ISLE OF MAN FINANCIAL SERVICES AUTHORITY

Supervisory Methodology Framework

19 May 2023

Agenda

- Background
- Impact Assessment
- AML/CFT Risk Assessment
- Supervision Structure
- Engagement Model
- Assessing Risk
- Governance

Background

Authority Strategic Plan - 2018-2021 & 2021-2024

- Strategic Priority Number 2 - Supervisory Methodology
- Project established - June 2016.

Key project components:

- Establish a risk based supervisory methodology framework
- Use “Impact” as an overlay to determine the engagement model
- Develop a risk universe to be applied to all regulated entities
- Record and manage risk consistently

Aim:

- Risk at the centre of a supervisor’s mind
- Assess risk on a forward looking basis with greater use of supervisory judgement.

Focus:

- Addressing the most important risks posed by regulated entities to the Authority’s supervisory objectives.
- Identify areas of emerging risk – supervisors intervene early and prevent risks from crystallising.

- Critical for Authority to have adequate knowledge of regulated entities who have the greatest capacity to negatively impact the Isle of Man economy.

Background – Ongoing Developments

IOSCO

GIFCS

IAIS International Association of Insurance Supervisors

BIS

MONEYVAL

Why?

- Require a consistent framework for the Authority to supervise across all regulated sectors.
- To facilitate supervisory planning
- Enable the Authority to have defined understanding of priorities.
- Assist the Authority to set parameters around risk appetite.
- The Authority has finite resources

Impact or Risk Driven

Impact Assessment

High Impact

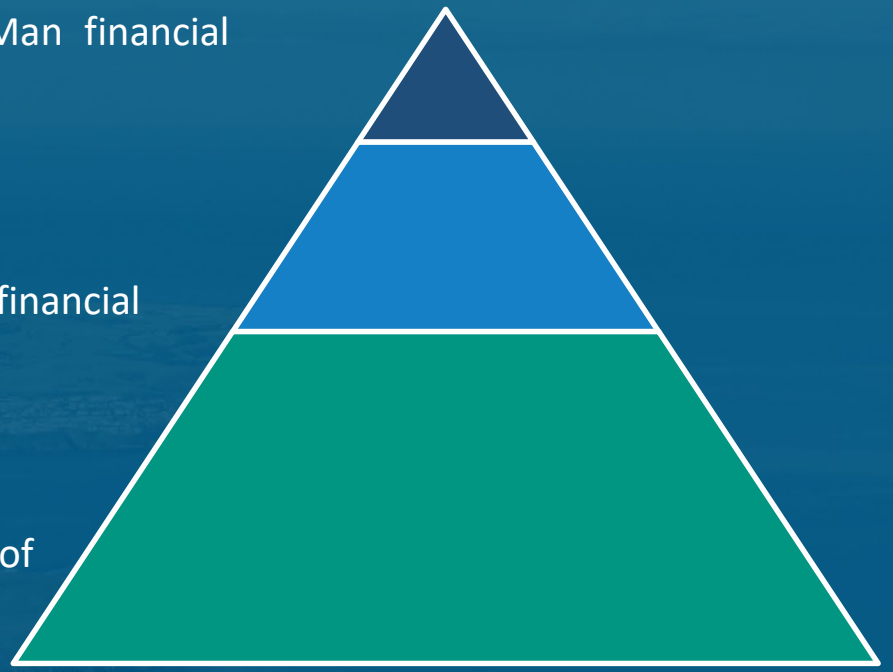
Individual capacity to cause **significant** disruption to the Isle of Man financial system and wider economy.

Medium Impact

Individual capacity to cause **moderate** disruption to the Isle of Man financial system and wider economy.

Low Impact

Individual capacity to cause **no, or only minor** disruption to the Isle of Man financial system and wider economy.



ISLE OF MAN FINANCIAL SERVICES AUTHORITY

AML/CFT Risk Assessment

High Risk

There is an **imminent risk** of **significant harm or loss to consumers or ML/TF threat occurring** without critical and immediate corrective action being taken.

Medium High Risk

There is a **risk** of **significant harm or loss to consumers or ML/TF threat occurring** without corrective action being taken.

Medium Low Risk

There is a **low to moderate risk of significant harm or loss to consumers or ML/TF threat occurring.**

Low Risk

There is **minimal risk** of **significant harm or loss to consumers or ML/TF threat occurring.**

ISLE OF MAN FINANCIAL SERVICES AUTHORITY

Supervision Structure

SUPERVISION DIVISIONS

AML/CFT SUPERVISION

AML/CFT SUPERVISION

Supervise and oversee all regulated Firms and Designated Businesses.

AML/CFT POLICY

Maintain and improve the Authority's AML/CFT Policy and guidance.

BENEFICIAL OWNERSHIP

Oversee the Beneficial Ownership Act 2017, which predominantly involves inspections to ascertain compliance with the Beneficial Ownership Act 2017.

HMI SUPERVISION

ENHANCED SUPERVISION

Lead, manage or coordinate all enhanced supervision work across all sectors and all divisions, except AML/CFT Supervision Division.

HMI SUPERVISION

Supervise all regulated Firms rated as high or medium impact (except banks and insurers).

PORTFOLIO SUPERVISION DIVISION

AUTHORISATIONS

Authorise all new regulated entities (except insurers), designated businesses and individuals.

PORTFOLIO SUPERVISION

Supervise all regulated Firms rated as low impact (except banks and insurers).

PRUDENTIAL SUPERVISION

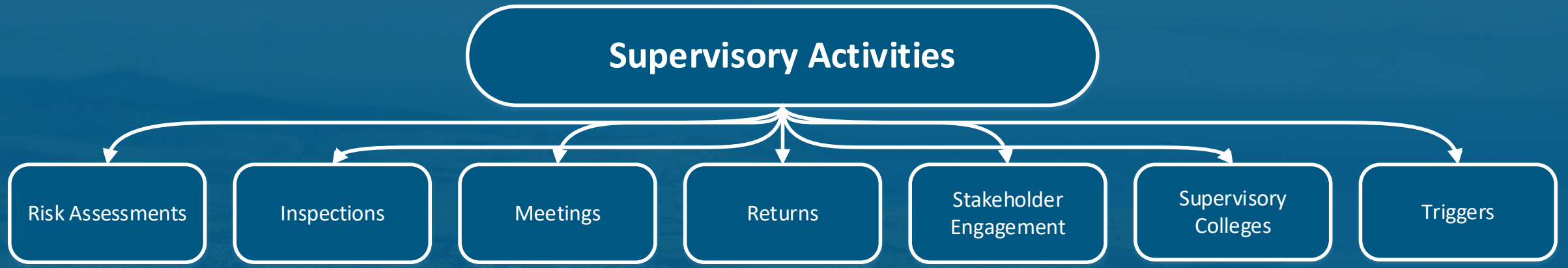
BANKING SUPERVISION

Supervise all banks.

INSURANCE SUPERVISION

Supervise all insurers and authorise new insurers.

Regulatory Toolkit



Overview

Impact Rating
Financial Crime Risk Rating
Risk Mitigation
Engagement Model
Internal Challenge
Risk Analysis

Assessing Risk

High Risk

Inherent Risk - In the absence of the risk being controlled and managed, or urgent/significant remediation, the probability of harm or loss to consumers or ML/TF threat occurring is considered to be **very likely**.

Residual Risk - There is an **imminent risk** of **significant harm or loss to consumers or ML/TF threat occurring** without critical and immediate corrective action being taken.

Medium High Risk

Inherent Risk - In the absence of the risk being controlled and managed, or remediation, the probability of harm or loss to consumers or ML/TF threat occurring is considered to be **quite likely**.

Residual Risk - There is a **risk** of **significant harm or loss to consumers or ML/TF threat occurring** without corrective action being taken.

Medium Low Risk

Inherent Risk - In the absence of the risk being controlled and managed, or minor remediation, the probability of harm or loss to consumers or ML/TF threat occurring is considered to be **small or unlikely**.

Residual Risk - There is a **low to moderate risk of significant harm or loss to consumers or ML/TF threat occurring.**

Low Risk

Inherent Risk **-** Even in the absence of the risk being controlled and managed, the probability of harm or loss to consumers or ML/TF threat arising is considered to be **very unlikely**.

Residual Risk - There is **minimal risk** of **significant harm or loss to consumers or ML/TF threat occurring.**

Risk Monitoring and Management Systems
Board and Senior Management Oversight
Clients' Assets
Strategic
Conduct
Risk Universe
Prudential
Financial Crime
Operational
Governance
Policies and Procedures
Internal Controls and Audit

Governance

A healthy culture of challenge is essential for effective and consistent supervision, in order to achieve this the Authority has established Governance Panels ("Panels"). The Supervisory Methodology Framework operates four types of Panels, all of which have a purpose of facilitating cross-divisional challenge and driving consistency of approach to supervision, supporting the Executive in satisfying itself that the Authority is exercising its judgements in a fair, proportionate and consistent manner. The specific purpose of each Panel is to:

- Provide challenge in respect of appropriate usage of the regulatory toolkit on matters of material concern, the possibility and appropriateness of remediation, and, reach consensus in respect of Enforcement Referral recommendations;
- Review and agree proposed Impact Ratings;
- Review and challenge the robustness and adequacy of Firm risk assessments and, where applicable, risk mitigation programme; and
- Identify and scrutinise processes that require consistency improvements.

Next Steps

Data Automation

New Statistical Returns

New Supervision Structure – 3 April 2023

Transition commenced

External Publication

Questions, Further Discussion