

***“Financial Services for the Future: Courage, Candour,  
Common Sense”***

delivered by

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*Financial Services Commission*  
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Ladies and gentlemen,

It's good to be with you here in Barbados. I am delighted and honoured to share in this your 4<sup>th</sup> Annual Lecture. It is a great honour to speak to you today. I am most grateful to the Barbados Financial Services Commission for the invitation to do so, and to you all for being here.

When Sir Frank Alleyne invited me to speak, I readily agreed. After all, one cannot say no to the Economics professor whose influence has shaped and continues to fuel my professional journey, and who challenged me and my classmates to be the difference that makes a difference in the Caribbean.

As a fellow regulator, I know the value of celebratory events like this evening's – the opportunity they afford for reflection and review; looking back on past accomplishments, the road travelled, as well as renewing, planning and charting a way ahead for challenges that may lie ahead.

I will be speaking to you not just as the MD/CEO of the BVI Financial Services Commission but as someone who has spent over 30 years in the trenches defending, ensuring and safeguarding the right of Caribbean financial services centres to continue participating in the global financial services industry. What I will be expressing are my personal views, therefore, and not necessarily the Commission's.

My watchwords today will be courage, candour and common sense –

- the courage to think and do what is right
- the candour to be honest with oneself – and to speak truth unto power
- the common sense to realise that shirking tough decisions is a path to nowhere

## [My beliefs]

I'd like to frame my remarks with some of my core beliefs – beliefs based on long experience.

1. First of these is that in today's increasingly globalised world, money and the management of wealth are the world's most fungible commodities. Squeeze them too tightly in any one jurisdiction and you cause them immediately to shift to another jurisdiction where they can better exploit opportunities. Money has no national loyalty.
2. Next, I believe that global clients will come to a jurisdiction only if they expect to receive high-quality, efficient and innovative services, and be treated fairly and honestly. If they don't expect that, they will go somewhere else.
3. I believe, too, that compliance with international regulatory standards is a *sine qua non* for reputable financial centres. With compliance comes international respectability, and with respectability come opportunities for the financial sector to trade, source and do good, legal, profitable and sincere business with persons outside the jurisdiction.
4. I firmly believe that in today's constantly evolving, globalised world, we accomplish more if we work collaboratively than we if we work in silos.
5. I believe that regulators cannot and should not attempt to regulate or supervise that which we do not understand – but that regulators should be as smart as, if not smarter than those who they regulate.
6. I strongly believe we must have the courage to do what is right, not what is expedient or what we have always done, even if this means swimming against the tide and taking action that is difficult or may seem counterintuitive.
7. This brings me to my central belief as a regulator. It is that regulators and supervisors have to know how get the balancing act right.

One on hand, they have to respond to financial institutions of integrity, who will no longer tolerate regulatory environments that expose them to reputational risks.

They also have to accept that too little regulation or weak or inadequate enforcement can lead to avoidable failures and malfeasance and the destruction of confidence and business.

On the other hand, regulators and supervisors have to realise that over-regulation can create unnecessary bureaucratic burdens, stifle innovation, hamper success and also destroy businesses.

So good regulation requires a balanced and differentiated approach. Supervisory resources must focus on those firms and activities that pose the greatest reputational risk to the jurisdiction. Some call this risk-based, risk-focused or right-touch regulation. I call it common sense, pragmatic regulation.

And I believe in it.

So in a nutshell, ladies and gentlemen, I believe that:

- money moves quickly
- honest, effective, knowledgeable and balanced, internationally compliant regulation are essential
- cooperation and courage pay off

### **[Applying the beliefs]**

Everyone here will be familiar with the old Chinese curse, “*May you live in interesting times.*”

We’re living an era of ...

- BREXIT
- President Trump
- FATCA
- BEPS

- CRS
- MMOUs
- TIEAs and automatic exchange of information for tax, law enforcement and regulatory purposes
- Constantly evolving international regulatory standards
- Peer evaluation and peer reviews

We're living in times where the G-7 countries are applying the provisions of their domestic laws extraterritorially – requesting unfettered access to beneficial ownership information through centralised public registries, and times when G20 countries and the supranational bodies they control, as well as individual states such as Illinois, are naming and shaming, blacklisting and threatening punitive sanctions against offshore financial centres.

These are interesting times indeed!

They are times of transition and change that are having a profound impact on how cross-border financial services must be conducted today and for the foreseeable future.

International standards of regulation and best practice have become the language of jurisdictions, regulators, standard-setting, supranational organisations and the international media.

Transparency and compliance with the standards are the yardsticks by which jurisdictions are being judged.

Today, regulators need to be aware of their global as well as their domestic responsibilities.

They need to:

- implement global standards
- detect and protect against new systemic risks in financial systems
- help each other to enforce the law by gathering evidence from across the globe
- examine licensees and registrants wherever they may be located to ensure that they are abiding with the rules

- raise the bar in worldwide enforcement efforts

### **[Sound regulation and supervision]**

How do regulators meet these expectations and ensure sound regulation, supervision and enforcement? Like the Barbados Financial Services Commission, we at the BVI FSC have spent many years trying to get it right. We have built up a robust regulatory framework to deliver our statutory mandate, especially in the non-banking financial arena.

This might be a good moment to step back and consider what exactly is meant by sound regulation and supervision.

The quick answer is that regulation is the rules and supervision is how the rules are applied.

### ***[Regulation]***

Regulation is the sum of statute, standards and associated guidance material that determines the rules by which the financial sector must operate.

Or, to take a sporting analogy – whether your favourite game is cricket, baseball, football or basketball, regulation is the laws of the game. These can be complex and very technical, like rules in financial services.

Good regulators, like referees and umpires, will always seek to create the best environment to allow competition to take place. They have to ensure that the pitch is in good condition and that the playing field is as level as possible and does not advantage one participant over another.

They have to set boundaries that are clear, consistent and predictable, but within which, players, whether footballers or financial services practitioners, can innovate and develop new approaches and – in the case of companies – services.

This means that on those rare occasions when intervention is necessary, each intervention must be judged on its impact on the players and be carefully considered and rigorously based on evidence.

In financial services, good regulation should act as a catalyst, enabler and facilitator of progress. It can be a spur to growth and investment.

In certain circumstances, good regulation allows a regulator to anticipate problems and apply appropriate preventative medicine, focusing on sensitising industry participants and consumers to potential pitfalls through enhanced awareness and mitigation training.

But regulation is not some super guarantee that there will never be losses, failures or misconduct. Nor does it obviate the need for investors to exercise responsibility for their investment decisions and to ensure that they understand the products they are investing in and the risks that come with such investments.

And, of course, regulation on its own is no substitute for proactive, informed and effective supervision. Regulatory requirements are, by their nature, minimums. It is best for all concerned if entities operate a safe distance from that minimum in their normal course of business.

### *[Supervision]*

Which brings me to supervision – this is the process by which regulators seek to ensure that firms they regulate stay within the rules.

Or, to put it another way, supervision promotes the long-term safety and soundness of financial firms, and regulation is the tool that empowers supervision.

All the evidence suggests that a risk-based approach to supervision ultimately maximises stakeholders' interests and helps to create a resilient, safe and stable system at the lowest cost.

Effective supervisory oversight is the kind of attention financial institutions need to receive from supervisors on a regular basis.

What makes effective supervision? An ability to figure out whether the risk management controls at an institution could break down and whether the culture of the institution and its appetite for risk will create potential dangers that might lead to problems.

Figuring this out means asking the right questions and more; it covers what we say to institutions, how we say it, the type of information we request, the people we ask to meet, how we deal with pushback, what we do when we go on-site or otherwise deal with an institution, and the extent to which we just tick the boxes or think more deeply about core risks and how they are managed.

Of course, a company's board is responsible for financial soundness and prudent risk management. But supervisors can be on the frontline in identifying risk management problems at individual firms, providing an independent checkpoint and at times narrowing down options where there are concerns.

To return to our sporting analogy, while rules are important, how individual games are played in practice often depends on how they are supervised. Ultimately, it is referees and umpires who control the flow of the game.

Referees and umpires do much more than blow whistles to stop play and call people out during the game. They talk to the players and coaches about what is expected, what is acceptable and not acceptable and what situations they will be watching, given past experience.

They know the personalities of the players and their tendencies. They give some players the benefit of the doubt and give others no room at all.

If referees are doing a good job – as is generally expected of them – they are not a feature of the game, and spectators can enjoy the efforts of the players and the teams.

A good supervisor needs to be like a good umpire or referee – constantly on the pitch, keeping up with what is going on, respected, fair and consistent; tough when necessary and aware of the need to be *at* the centre of the action without being *the* centre of attention. Low key, but effective, alert and ready to take whatever action is appropriate in the interests of the game as a whole.

Being an effective regulator or supervisor means employing a combination of courage, candour and common sense:

- the courage to challenge and change those rules that are no longer effective or needed
- the courage and candour to facilitate debate which reflects on and analyses past performances
- the candour and common sense to work with industry and other interested stakeholders in an open and transparent manner to find real solutions to old and new problems.
- the common sense to appreciate the need to constantly challenge the industry to do better – pushing them to go further and faster in the necessary quest for improvement

### **[The future]**

Looking to the future, it is clear that the regulation of financial services will require even more courage, candour and common sense. It will require tenacity and tact, not timidity and tentativeness.

This is especially so in the non-bank arena where:

- thanks to globalisation and information technology, activities are becoming more complex, more sophisticated and more diverse in nature
- stricter banking rules have given rise to shadow banking practices with their rapidly growing, attending risks; practices that often and hitherto occur outside the perimeter of traditional regulation

In all these fields of endeavour, considerations of market discipline and market conduct are critical for safety and soundness – so too are issues of:

- AML/CFT
- governance
- internal controls and systems
- fitness and propriety
- beneficial ownership
- financial solvency

Considerations such as these are resulting in changing the regulated landscape for non-bank financial services.

Regional, regulated non-bank financial services activities now include:

- asset and wealth management
- shipping and aircraft registration
- investment businesses, including mutual funds, hedge funds and other securities
- structured finance, securitisation and transactional business
- risk management and insurance business, including captive insurance
- money services, credit unions
- estate planning and the management of family offices
- the procuring of trust, company management and other fiduciary services

It also encapsulates e-gaming, microfinancing and crowd funding activities, digital currency and mobile money issues – where smartphones and smartcards, which, when coupled with online services and the expansion of social media, facilitate the provision of cross-border goods and services in an environment unencumbered by the rules of traditional banking and where regulators have not caught up.

In the securities' space, we have seen the advent of many products, with regulation struggling to keep pace with Forex, derivatives and securities being sold with “insurance wrappers”. We are

also witnessing the development of “regulatory-lite”, technology sandbox-type arrangement to facilitate and incubate the development of new market practices, products and services.

Financial services have undergone a massive evolution in just the past decade, with the emergence of shadow banking. Looking ahead, there are no signs that this will abate just yet. The evolution has been very challenging at times for both the regulators and the regulated within non-bank institutions.

While international regulatory requirements for banking, and to some degree, insurance, have existed for decades, the regulation of other non-bank sectors is pretty much virgin territory and still experiencing growing pains, and where the regulatory contours are still being formed.

Also, the activities of Trust and Corporate Service Providers (TCSPs) are coming under hyper-intense scrutiny by the international community, with OFCs and the vanguard of the regulation of TCSPs.

Indeed, TCSPs were traditionally viewed as operating as ancillary services to the financial services industry. It took the global financial crisis for the importance of these essential gatekeepers to be widely recognised.

A few of us in the region, of course, have long recognised this and have regulated them for decades. Since 2000, the UK Overseas Territories (OTs) and crown dependencies have championed a statement of best practices for the regulation of TCSPs. This has served us well over the years.

Most recently, we have collaborated and worked with other jurisdictions under the aegis of Group of International Financial Centres Supervisors (GIFCS) towards the development of an international standard for TCSPs, which was published in 2014. But there is more to be done. As others have said in a different context, “*La lucha continua*” – the struggle continues!

## **[Changing standards]**

If we are all to survive in the future era of financial services, we need to start by recognising the breakneck speed at which the financial services world is changing.

Jurisdictions, governments, regulators and industry practitioners everywhere are constantly having to up their game to keep pace, or be left behind in a more competitive and complex marketplace. They have to stay up to date with all the standards-setters, international organisations, regulators, competitors and jurisdictions, and with constantly shifting goalposts and standards. This can be a particularly daunting task for small-island jurisdictions, their regulators and industry participants.

I am fully aware that there exists among you and throughout the sub-region, a considerable amount of jitteriness and anxiety about the future viability of the industry. You are worried about its resilience in the face of an incessant and relentless wave of external pressure and about the rapidity of change – the intensity of change and the volume of change. This has inflicted the industry during this time. With some of our jurisdictions being early adopters of new standards and best practices, some of you feel we are moving too fast to comply with international demands that add nothing to your bottom line.

Yes, you are right to remind us of the need to remain alert to the impact that our reforms have and to raise concerns about the sustainability of the industry in the wake of these relentless changes. But I would strongly suggest that none of us can allow ourselves to be found on the wrong side of the global arguments around standards of control, transparency, international cooperation and the exchange of information.

The environment for international financial centres – especially, it seems, those from the Caribbean – is already inhospitable enough.

## **[The urgency of now]**

So where to next?

To quote a famous phrase of Dr King's, "*We are confronted with the fierce urgency of now. In this unfolding conundrum of life and history there is such a thing as being too late.*"

The urgency of now for Caribbean centres engaged in cross-border financial services activity is to ensure both individually and collectively that we are credible, compliant, transparent, cooperative, competitive, vibrant and clean.

Now, more than ever, we are all required to act decisively, proactively and with common sense to move our financial services sectors forward in a way that neither threatens them nor places them at risk of becoming collateral damage.

In doing this, we must recognise a shared direction of travel – one that leads to our winning enhanced international respect for our determination to remain jurisdictions that are reputable, credible and well-regulated. For when our standing with the international community is good, our licensees and registrants can negotiate beyond our borders and become appealing and attractive to their stakeholders wherever they are situated.

## **[Being prepared to change]**

If this requires some of us to change our behaviour – we must have the courage to do so.

Today, there is no preordained path to success. Continued advancement requires vigilance and dexterity. It requires different things to be done and things to be done differently. It means doing not only what is legal – but also what is right and ethical.

I have always maintained that one of the most effective uses of regulatory power lies at the authorisation stage. This should not be taken lightly. Authorisation should not be conferred willy-nilly.

Licensing and registering financial institutions gives them a degree of legitimacy. It suggests a track record of good conduct and a reputation for integrity and prudence. If we license institutions which do not meet these standards, we leave the quality of our regulation open to challenge.

As business models change, so too must regulators. With courage, candour and common sense, we must look anew at the things we've always done. We must review, recalibrate and refresh our regulatory and supervisory approaches periodically. We will need to be prepared to change regulations, codes and guidelines; pass new legislation; cut red tape; identify new market needs and trends; and act to exploit these. We will have to live up to our commitments and facilitate promotion of the sector and its offerings without compromising our independence.

Only by acting in this manner can Caribbean financial centres evolve and continue to provide creative, efficient and legitimate 21<sup>st</sup>-century solutions to emerging 21<sup>st</sup>-century problems. We simply cannot pursue analogue solution in a digital world.

### **[Caribbean cooperation]**

I said there is no longer a preordained path to success. This is certainly so for the Caribbean. Indeed, you might almost say that success for our region has become particularly precarious.

As IFCs connected to the global network of financial flows and playing host to hundreds of foreign financial institutions, Caribbean financial centres are especially vulnerable to contagion and shocks from abroad. There is simply no way that we can hope to insulate or isolate our financial sectors from stress and turbulence in international markets.

Instead, we have to become more able to absorb shocks and bounce back. We must strengthen our resilience through higher prudential standards, governance, internal control systems – and through smarter and more effective supervisory and regulatory oversight and through the provision of efficient, innovative and quality services.

With so much at stake, is it really common sense to continue to be at each other's throats? Clearly not.

The fact is, we can only get so far on our own, but together we can move mountains. Better is not only possible, it is inevitable when you work together for the common good.

So across our region, we must find the courage to work together – governments, industries and regulators – for the long haul. And as a united region, we must engage the standard setters and the supranational bodies – OECD, FATF, etc. – to ensure we have a voice at the table when matters of critical importance to us are being formulated. Let us determine to show goodwill and turn any disagreements into a catalyst for better ideas and real results.

Let us operate not in an adversarial way, but in a candid, collaborative and collegial fashion – with an honest and open dialogue aimed at finding practical solutions to address the challenges, and new, innovative ideas to solve legitimate business needs.

A true partnership relies on mutual trust, respect and candour. It involves all partners freely challenging each other without any becoming offended and walking off. And it requires patience to reap rewards. Building trust is a journey, not a destination.

The role of the regulator here is paramount. Strong, effective systems of oversight and risk management will be essential to ensure safety and soundness. All regulators need to be alert to emerging risks. This can best be achieved through an “all cards on the table” approach to registration, licensing, supervision, compliance and enforcement and through enhanced, open communication, collaboration and dialogue involving all stakeholders, both within and between our jurisdictions.

This will, of necessity, require hard choices and tough decisions. At times, reaching a consensus on the way forward will be hard. As regulators, we must have the courage and candour to admit we may not always get it completely right and when this happens, we must have the common sense to change approach.

Unless they embrace this joined-up, adult, “all hands on deck” approach, I fear that our Caribbean jurisdictions will be unable to adapt, evolve and remain relevant global players in cross-border financial services.

### **[Industry compliance]**

Ladies and gentlemen, I have focused heavily on the role of regulators and supervisors. But the role of the industry in the survival and growth of our region is crucial, too.

People trust actions more than words and platitudes. No jurisdiction can win business or friends by just talking about the excellence of its rules, codes or regulations, if practitioners and services providers do not actually obey the rules. Even if just a few firms – or indeed one – fail to comply, everyone’s livelihood is threatened. This stark truth requires everyone with a stake in our industry to show personal candour and courage.

They must look in the mirror and ask themselves, “*What am I willing to do to build a stronger, more resilient, more vibrant, more competitive and more compliant industry? An industry that is better prepared to compete, prosper and prevail in the years ahead?*”

We cannot permit our jurisdictions’ corporate structures and vehicles to be used without concern for who is in the driver or passenger seats, the vehicles’ destination and purpose, or the victims that may be struck down along the route.

Such a high-handed attitude, whether real or perceived, only empowers our detractors.

## **[New technology]**

The final issue I wish to address today is the importance of new technology in providing the enhanced data that regulators need.

There can be no long-term, risk-based regulation and supervision without adequate information capable of measuring and evaluating the nature, scale and complexity of underlying risks. Enhanced information or data is the oxygen of efficient regulation and supervision; and enhanced data must come from enhanced reporting. Our challenge is to ensure that both regulators and those we regulate are able to capture, analyse and apply information in the most cost-efficient manner possible.

Regulators should have no interest in stifling such innovation. Whether for AML/CFT purposes or data analysis and processing, we should welcome the use of new technology as a competitive differentiator. We should not create a prohibitive trade-off between a service provider's ability to use technology creatively versus its ability to manage risks.

We must also remain technology-neutral – open to using it, but not wedded to any one technological approach as being the sole way of working.

The growing use of FinTech and RegTech offers the possibility of being able to tap into a much deeper well of evidence for informed decision-making. It is a helpful response to the fact that regulatory resources rarely match the size and scope of our responsibilities.

FinTech makes new use of software and modern technology to provide financial services, while RegTech uses new technology to facilitate regulatory requirements. For example, by using real-time information better and by incorporating algorithms and analytics, RegTech has the potential to lead to more differentiated and effective approaches to such things as AML checks, customer due diligence, anti-fraud measures and suspicious activity reporting.

Yes, I recognise that with technology comes the constant and present risk of exposure to cyber risk. Evidence suggests that cyber security must become a major preoccupation, not only of regulators, but all players in the financial services industry. But this is not a reason to shy away from innovation. We must harvest its promise and potential. This is a pressure that we will have to learn to manage.

### **[Conclusion]**

Ladies and gentlemen, as regulators, it is beyond our power to bring order to global turbulence and uncertainty. But it is our responsibility and our duty to preserve and protect, maintain, and enhance a sound, stable and successful business environment for economic growth that allows people to pursue their dreams, both for the present and for the long haul.

Regulators exist to serve the public interest. Every day, people count on us regulators not to let them down. They look to us and really want us there to give them hope for the future. Every day, they count on us to keep the financial sector safe and secure and the domestic market free from scandals, malfeasance and market abuse.

I hope that what I have said to you today will prove to be of some small help in protecting, maintaining and enhancing the business environment here in Barbados, and that you do so with courage, candour, and common sense.

As I opened with a disclaimer, permit me to close with a disclosure I often tell my own regulatory staff and the BVI Financial Services Industry. No matter how hard you are prepared to work, there are millions of people in both India and China willing to work harder and cheaper for one tenth pay. To be competitive, you, regulators and supervisors, simply cannot rely on resolve or hard work. You must be innovative, creative professionals willing to work smarter, more efficiently and more effectively. In other words, we must compete on our wits and the quality of service we provide.

As you pursue the important work that lies ahead, and as you set about to write new chapters in the history of Barbados' Financial Services Industry, you have both the comfort and the challenge of knowing that the people of Barbados have placed their trust in you to help build a better future for their country.

May divine providence guide you, make you worthy custodians of the faith bestowed in you and help you to forge an even better Barbados Financial Services Industry and may you always have the wisdom to use courage, candour and common sense in all your endeavours.

Thank you.