



ISLE OF MAN FINANCIAL SERVICES AUTHORITY

INDUSTRY PERCEPTIONS STUDY 2018

EXECUTIVE SUMMARY

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EXECUTIVE SUMMARY

A background image showing a group of business professionals in suits gathered around a conference table. They are looking at and pointing to documents, with one person holding a pair of glasses. A glass of water is visible in the foreground.

OVERALL IMPRESSION

Overall, the results of the Industry Survey were very positive and the role of the Authority to the Isle of Man's proposition as a responsible international financial services centre was widely recognised.

- 80% of regulated entities and designated businesses who completed the survey considered it 'very important', and a further 14% considered it 'important'.

The Authority was considered more important by regulated entities than designated businesses, which is to be expected.

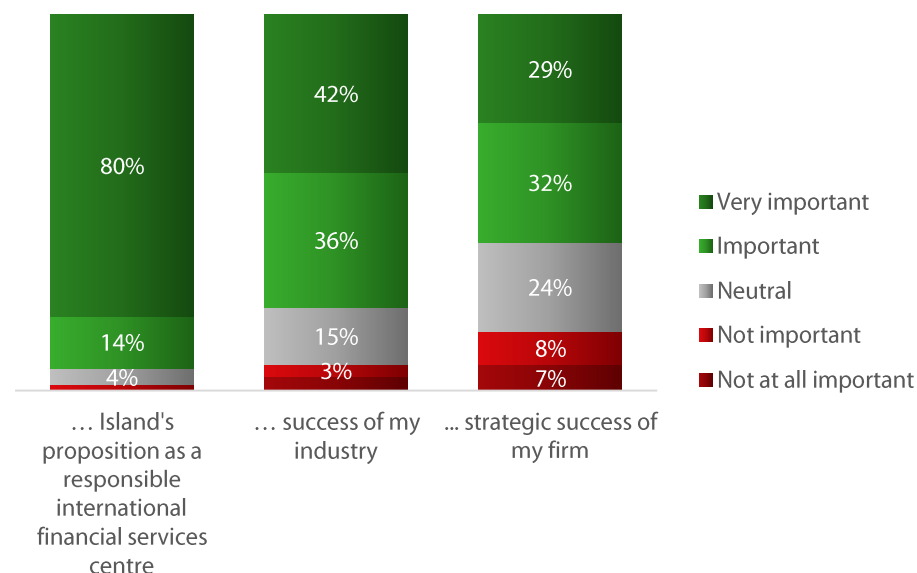
- 99% of regulated entities considered the Authority to be important or very important to the Island's proposition, 91% to the success of their industry and 74% to the success of their firm.

The majority of firms considered the Authority to be effective in achieving its regulatory objectives.

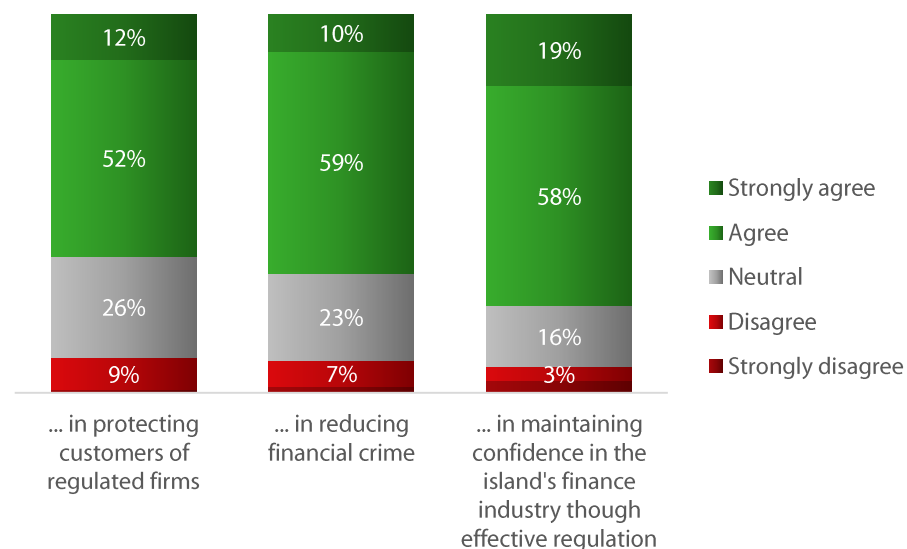
- 64% agreed (including strongly agreed) that it is effective in protecting customers of regulated firms,
- 69% agreed that it is effective in reducing financial crime and
- 77% agreed that it is effective in maintaining confidence in the island's finance industry through effective regulation.

There were also high levels of agreement that the Authority is effective across a range of responsibilities. Of these, "Taking appropriate, timely and proportionate action" has the most scope for improvement, followed by "maintaining and developing an appropriate and proportionate regulatory regime", and "providing regulatory guidance and information".

Importance of the Authority to the ...



The Authority is effective ...



APPROACH OF THE AUTHORITY

The majority of firms considered the supervisory activities to be effective, and were positive about the Authority across a range of dimensions.

- 63% of firms considered the Authority to be very or quite effective, and a further 33% were neutral.
- Medium and large firms were more likely to respond positively. These firms tend to have more interaction with the Authority, and would be more aware of the Authority's efforts.
- One aspect where the Authority was rated less well was: "the Authority intervenes at an early stage". This partly reflects a lack of information about the Authority's actions, but also corresponds with MONEYVAL conclusions that there are few examples of enforcement actions.
- The Authority was also rated less well in its impact on consumer protection and prudential requirements, although respondents indicated that these were often areas where the firm would act irrespective of the Authority's requirements.

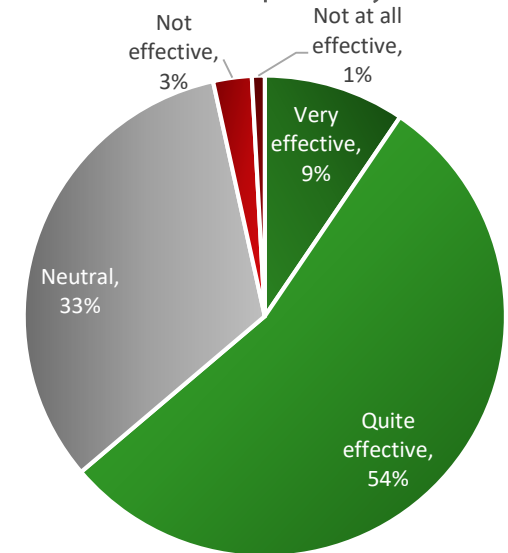
More than half of firms (58%) had seen a change in the Authority's approach in the past 24 months.

- Of those, 56% said it had improved, 30% said it was neither better nor worse, and 13% said it was worse. Improvements included enhanced communication with industry, with respondents noting the Authority was now more open and approachable. However, there were also critics who argued the opposite.

Firms also provided detailed feedback on on-site visits, fitness and propriety assessments, authorisations, registration, and enforcement and overall the survey results were generally favourable.

- As earlier, medium and large firms tended to give more positive feedback than smaller firms. Also, regulated entities were more positive than designated businesses. Again, these results are likely to be reflective of their level of interaction and an enhanced awareness of the Authority's activities.

Effectiveness of Supervisory Activities



ENGAGEMENT WITH THE AUTHORITY

The majority of firms are satisfied with their relationship with the Authority.

- 86% were satisfied or very satisfied, a further 12% opted for a neutral, and just 2% were dissatisfied.
- Regulated entities were more positive than designated businesses, as were larger businesses compared to small. These results correlated with those who have more contact face-to-face or via by telephone.

Feedback on the Authority's staff was favourable.

- 41% of respondents rated their overall experience of staff from the Authority as very good, and a further 43% selected good. Only 13% said moderate and 3% said poor.
- Staff also performed well across a range of questions that asked about their technical ability and professional conduct. Again the results were slightly more positive among from medium/large firms than smaller firms, which may reflect more regular or extensive interaction.

Firms were generally positive about the guidance available from the Authority.

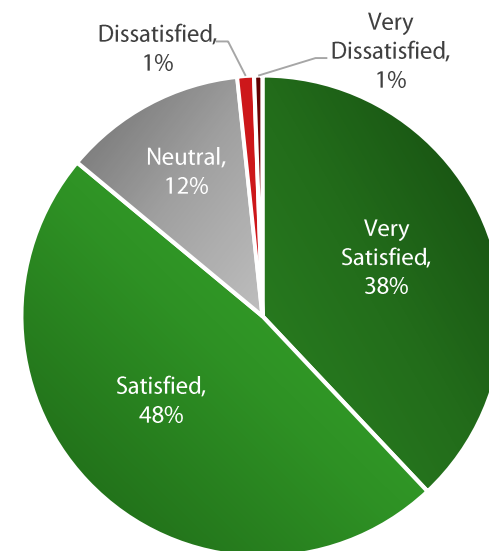
- Firms appreciated the clarity of content and events held, though there could be scope for the Authority to improve the timeliness of updates, and improve the balance between regulatory objectives and the burden of compliance.

The results on consultations were much more positive than negative, though there were large numbers of 'moderate' responses. This was often due to firms' limited capacity to engage in the consultation process rather than problems with the process itself, although some issues were noted.

Other forms of engagement were also generally well received.

- Most firms found events and publications to be useful.
- The website had more mixed feedback –problems noted were more about the ability to find information than the clarity and relevance of the information available.
- Relatively few had accessed the statistical information collated on the Authority's website, but where it had been used the feedback was general positive.

Satisfaction with Overall Relationship



PERCEPTIONS IN A CHANGING ENVIRONMENT

Overall, the feedback from the in-depth interviews with individuals from a sample of regulated entities and designated businesses was more mixed than the survey results. A wide range of views were expressed. We have sought to make sense of the views expressed with regard to the respondents' own experience, firms characteristics and contextual factors.

Individuals' perceptions of the Authority were often described in the context of a changing environment and how it is impacting on their firm, reflecting on how the Isle of Man responds to the increased scrutiny on off-shore finance, and the increasing regulatory requirements.

Most talked about the challenges of doing business in the prevailing environment. Some questioned whether the regulatory standards in the Isle of Man were too stringent, as the burden of regulation increases and negatively impacts on firms' competitiveness. Others recognised that it is important to comply with demands for disclosure and transparency, and for a few doing so meant they were better able to compete in new markets.

The MONEYVAL assessment, along with a few high profile cases, have had a considerable impact on how the Authority is viewed. MONEYVAL has left industry feeling unsettled. A few were concerned there is a need to find 'scapegoats'. Others were more emphatic, suggesting there were few cases either because there was nothing to find or the Authority was 'doing its job'.

The formation of the Authority following the merger of FSC and IPA was another source of change, though in the main it was not a cause for concern.

Changing environment for off-shore finance	Changes in the Isle of Man and response to global pressures	Evolving and increasing regulatory requirements	Impacts on competitiveness of the finance industry
<ul style="list-style-type: none">• Increased scrutiny on off-shore finance• Growing demand for disclosure and transparency (e.g. EU substance, and beneficial ownership)• New international standards and norms (e.g. AML/CFT)	<ul style="list-style-type: none">• Complying with demand for disclosure and transparency• Political aspirations for "gold-plated" regulation• MONEYVAL assessment• High-profile cases• Single regulatory body following FSC-IPA merger	<ul style="list-style-type: none">• Strengthens international reputation• Additional regulatory burden• Uncertainty relating to new requirements	<ul style="list-style-type: none">• Differential impact on firms depending on nature of business, client base and risk appetite

THE QUESTION OF PROPORTIONALITY

Individuals were encouraged to reflect on their experience of supervision, and comment on the extent to which they favour a principle-based, rather than prescriptive, approach. Divergent and sometimes contradictory views were expressed, though they often centred on the question of proportionality. What an individual considered to be proportionate depended on a range of factors, including their assessment of the risks associated with their business, their experience of supervision in the past or elsewhere, and their own role and preferences.

Overall, most were happy with their experience of supervision from Authority, although they could also identify examples where the regulation, or the supervisory approach, seemed unnecessary or disproportionate. A minority were more critical, often because the regulatory requirements adversely impacted on their ability to compete internationally, or because they considered the costs of compliance were too high relative to the risks faced.

When regulation was considered disproportionate, or where supervision focused on the minutia, individuals were more likely to question whether the Authority understands the impact on their industry. This led several individuals to conclude that the Authority needs to strengthen its relationship with industry.

Many respondents recognised that a more principle-based approach has the potential to offer greater flexibility in how a firm responds to the regulatory requirements. This approach was often welcomed by those who had a business development role. A few cited examples of when the Authority had focused on the principles. However, others raised concerns that it would be much harder to demonstrate compliance against principles than against rules. The challenges raised included, whether staff at the Authority had a good enough understanding of their business and the risks involved, whether the principles would be applied consistently, and whether the cost of compliance would increase as what is required becomes more uncertain.

Firms may benefit from a better understanding of how the Authority approaches supervision and oversight – especially those where the interaction is relatively infrequent, or where the sector has been subject to considerable regulatory change. It may also help to provide clarity given the changing environment and address the concerns that remain among some following the MONEYVAL assessment.

AUTHORITY'S VIEW OF PROPORTIONATE REGULATION AND SUPERVISION



INDIVIDUAL'S VIEW OF PROPORTIONATE REGULATION AND SUPERVISION

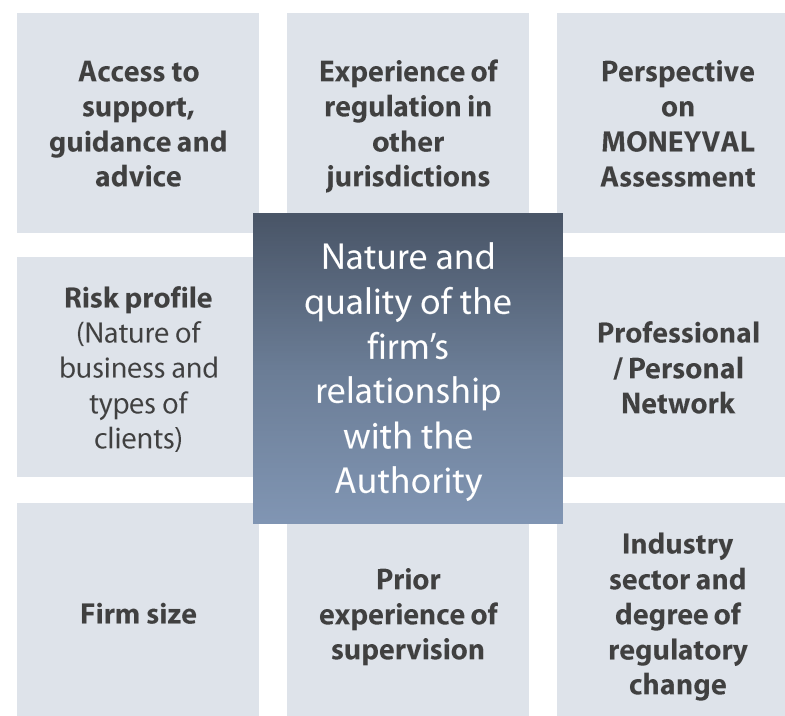
• Nature of Business	(including risk relating to range or complexity of products / services)
• Portfolio of Clients	(individual consumers or corporate clients)
• Prior experience	(e.g. FSC vs IPA approach, other jurisdictions, previous employment)
• Own role and responsibilities	(e.g. business development vs compliance)
• Own preferences	(e.g. approach to work, communication, attitude to risk)

NATURE OF THE RELATIONSHIP

Firms were asked about their relationship with the Authority and the level of engagement. Individuals described the frequency of their contact with the Authority, and commented on whether they felt it was an open and productive dialogue, and whether they felt supported.

Again, a wide range of views were expressed. Most spoke very positively about their relationship manager, even if in other respects they felt their relationship with the Authority could be improved. On the whole, the firms we spoke to fall into one of four categories:

- **Firms that have a close relationship with the Authority, have regular interaction and feel supported.** This group tends to include larger firms and firms that may pose higher risks. They typically describe an open and productive relationship, good access to formal and informal guidance. Individuals tend to have greater exposure to the Authority, either from previous roles, employment or through their network. This group were also more open to a principle-based approach to supervision.
- **Firms that have limited interaction but are content.** This group tends include smaller firms with supervisory visits every 3-5 years. Individuals are content with their engagement often because they have access to support or guidance from elsewhere (personal experience, professional networks, part of larger Group) or because the nature of the business means the regulations are straightforward to apply.
- **Firms that have limited interaction and would like more support.** This group tends to include smaller firms who have limited access to support or guidance from elsewhere, or where the industry or the regulations are going through a period of change. Some firms appeared reluctant to ask questions of the Authority, but would welcome more informal opportunities to interact and seek guidance.
- **Firms that are unhappy are an important minority.** This group feel particularly unsettled by the prevailing environment, and are concerned that how the Authority will respond to the MONEYVAL assessment will negatively impact on them or their industry. These firms are also more likely to be sectors facing more regulatory change. Some expressed a desire for a more constructive relationship. In a few cases the relationship has completely broken down and they may use intermediaries to ask questions.



FEEDBACK ON GUIDANCE AND CONSULTATION

DEVELOPING EFFECTIVE GUIDANCE

Overall, firms were happy with the written guidance available from the Authority.

There were some requests for updated guidance on AML/CFT for those working in the insurance sectors. Investment businesses and designated businesses also indicated they would welcome some updated guidance.

In terms of content, most respondents were happy with the information provided and found the examples included very helpful. Most felt that they had the balance right, though a few individuals (often those who favoured a more prescriptive approach to supervision) would welcome additional guidance.

The one aspect where there may be more scope to improve is ensuring the guidance is easy to find and easy to navigate. Several commented that it could be difficult to find the relevant guidance on the website, and suggested improving the search function – both on the website and within a PDF. Another suggested using hyperlinks to make it easier to find the relevant section within the rule book.

Several individuals noted the events and workshops hosted by the Authority were useful – especially the one on MONEYVAL. In general, face-to-face contact with the Authority was welcomed. It is seen as a mechanism to engage with the Authority, and potentially to seek its opinion informally.

A few also suggested that the Authority attend more industry events, as this would help them better understand key issues for industry, as well as appear more approachable and accessible.

OPTIMISING THE CONSULTATION PROCESS

Firms were asked for feedback on how they found the consultation process. Most firms monitored the consultations, though were selective in when feedback was given, focusing on the issues that were relevant for their firm or when they had concerns. Thus, a limited response to a consultation may reflect either a limited interest in the topic or no concerns with what was proposed.

Larger firms had more capacity to participate in consultations, and would often feedback directly and via the industry body. Smaller firms were less engaged, often relying on the industry body to form a response, but would respond from time-to-time, usually via the industry body.

Of those who had participated in the consultations, most said they felt that the scope and content of the consultations were clear. Most felt that the timeframe to respond was adequate, though a few noted examples when the timeframe was very tight or the timing was difficult.

Individuals in the insurance sector noted the extensiveness of the consultations, but most appreciated the extent to which the Authority sought feedback.

Frustrations that were expressed tended to relate to specific instances, often where they felt the timeframe or timing of the consultation was sub-optimal, where feedback was not taken on board or where the developments were moving slowly (e.g. alternative banking regime). Overall, the majority noted recent improvements in the coordination and timing of consultations.

A few individuals noted that consultations may benefit from any efforts the Authority takes to strengthen its relationship with industry and better understand the pressures they face.

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