

## Breakout Group 2: Risk Assessments & Thematic Reviews

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# Risk Assessments & Thematic Reviews

## **Risk Assessments – General Approach**

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## **Thematic Reviews – General Approach**

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# Risk Assessments

- What is a Risk Assessment?
- Why do we do Risk Assessments?
- Who are subject to Risk Assessments?
- When do we do Risk Assessments?
- How do we do Risk Assessments?
- How to prepare for a Risk Assessment?

# What is a Risk Assessment?

- One of the key supervisory tools to assess individual risks
- Onsite and offsite assessment
- Scope can be either full or targeted
- Assessing Inherent Risk; Controls; Residual Risk; Risk Direction
- Not an audit

# Why do we do Risk Assessments?

- Risk-based regulation
- Efficient allocation of limited supervisory resources
- Chance to assess the systems and controls
- Verify self-certified policies and procedures

# Who are subject to Risk Assessments?

- Most firms, but not necessarily all
- Firms with dedicated supervisors
- Generally higher impact firms based on significance in size, systemic importance, etc.
- Firms selected as part of sectoral review
- Firms selected for AML, financial crime, cyber risk RA



# When do we do Risk Assessments?

## Firms in Prudential Supervision Team:

- Within first 12 months of being authorised
- Frequency determined by risk/impact score
- Subject to planning process and resource availability

## Firms in Conduct Supervision Team:

- Firms with designated supervisor subject to 3 year RA cycle
- Sectoral review (e.g.: rep office, private banks, brokerage, etc.)

## How do we do Risk Assessments – Off-site?

- Planning / scoping
- Notification, request pre-visit information/documents
- Engage home regulators for branches & subsidiaries
- Start preparing Risk Matrix
- Identify focus areas



## Example list of pre-visit documents

- Current business plan
- Organisational structure, roles and responsibilities
- Committee structures, Terms of Reference
- Management information reports
- Copy of the Board pack for the last Board meeting
- A list of all outsourcing arrangements, Service level agreements
- A description of the internal audit framework, scoping, internal audit report
- A description of the Compliance Framework, Compliance monitoring program/plan, compliance training log
- Compliance breaches register
- Conflicts of interest policy, gifts and inducements policy
- Business Continuity Plan (BCP) and/or Disaster Recovery Plan (DRP)
- List of clients, onboarding procedure, KYC file list
- Business specific policy

## How do we do Risk Assessments – On-site?

- Two or more DFSA supervisors
- May include Subject Matter Experts
- Meetings with management, key staff
- Demonstration of systems
- File reviews
- Close out meeting

# Risk Matrix

## Assessing 5 main risk areas

- A. Business Model and Strategy
  - Viability
- B. Financial Risk
  - Financial performance, Capital, Liquidity, Credit, Market, Interest rate, Underwriting
- C. Operational Risk
  - People/culture, Process, Outsourcing, Business technology, External events
- D. Conduct Risk
  - Client profile, Sales practice, Client assets
- E. Financial Crime Risk

# Risk Matrix



- Assessing controls around the risk areas
  - Governance framework, policies and procedures, risk management, audit
- Inherent / Residual Risk is rated: 1 to 5 – Low to High
- Controls are rated: Adequate, Minor Deficiencies, Significant Deficiencies
- Direction is rated: Stable, Likely to Improve, Likely to Worsen

# How to prepare for Risk Assessment?

- Understand the scope of the assessment
- Pre-visit documents, soft copy, searchable
- Ensure availability and arrange key staff incl. staff who might be based overseas
- Check for the meeting agenda, discussion points (if available)
- Prepare for the meetings/interviews, potential questions
- Presentation slides always useful
- Be open and transparent in your discussion
- Prepare evidence
  - Don't just tell us, show us!
  - If not documented, it does not exist

# Risk Mitigation Programmes (RMPs)

- Material deficiencies or rule breaches will result in issuing of RMP items
- RMPs are actions required to be completed by a due date
- RMPs not completed by the due date result in escalation
- If RMPs can't be completed by the due date contact us early with justification
- Observations are typically better practice with no due date, but may result in becoming an RMP at a later stage



# Thematic Reviews

- What is a Thematic Review?
- Why do we do Thematic Reviews?
- What is the Thematic Review process?
- How you can prepare to participate in a Thematic Review?

# What is a Thematic Review?

- A Thematic Review is a tool used by the DFSA to assess current or emerging risks across firms, sectors or markets
- Thematic Reviews:
  - Gather information to find out what is happening
  - Assess the information gathered
  - Suggest mitigation of issues or problems identified
  - Communicate the findings
- Thematic Reviews can focus on a range of risks:
  - Product Specific
  - Issue Specific
  - Sector Specific

## Why do we do Thematic Reviews?

- Discovery
  - The DFSA acquires more information or a greater understanding of the products/markets/issues reviewed
- Risk Identification
  - The DFSA is able to identify the incidence of various risks and, where appropriate...
- Propose Risk Mitigation
  - To reduce the incidence or severity of the risks identified
- Identify Poor Practice
  - Communicating why the DFSA considers this so
- Promote Good Practice

# The Thematic Review Process – Overview

- As Thematic Reviews are conducted to assess or identify risks in specific issues, products or markets - each Thematic Review will be tailored to best meet the requirements of the review
- In all cases the Thematic Review process will commence with a proposal document that sets out
  - The objective of the review
  - The rationale for performing the review
  - The methodology proposed to undertake the review
  - The expected outputs from the review
  - The internal resources required

# The Thematic Review Process – Objectives

- It is important to be clear about the objectives of a Thematic Review
- The objective must always be to gain a better knowledge or understanding of the specific subject matter that can then be used by the DFSA to further its regulatory duties
- A Thematic Review should not be used to prove what we already know and, because of that...
- The methodology employed in the Thematic Review should be agile enough to allow for “unknown unknowns”



## The Thematic Review Process – Rationale

- A Thematic Supervision Model has been adopted as an efficient and effective way in which to manage the increasing volume of firms and the diversity of those firms across business models/sectors
- It is important to be clear about why the DFSA should perform a Thematic Review on the specific subject at this time
- Generally, but not always, this is triggered by:
  - Issues identified during the course of other supervision activities (risk assessments, financial returns, firm meetings)
  - Application of new rules by the DFSA
  - The effect of economic and/or political events
  - The development of new technology or products
  - Issues identified by regulators in other jurisdictions



## The Thematic Review Process – Methodology

- The methodology employed will be tailored to the objectives of the Thematic Review. The methodology for a typical Thematic Review would include:
  - Identification of the population (e.g. all firms, all firms in a sector, all firms with a specific permission)
  - Methodology for identifying a sample within the wider population (if required)
  - Development and publication of an on-line survey (to the full population, or the sample)
  - Analysis of survey responses
  - Firm follow-up/Visits
  - Collation and analysis of findings
  - Communication of findings

Some Thematic Reviews may use a “mini-sample” of firms to test elements of the approach

## The Thematic Review Process – Outputs

- A limited number of Thematic Reviews will result in internal communication within the DFSA only, this is rare and might occur where the findings of the Thematic Review indicate that further work is required from perhaps a Policy or Rules perspective.
- Otherwise we would normally expect to communicate as follows:
  - Firm specific – feedback to individual firms based on the responses to the survey and/or follow-up work
  - Thematic Report – issued to all firms and available on the DFSA website (often now in the form of a Dear SEO letter)
  - Outreach Session – communicating findings either at an in-person or virtual event

# Participation in a Thematic Review

- Survey Responses
- The DFSA “requests” rather than “requires” a response to online surveys. While this is a request, our expectation is that firms will submit the survey and do so in a full, accurate and timely manner (Principle 10 – dealing with the regulator in an open and cooperative manner)
- If notified that your firm has been selected for the on-site visit sample:
  - Read the visit notification letter to ensure you understand the areas the visit team will be reviewing
  - Ensure all documentation is available on the day, or provided in advance if requested
  - Ensure relevant staff are available for the visit, if specific functions/individuals are required the visit team will arrange these meetings in advance to limit disruption
  - Provide any follow-up documentation promptly after the on-site visit

## Beyond the Thematic Review

- The DFSA will usually publish the findings and present these in person at an Outreach event
- Firms are encouraged to read Thematic Reviews and attend the Outreach sessions
- The findings are also published on the DFSA website for reference
- Firms that receive direct feedback are expected to act upon it
- Firms that are not direct participants are expected to consider the findings of the Thematic Review and make any updates to their operation, policies, procedures as necessary
- The findings of a Thematic Review are not enforceable as rules or guidance however they do set out the DFSA's expectations



## Thematic Reviews in 2023

- The **Outsourcing and Third Party Risk Thematic Review** is in progress – this covers firms from across the DFSA population
- **Coming soon!**
  - **Firm Disclosures** – Looking at compliance with the Financial Promotions rules – in particular that disclosures made by firms are clear, fair and not mis-leading
  - **Complaint Handling** – Assessing the full cycle of complaints handling from initial identification of complaints, through the quality of the documented procedures and the final client outcomes
  - **MLRO CPD** – Ensuring the competence and capability of the MLRO function through assessing compliance with CPD requirements
  - **Liquidity** – Assessing compliance with the Liquidity Coverage Ratio (LCR) and other liquidity metrics

The background is a solid olive green color. Overlaid on this are several sets of thin, light-colored lines that form a series of overlapping, wavy, ribbon-like shapes. These shapes flow from the left side towards the right, creating a sense of movement and depth. The lines are closely spaced, giving the impression of a continuous, fluid motion.

Thank you!