



ISLE OF MAN
FINANCIAL SERVICES AUTHORITY

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ISLE OF MAN FINANCIAL SERVICES AUTHORITY

2025–2027 SUPERVISORY PRIORITIES

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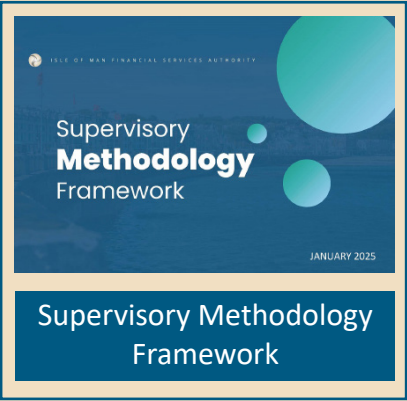
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Introduction

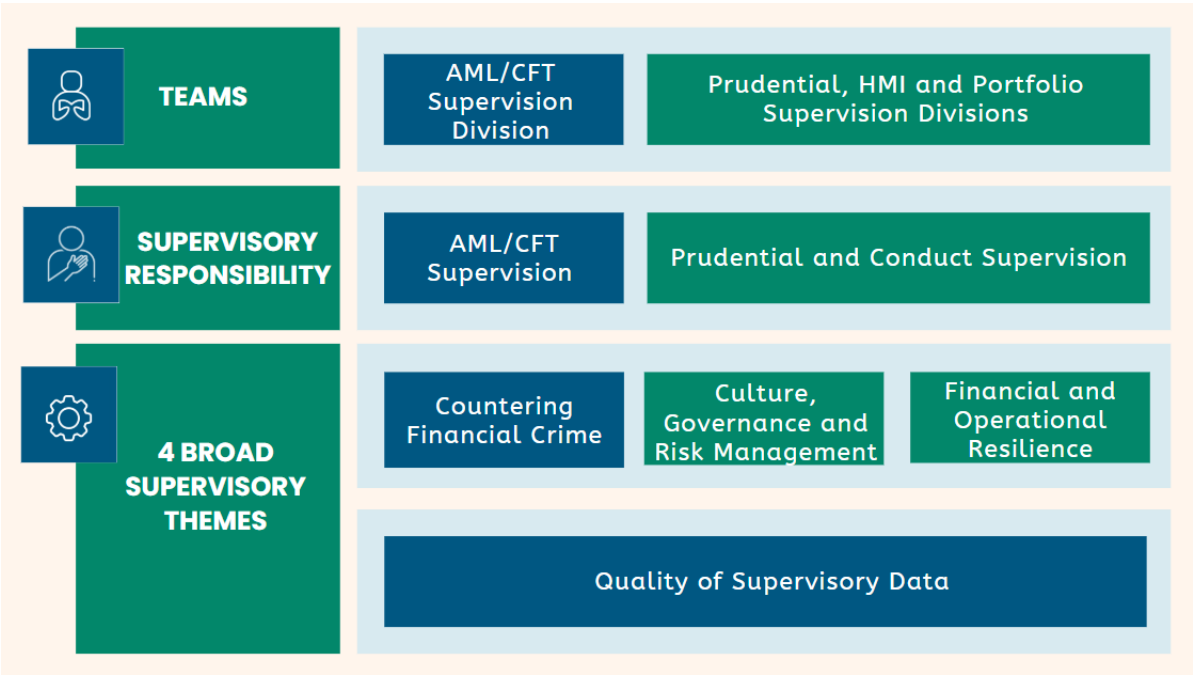
Our broad supervisory themes

The Isle of Man Financial Services Authority (“the Authority”) supervises a large and diverse population of firms and undertakes supervision and oversight of these firms through four dedicated supervisory divisions that

work closely together – AML/CFT, Prudential, Portfolio and HMI. As part of planning across the Authority, we have grouped our supervisory priorities into the following four broad themes:



The high-level divisional responsibility in relation to the four broad themes is set out in the diagram below:



AML/CFT Division supervisory priorities

In addition to the supervisory priorities highlighted in this publication, the Authority’s AML/CFT Division is delivering a programme of supervisory, policy and

outreach work as set out in the [news release issued on 19 March 2025](#) and the [AML/CFT Supervisory Priorities document](#).

Supervisory priorities linked to strategic pillars

Our priorities for the supervision of Island firms align to the [Strategic Plan 2024-2027](#) published in October 2024. Our external supervisory priorities mainly link to the following strategic pillars:

Frameworks

- *“Focus our resources on the biggest risks to our regulatory objectives and achieve better outcomes by driving a consistent, proportionate and proactive approach to supervision.”*
- *“Utilise our regulatory and legislative frameworks to remain aligned with international standards, provide effective protection for consumers, and create opportunities for quality new business.”*

Infrastructure

- *“Enhance our data collection and analysis to support informed risk-based decision making”.*

Culture, Governance & Risk Management

Consumer value, fairness and outcomes

The Authority expects all regulated firms to embed the right culture to effectively manage conduct risk. This includes having robust governance and risk management structures in place to understand and identify the risks faced by consumers when they use firms’ products and services, and to ensure that consumers obtain fair value and do not suffer from poor outcomes.

PRUDENTIAL SUPERVISION

The Prudential Supervision Division already has several workstreams in progress that are consumer focused and will continue to undertake supervisory work to assess how firms treat consumers with a view to delivering fair value, fairness and avoiding poor practice or behaviour.

We plan to conduct the following consumer-focused work over the next two years:

- Continue engagement with banks on their approach and practices to managing APP fraud risks, including consumer education and awareness, systems and controls, and reimbursement.

- Monitor trends in the local mortgage market.
- Understand and review firms’ commission and fee models (including disclosures) in the context of sales of financial products and services, especially when firms distribute through third parties. (For life insurance this may include follow up work on broker monitoring)
- Review the practices of life insurers in respect of unit-linked matching and their treatment of suspended assets.

PORTFOLIO SUPERVISION

The Portfolio Division has completed its recent thematic review on Financial Advice and will continue to undertake supervisory work focused on assessing how firms treat consumers with a view to delivering value, fairness and avoiding poor practice or behaviour.

To continue on this theme, we plan to conduct the following consumer-focused work over the next two years:

- 2024/25 Advice Thematic follow-up.
- Industry outreach relating to the Authority's expectations for the orderly winding up of regulated businesses.
- Client Asset Reporting.

HMI SUPERVISION

During this fiscal year the HMI Division will be reviewing the complaint handling process to assess how firms treat consumers with a view to delivering fairness and avoiding poor practice or behaviour. During 2026/27, we plan to

conduct consumer-focused work to understand and review firms' commission and fee models (including disclosures) in the context of sales of financial products and services, especially when firms distribute through third parties.

Quality of oversight and assurance

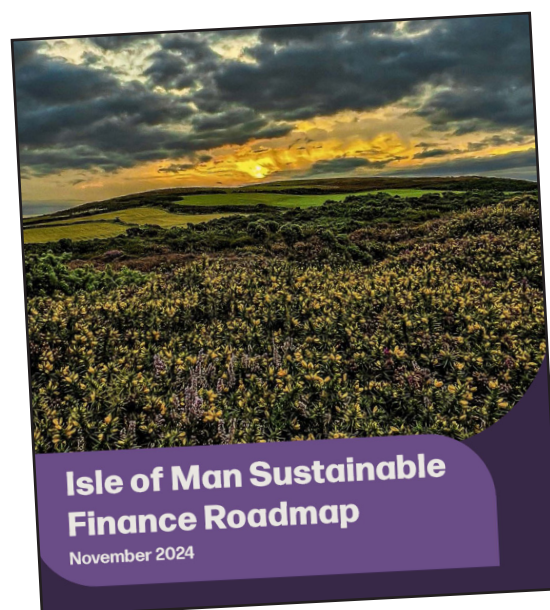
Robust governance and risk management structures are not only important for the management of conduct risk. Having strong risk and assurance functions, and appropriate board/senior management oversight across a range of risks are critical parts of good governance, particularly where firms may be facing different challenges (for example from climate risk or AI), going through significant change (for example growth or digitisation), or having inherently greater business model complexity, with functions being outsourced.

PRUDENTIAL SUPERVISION

In this respect the Prudential Division plans to undertake supervisory work covering the following areas:

- Review how relevant banks and life insurers govern and oversee the operations of their overseas branch structures.
- Understand in greater depth banks' business models where they are undertaking other regulated activity (for example investment business).
- Continue to engage with a range of firms who are going through significant change projects (including if this involves the extended use of new AI tools).
- Review the governance of material assumptions and models used by life insurers.

The Division will also factor in any supervisory work that may arise from the [Island's Sustainable Finance project](#),



including with reference to the published [sustainable finance roadmap](#). For example, this could include keeping abreast of firms' approach to the risk management and governance of climate-related risks.

PORTFOLIO SUPERVISION

In respect of the quality of oversight and assurance, the Portfolio Division plans to undertake supervisory work covering the following areas:

- Conflicts of Interest
- Delegation of Functions, including Material Outsourcing.
- Follow-up industry outreach on Breaches and Notifications.

HMI SUPERVISION

The HMI Division has been undertaking a series of inspections on strategic and operational risk.

Strategic Risk: To establish whether the firm’s strategic planning aligns with the risk appetite / tolerance statement and incorporates a robust risk management framework to identify, assess, measure, monitor, control, and mitigate all reasonably foreseeable material risks to its objectives

Operational Risk: To confirm the Authority’s understanding of the firm’s operational risk management and control framework through a review of documented

accountability, policies, procedures and Board reporting processes concerning the identified risks and mitigating measures.

Strategic and operational risk were selected for the thematic inspections to give a top-down/bottom-up view of the risk frameworks within firms.

These inspections began in 2024 and will complete during the current fiscal year. Thereafter, during the 2026/27 fiscal year the HMI Division plans to provide thematic feedback to industry on the overall findings.

The role of the Board and compliance function and, where applicable internal audit, remain important areas of focus for the Authority. Appropriately resourced, experienced and independent compliance and internal audit functions remain key components of good governance and risk management, in both small and larger firms.

PRUDENTIAL SUPERVISION

Considering “impact”, the Prudential Division therefore plans to:

- Continue to assess the adequacy and effectiveness of firms’ compliance and internal audit functions as part of our risk assessment process and address any shortcomings, including where activities or functions are outsourced.
- Utilise the work of internal audit to aid our supervision (for example, in the context of data quality as specified on page 9 in this publication).

PORTFOLIO SUPERVISION

The Portfolio Division intends to undertake the following thematic review:

- Board Governance and relations (including Compliance and other controlled functions (F&P)).



Financial & Operational Resilience

Managing financial pressures and shocks

The macro-economic environment continues to pose uncertainty and remains a source of risk. The Authority will continue to monitor firms' financial resilience and health through various periodic regulatory returns.

PRUDENTIAL SUPERVISION

The Division expects applicable firms to conduct appropriate stress testing and scenario analysis to understand and plan for managing financial pressures or shocks. In some cases, we have, and will continue, to request specific firms to undertake financial stress tests linked to features of their business model.

In addition to our standard supervisory engagement, which includes reviews of bank ICAAPs and recovery plans, and insurance Own Risk and Solvency Assessments (ORSAs), we will begin some further work focused on how insurers:

- Have considered their risks, options and approach in respect of possible recovery scenarios (Phase 1 of this work will focus on life insurers, with reference to paragraphs 11 and 36 of the Corporate Governance Code of Practice for Insurers 2021) and

- If in “run-off”, may, or should, be planning for a “solvent (and orderly) exit” from the market.

The Division also has several policy initiatives underway or planned across banking and insurance that are focused on financial resilience.

PORTFOLIO SUPERVISION

The Portfolio Division will be undertaking thematic reviews linked to the following:

- Financial Resources and reporting (including the use of Qualifying Subordinated Loans).



We expect firms to conduct appropriate stress testing and scenario analysis to understand and plan for managing financial pressures or shocks

Ensuring continuity of services (for consumers)

PRUDENTIAL SUPERVISION

From a consumer perspective, financial resilience of banks and insurance entities is of paramount importance. However, in a world of increasing digitisation, greater interconnections, interdependencies and complexity, coupled with management of costs and the use of third parties (including outsourcing), the focus on operational risk and resilience (and how to recover from a major operational or cyber incident) is key to maintaining consumer confidence, and protecting consumers' interests.

Our supervision will focus on the maturity of firms' frameworks in relation to identifying, understanding and safeguarding critical functions and/or important business services, how cyber threats are being managed, the extent

of outsourcing of material/significant activities or functions (within and outside of groups), the use of critical third parties and specific challenges that may arise following business acquisitions/mergers and material changes in ownership.

Some specific work-streams include:

- Reviewing and understanding banks' cyber and operational resilience infrastructure, including the use of/reliance on third parties.
- Continuing to engage closely with those firms that are undertaking significant system migration/re-platforming projects.

Critical functions and important business services

Critical functions are defined for banks as "activities, services or operations, the discontinuance of which is likely to lead to the disruption of services that are essential to the real economy of the Island or to disrupt financial stability due to the size, market share, external and internal interconnectedness, complexity, or cross-border activities of a bank or group, with particular regard to the substitutability of those activities, services or operations".

Important business service - example definition:

An important business service provided by a firm to an external end user where a disruption to the provision of the service could cause material customer detriment; harm market integrity; compromise policyholder protection; or threaten a firm's viability, safety and soundness, or financial stability.

HMI SUPERVISION

Outsourcing has become increasingly prevalent in the financial services sector, and the HMI Division's supervision will focus on the extent of outsourcing of material/significant activities or functions (within and outside of groups) and the assessment and monitoring of critical third parties. Some specific work streams include:

- Reviewing and understanding the use of/reliance on third parties.
- Continuing to engage closely with those firms that are undertaking significant outsourcing activity, for example, re-platforming projects.



We will focus on the extent of outsourcing of material activities

Business model changes and complexity

The Authority acknowledges that there are specific challenges that may arise following business acquisitions/mergers and material changes in ownership.

This is particularly so where firms may be facing significant change (culture, systems integration, aligning policy, staff training) or having inherently greater business model complexity. Further, private equity ownership can also bring unique challenges, especially in uncertain economic and geopolitical environments. Some specific work streams include:

- Reviewing and understanding the governance around

embedding new acquisitions.

- Engaging with private equity owned firms to understand the risks presented in the current environment and the resilience of the group.

Further, the Authority will continue to collect anecdotal information from firms during engagement in relation to pertinent financial services challenges such as ESG and the use of AI. This information will be used to feed into the relevant workstreams within the Authority and assist in progressing internal and wider stakeholder initiatives.

Quality of Supervisory Data

The Authority obtains a range of supervisory data on a periodic basis, covering financial and statistical information that helps build its understanding of size, complexity and risk characteristics at firm and sector level. This in turn helps shape our engagement model for firms. It is therefore important that Island firms have robust processes for ensuring the information submitted to the Authority is understood, accurate and obtained from robust and well controlled systems. Identifying shortfalls or errors in data, and correcting and improving it for future submissions, is expected.

PRUDENTIAL SUPERVISION

Whether through raising queries with specific firms, asking a small number of firms to utilise internal audit to review specific returns, or from firms' own self-reporting, the Prudential Division continues to see that the integrity of data can be enhanced. We will therefore be undertaking further work across the sectors focused on confirming, or improving, the quality of supervisory data, including:

- Introducing a new statistical return for banks, in a similar format to those already implemented for investment firms and trust and company service providers – this return will also be designed to aid our supervisory risk assessments.
- Reviewing the data we receive from insurance entities, with a view to considering any enhancements that may be needed.
- Utilising internal audit to review the robustness and adequacy of processes in place (including where processes are outsourced), this includes the current work recently commenced covering banks' annual AML/CFT return and financial flows returns.



- Reviewing the role of external audit (including regulatory guidance) in respect of expectations for review of specified regulatory returns (particularly banking returns).

PORTFOLIO SUPERVISION

The Portfolio Division will be undertaking further work as part of the thematic reviews detailed in this publication to ensure regulated entities are providing reliable and accurate supervisory data, including:

- Financial Resources and reporting (including use of Qualifying Subordinated Loans)
- Statistical Return data accuracy and oversight

- Client Asset Reporting.

Island firms supervised by the Portfolio Division will usually be the subject of only one Prudential and Conduct thematic review in any one year.

Where heightened risk is identified through ongoing supervision, one-to-one engagement will continue, including full inspections where necessary.

HMI SUPERVISION

The HMI Division will be undertaking further work across the sectors focused on confirming, or improving, the quality of supervisory data, including:

- Workshopping issues on the statistical returns with

Industry Bodies to improve accuracy.

- Reviewing the data we receive, with a view to considering any enhancements that may be needed.



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