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Value in compliance

BY MATHEW BEALE

As stakeholders demand greater accountability, integration of ESG criteria and financial stability, Jersey's compliance professionals contend with increasingly complex compliance requirements and costs as they provide essential data and updates to underpin regulations and contribute towards national risk and MONEYVAL assessments.

Being 'compliant' is critical in the financial services industry, especially in a jurisdiction like Jersey that prides itself on its high standards and reputation. However, compliance is challenging and costly as the regulatory landscape evolves and stakeholders' expectations increase.

In this article, I will explore some trends and developments

shaping compliance in Jersey and how firms and their compliance professionals can leverage technology, innovation and best practices to simplify their processes, mitigate risks and enhance their value proposition.

First, there is the day-to-day bread and butter task of maintaining financial stability, resilience and reputation in the face of various threats and challenges, such as cyberattacks,

fraud, money laundering, terrorism financing, proliferation financing and sanctions evasion. These threats pose significant risks to the integrity and security of Jersey and the financial system. Therefore, firms and their compliance professionals must implement robust safeguards to prevent, detect and respond. In doing so, they must constantly monitor the effectiveness of their systems and controls and communicate their effectiveness to internal and external stakeholders, as appropriate.

Further to maintaining systems and controls, an increasing challenge for compliance professionals is the need to provide timely and accurate data and information to external parties. For example, firms regularly submit large amounts of data to the Jersey government and the Jersey Financial Services Commission (JFSC) to support the efforts to assess and mitigate Jersey's National Strategy for Combatting Financial Crime¹ and to comply with Financial Action Task Force (FATF²) international standards and evaluations, such as those conducted by MONEYVAL³.

Also, as the world faces unprecedented challenges such as climate change, social inequality and ethical dilemmas, we now have environmental, social and governance (ESG) principles to implement to guide our business decisions and actions. Investors, regulators and society are demanding more transparency and accountability from financial institutions on how they manage their ESG impacts and risks and how they contribute to the sustainable development goals. For example, the JFSC has recently introduced new disclosure rules (the

ESG Disclosure Rules⁴), which apply to Jersey funds that are promoted based on making sustainable investments and service providers who market or advise on such funds. The result is that compliance professionals must integrate ESG criteria into their policies, procedures and reporting systems and ensure they align with the international standards and frameworks emerging in this area.

To cope with the aforementioned complex and ever-demanding compliance requirements, firms and their compliance professionals can benefit from using artificial intelligence (AI) and other technological solutions that can automate, streamline and enhance their processes. AI can help compliance professionals perform tasks such as data collection, analysis, reporting, monitoring, testing and auditing more efficiently and effectively, reducing human errors, biases and costs and increasing speed, accuracy and consistency.

Whether there is an analysis of CDD, EDD, SOF, SOW, or ESG (the acronyms go on), AI can identify patterns, trends and anomalies in large volumes of data. It can analyse data from various sources, such as corporate reports, news articles, social media posts and third-party ratings. With these capabilities, AI can help compliance professionals assess risks and generate insights and recommendations, improving their decision-making and performance.

However, AI is not a panacea for compliance challenges. It also comes with risks and limitations. Compliance professionals must ensure that they understand how AI works, what data it



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uses, what assumptions it makes, what outputs it produces and what implications it has for their roles and responsibilities.

Compliance professionals must also apply ethical principles and good governance practices when using AI, such as ensuring fairness, transparency, accountability and reliability. Compliance professionals should not rely mindlessly on AI outputs or delegate their judgement or authority to AI systems. They should always verify the validity and reliability of AI outputs, challenge any errors or biases that may arise from AI systems and explain the rationale behind their decisions or actions based on AI outputs.

Also, there is the cyber security threat. For example, AI chatbots are vulnerable to cyberattacks such as phishing and vishing scams. Compliance professionals, therefore, need to develop their internal governance framework for using AI. In developing their controls, they must also be aware of up-and-coming EU laws that will impact firms globally. On 16th June 2023, the EU passed the text of the Artificial Intelligence Act (the AI Act) and the EU regulation on digital operational resilience for the financial sector (DORA⁵) will be effective on 17th January 2025.

Despite the risks and limitations, by treading carefully and adopting the 'SMART'⁶ approach, compliance professionals can leverage technology, innovation and best practices to meet their legal, regulatory obligations and stakeholder expectations more effectively and create competitive advantages for themselves and their organisations. Compliance can become a source of value creation rather than a cost centre by enhancing integrity, reputation and trustworthiness by:

1. Improving risk management capabilities.
2. Enabling access to new markets or opportunities.
3. Attracting or retaining clients or investors.
4. Fostering a culture of ethics or responsibility.
5. Contributing to positive social or environmental outcomes.

Compliance is a dynamic and evolving profession that requires continuous learning and adaptation, including AI. AI will help automate and optimise tasks like monitoring, auditing,

reporting and risk management if appropriately adopted. It will enhance the accuracy and efficiency of processes by reducing human errors, biases and costs, plus it will help identify and prevent potential violations, such as cyberattacks, fraud, money laundering, terrorism financing, proliferation financing and sanctions evasion and provide insights and recommendations for improvement.

Compliance professionals in Jersey have a unique opportunity to showcase their skills and expertise in this field and demonstrate how they can add value to their firms, the financial services industry and society.

Footnotes:

- ¹ <https://www.gov.je/Industry/Finance/FinancialCrime/NationalRiskAssessments/Pages/NationalStrategyCombatingFinancialCrime.aspx>
- ² <https://www.fatf-gafi.org/en/the-fatf.html>
- ³ MONEYVAL is the common and official name of the Committee of Experts on the Evaluation of Anti-money Laundering Measures and the Financing of Terrorism. <https://coe.int/en/web/moneyval/moneyval-brief>
- ⁴ <https://www.jerseyfsc.org/industry/consultations/cf-sustainable-investments-no1>
- ⁵ Regulation (EU) 2022/2554 of the European Parliament and of the Council of 14 December 2022 on DIGITAL OPERATIONAL RESILIENCE FOR THE FINANCIAL SECTOR and Amending Regulations (EC) No 1060/2009, (EU) No 648/2012, (EU) No 600/2014, (EU) No 909/2014 and (EU) 2016/1011 (Text with EEA relevance)
- ⁶ SMART is an acronym that stands for Specific, Measurable, Achievable, Realistic and Timely.

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Mathew is an industry professional with over 25 years' experience and is a Fellow of the Chartered Institute for Securities & Investment (FCSI).

In 1985 Mathew embarked on a financial services career after leaving the British Army, working within the asset management industry for 10 years. He then joined the Jersey Financial Services Commission and has subsequently focussed on financial services regulation. He founded Comsure in April 2005 – which now consists of three companies (the Comsure Group of Companies) – to provide comprehensive business risk advisory services and help minimise clients' business risks. In 2018, Mathew sat the GDPR/APMG-international examination and gained the title 'certified GDPR practitioner' and in 2022 Global Advisory Experts (GAE) recognised Mathew and Comsure as Financial Services Expert of the Year in Jersey.



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