligence into the mainstream with the tool reaching 100 million users within two months of its launch. According to Mordor Intelligence researchers, AI will become a defining technology for the financial services industry. Examples of where AI has already made a significant impact include the global banking industry, which McKinsey estimates AI has generated \$1 trillion of added value. By 2026, current predictions estimate that the AI market will grow more than three times.

The UK government has laid out its first national strategy for AI last September and the 'Establishing a pro-innovation approach to regulating AI – an overview of the UK's emerging approach' paper now sets out its regulatory aspirations. Under the proposals, individual regulators (e.g. FCA, Competition & Markets Authority and Information Commissioner's Office) will be asked to interpret and implement the principals. They will be encouraged to consider what are described as 'lighter touch options' that could include guidance and voluntary measures or use of regulatory sandboxes.

### Jersey Prediction: 3+ Years

**Requirement:** Amendments to Code of Practice to explicitly allow use of AI while determining acceptable parameters.

The current use of AI within financial services markets are predominantly retail focused. The structure of Jersey's financial services industry is heavily weighted towards institutional players, therefore it is likely to be a number of years before AI technology is used at scale within the financial services sector. We will continue to monitor technology developments in this space.

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## Virtual Assets, Blockchain and Asset Tokenisation

According to the OECD, blockchain has the potential to transform the functioning of a wide range of industries. Its features can increase the transparency and traceability of goods, data and financial assets, facilitate market access and improve the efficiency of transactions.

Asset tokenisation is the process by which an issuer creates tokens on a blockchain which reflect digital or real-world assets. Asset tokenisation can represent assets 1:1, represent a basket of underlying assets or even fractionalise a larger asset. There is a wide range of tokenised assets which may be fungible or non-fungible. Tokenising real-world assets can reduce costs and increase transferability of these assets.

### Jersey Prediction: 2 Years

**Requirement:** Virtual Currency Exchange Businesses have been required to register with the JFSC since 2016 and are subject to anti-money laundering/countering the financing of terrorism/countering proliferation financing (AML/CFT/CPF) legislation.

The introduction of a formal VASP regime in 2023 is intended to provide the market with the clarity needed to establish Jersey as their place of business. In H2 2023 the Innovation Hub will assess the collected data to explore enhancements to the VASP conduct regime and consider the introduction of different regimes depending on the different VA activities

## Cloud Computing

Financial service businesses are increasingly turning to third party cloud service providers to host their key data and software services. Cloud solutions can help businesses to increase scalability and flexibility while also reducing their cost base.

### Jersey Prediction: 1 Year

**Requirement:** Update to Outsourcing Policy.

Throughout 2022 we saw a material increase in notifications made in relation to Cloud Services. We expect this to increase with the clearer guidance provided for within the Outsourcing Policy.

# 2023 and beyond

We will continue working with the Government of Jersey and other key stakeholders to help deliver on the commitments made resulting from the RT Associates report. Internally, we will continue to improve our own digital capability and how we use technology to better focus our finite resources on the highest risks.

As we head into 2023 there are a few key areas which the Hub will be focusing on:

- › Call for Input – what would industry like to see from us?
- › Continued outreach and engagement with technology, focused businesses and entrepreneurs
- › Amendments to Section 4 of the AML/CFT/CPF handbook in respect of Digital ID
- › Review the data collected through the VASP registration process and the subsequent exploration of enhancements to the regime







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