**ANNUAL MEETING WITH THE FINANCIAL SERVICES INDUSTRY**

**WALLBLAKE HOUSE-OLD CHAPEL SITE**

**FRIDAY 26 NOVEMBER 2010**

# Financial Services Resilience ~ Key Building Blocks


***PREPARED REMARKS OF***

***ROBERT MATHAVIOUS***

***MANAGING DIRECTOR,***

***BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION***

Ladies and gentlemen

It is my honour and a great pleasure to be in Anguilla once again to speak with you at this timely annual and important initiative of bringing together minds to share perspectives on recent developments and key issues.

I would like to accord my appreciation to Ms Eleanor Astaphan , and the organisers of this event for presenting me with the opportunity to share my thoughts and experiences in tackling some of the major challenges facing Offshore Financial Centres today – challenges that must be appropriately addressed by any jurisdiction desirous of a more sustainable and vibrant financial centre.

For jurisdictions everywhere, success in the financial services arena is the product of considerable vision, unstinting hard work and a clear strategic focus. Success and economic growth do not just happen. Nor are they results of accident.

They must be nurtured and managed strategically to complement, enhance and accelerate what has already been achieved and to safeguard and strengthen existing competitiveness.

Anguilla, like BVI and all small international financial centres, must realize and acknowledge that we are hugely driven by events outside our control. No matter how well we may be doing internally, it is events in the external global economy that have a near-determining influence on our fate as financial centres, that decide how successful we are in attracting business and how much we grow.

How we respond to these challenges is the crucial factor in our competitiveness and our success. We must therefore be unceasingly vigilant in our monitoring and appraisal of any external influences which can affect our future and we must undertake appropriate corrective actions as necessary to protect and promote our competitive positions.

Today, OFCs everywhere are feeling the battering effects of the perfect storm caused by the effects of the global financial crisis and the heightened international spotlight and intense scrutiny under which activities of the OFCs have been placed by the G20, OECD, FSB, FATF and IMF. This spotlight and scrutiny have emboldened the growing number of enemies of the offshore world, who have orchestrated an increasingly well-planned and coordinated international media and political campaign to disparage the reputation of OFCs and the people who use them.

In these circumstances, one should not be surprised that the Global Financial Centres Index published this September, revealed a decline in competitiveness for all OFCs. This suggests not only a more pedestrian growth rate in OFCs, but also a flow of business from OFCs to other centres not under the same scrutiny and spotlight but whose regulatory standards may not actually be as internationally compliant as the OFCs'.

Faced with these challenges, the critical question we thus must ask ourselves is: how can we build a more resilient financial services sector and in so doing create a more stable and competitive environment for sustainable economic growth and development?

I would be first to admit that this is not a simple matter and there is no magic or silver bullet that can guarantee a satisfactory result. OFCs come in all shapes, sizes and fashions. There can therefore be no one-size-fits-all approach to developing a fit-for-purpose strategy for financial sector development in OFCs. There are however a number of fundamental key elements or building blocks that are required for a vibrant financial centre.

**Attitude**

The first building block for financial sector resilience is having the right mindset and attitude for development. Above all, this means having a timely and joined-up approach to stakeholders.

Yes, ladies and gentlemen, perhaps the most fundamental criterion for success is that there must be a meeting of minds across the political and business communities about why the financial sector is necessary, what it entails and what must be done for its success.

Training people up for a financial centre and then using the centre to grow the economy will not be achieved overnight. The leading OFCs are those that have had the vision to plan and invest for the long term, who have ensured that stakeholders share ownership in achieving the desired outcomes, and who have worked in a joined-up, non-partisan way to see matters through.

Part and parcel of having the right mindset means accepting that international finance and xenophobia make poor bed-fellows. After all, the businesses we desire to attract comes from overseas.

The need to welcome some foreign service providers must be recognised. This will not end up costing local jobs.

On the contrary, if service providers with an international reputation and international contacts are permitted to trade and thrive in your jurisdiction, they will help in developing your branding and image among potential users of your service. The new business they bring in as a result will require them to hire and train local people.

So rejecting xenophobia creates more jobs for the local population, jobs which are often of a high quality.

**Reputation**

A second essential building block for a vibrant and sustained financial services centre is constructing and maintaining a good reputation. OFCs stand or fall by the reputation they have.

Having a good reputation attracts good business and talented employees. It influences the willingness of clients to use a jurisdiction‘s product and services and to invest in your territory. It shapes the attitudes of regulators and supranatural bodies towards you.

A good reputation also makes it easier to form effective strategic alliances and to defend yourself against regulatory attacks and media misinformation.

A poor reputation, on the other hand, can contribute to public demoralisation with a jurisdiction's financial sector. It discourages decent business and can cause a serious dent in investor confidence and a decline in investment in financial services business within the jurisdiction. Ultimately, it can lead to blacklisting and even formal sanctions by large countries and the organisations they control.

Thus, an important challenge for OFCs such as Anguilla and BVI lies in mitigating reputational risk. All OFCs will be exposed to well-publicised international criticism should they fail to keep pace with evolving international regulatory standards and conduct-of-business best practices. A proper culture of compliance must thus permeate the entire industry.

Ladies and gentlemen, if this is not the case, you can be assured that we will be subject to widespread criticism and ostracism. We will not escape lightly should ineptitude, inertia, indifference or deceit – whether on the part of a service provider or the regulator – lead to a failure to undertake proper due diligence, and thus expose the jurisdiction to a person whose business activities or track record could disparage our hard earned reputations.

Maintaining a proper compliance regime is grounded in a risk-based approach to effective financial sector surveillance. It entails considering risks associated with customers, conducting proper assessments of risk relative to the products and services offered, and adopting appropriate mitigating measures to minimise the likelihood of these risks occurring.

Permit me to commend to you here today, a personal mantra that I have long urged that all those in our industry to adopt.

*"My reputation matters to me*

*"My country's reputation matters to me*

*"The reputation of our industry and its clients matters to me"*

An important part of mitigating reputational risk is avoiding negative listing of the jurisdiction. This can only be achieved through compliance with internationally established standards of regulation and supervision and best conduct-of-business practices. This requires successful engagement with the range of international initiatives that are currently confronting our industry. It means demonstrating zero tolerance for the ethically challenged. These days more than ever, building a successful jurisdiction requires not just the introduction but the implementation of the requisite regulatory laws, standards and norms.

**Regulation**

As globalisation is drawing economies and markets together, the importance of establishing a transparent, flexible and growth-orientated regulatory framework cannot be over stated.

Domestic legal regulatory and enforcement regimes must be kept current, adhere to internationally accepted standards and be effectively executed while remaining innovative, competitive and not nnecessarily burdensome. The next building block is, therefore, an effective and efficient regulatory regime.

An effective regulatory framework needs to be designed that strikes the right balance between the micro-prudential and macro-prudential dimensions of regulation, by which I mean between the safety and soundness of individual financial institutions and the soundness and stability of the entire financial system.

The framework should balance sound regulatory practices with the protection of legitimate private and commerce interests, and it must seek to ensure that regulators always remain alert to new and emerging risks in the global financial systems.

The regulator must be capable of policing the perimeter to safeguard against unwarranted encroachment or intrusion by unregulated entities. Waning vigilance in any area could have catastrophic consequences.

It goes without saying that the regulator must be able to maintain a full complement of competent and trained regulatory staff who are capable of carrying out the wide range of statutory responsibilities a modern regulator must have. The regulator must be properly resourced with the right rules, tools and people to do the job.

In devising the right regulatory framework, jurisdictions also need to be able to work through a series of questions about the stability of the financial system as a whole, the transparency and clarity of regulation, the balance of costs versus benefits, and the often competing needs of various stakeholders. For example:

- Are the jurisdiction's regulatory standards of a high quality consistent with international standards and best practice, yet still tailored to the local context?
- Do the key stakeholders – industry, government and the regulator – have shared ownership of the desired outcomes of regulation?
- Does the balance of benefits and costs weigh in favour of supervision or would market incentives deliver the desired outcome?
- Are the obligations imposed on regulated entities clear?
- Does regulation take proper account of legitimate commercial considerations?
- Does regulation differentiate between institutions according to the risks they present?
- Finally, is the regulatory framework able to adapt and remain effective in light of, on the one hand, fast-changing market practices and products and, on the other, new risks in the financial services industry?

**Partnership**

I mentioned the need for the main stakeholders – the government, the industry and the regulator – to have shared ownership of the desired outcomes of regulation. Stakeholder collaboration, cooperation and commitment is a key building block for growth.

This means there must be a thriving dialogue – or trialogue – between the government, the regulator and the private sector. For a jurisdiction to be successful, the whole financial services industry must work in partnership, with each partner having a clear role or task, and the partners working together for good results.

- The regulator's task is to ensure that the jurisdiction's regulatory laws, policies, codes and modalities meet the requirements of the international standards-setters.
- The government's task is to pass the requisite legislation in a timely fashion, thereby creating a competitive environment for business.
- And the industry's task is to ensure both that it complies fully with the rules and also that it takes overall responsibility for keeping the jurisdiction's brand fresh, relevant and attractive.

I must stress here that it is incumbent on practitioners to instigate high standards of governance and controls. They must understand that non-compliance by one threatens the livelihoods of all by damaging the jurisdiction's international reputation. And they must also understand that no jurisdiction can win business by extolling the excellence of rules and regulations that its own practitioners do not observe.

**Marketing and business development**

Ladies and gentlemen, I have ranged over the regulatory issues that any serious jurisdiction needs to address in order to ensure that its brand image is underpinned by an excellent reputation. But regulation on its own is not enough. It is what is being regulated and who are regulated that counts – the financial services products that you choose to compete with, and the service providers licensed to provide such services and products from within the jurisdiction

This brings us to the other crucial aspect of building your brand. How can you keep your jurisdiction attractive in a fiercely competitive world by ensuring that your services and legislation continue to meet the legitimate needs of a discriminating clientele and how can you safeguard the jurisdiction from potential misuse and abuse by those whose activities could harm your reputation?

The first step should be to decide what your jurisdiction's particular value proposition will be. What distinguishes you from all the other OFCs and why people should chose your services?

It is also important to develop appropriate and properly-measured marketing strategies geared towards presenting a realistic and positive picture of a jurisdiction's offerings. Jurisdictions like Anguilla and the BVI must always remember that financial services is a very competitive industry and that there can be no room for complacency.

Appropriate regulation and supervision must move in tandem with robust marketing that effectively promotes a jurisdiction's financial services products.

The tripartite partnership I mentioned is crucial here. But business has the greatest part to play. It must lead the way by devising product offerings that are responsive, competitive and enduring. It should take a long-term perspective, share appropriate knowledge between firms and spot opportunities to enhance local skills.

This requires practitioners to show considerable flexibility and adaptability. It also requires them to be honest with themselves about what more they could and should be doing to grow their business with existing clients and win differentiated business from new clients.

Practitioners are the number one promoters of your jurisdiction's brand. Through their individual marketing activity and their active support for the jurisdiction's overall marketing, they have a key role to play in ensuring that the jurisdiction's value proposition is truly recognised and understood by potential users.

To ensure that everybody – industry, government and regulator alike – sings from the same song sheet, a professional approach is needed. The industry and the government might wish, for example, to set up a joint enterprise to market the jurisdiction. It is important here that each marketing activity is rigorously thought through and justified, as marketing for its own sake is money down the drain.

As a starting point, practitioners might find it useful to work through a series of questions:

- Are they seizing the new competitive opportunities provided by enhancements to local laws and regulations?
- Are they getting sufficiently under their clients' skin and ensuring they really understand their requirements?
- Are they as clear with their clients as they might be about the benefits, costs and value of using Anguilla to achieve the clients' business aims?
- Are they benchmarking what other countries and some organisations are doing?
- Have they fully considered the impact that questionable business practices of some local firms may be having on the jurisdiction's reputation among existing and potential users of their services?
- And are they taking every opportunity to influence the people whose opinion matters so as to build a positive outside awareness of their jurisdiction?

**Conclusion**

To sum up, ladies and gentlemen, the success of any jurisdiction as an international finance centre depends on how the jurisdiction is able to address the elements I have set out here today:

- Start with the right attitude and mindset, one which is non-partisan, long-term and global in outlook;
- Recognise the fundamental importance of reputation to your jurisdiction's brand identity;
- Build an effective local regulatory system, with a well-resourced and genuinely independent local regulator;
- Ensure you operate to world-class standards, based on having an ongoing understanding of international expectations and regulatory requirements;
- Maintain a thriving three-way partnership between government, regulator and industry;
- Ensure that local industry is fully compliant with local laws and international regulatory norms; and
- Have industry lead on promoting the brand.

As someone who is extremely bullish about the future of compliant and cooperative International Finance Centres who are committed to playing their role in the fight against cross-border illicit activities, I am not disheartened by the decline in business most centres are now facing. Far from it! In some instances I have been known to welcome lower numbers if it means a flight from quality. Yes, these are challenging, daunting and stressful times for OFCs. But the industry remains alive and well.

As the world slowly recovers from recession, I see financial services business growing and becoming stronger, more innovative and more competitive. Whether a jurisdiction operating a financial services industry survives and thrives depends on several factors, but particularly on how willing and able it is to invest the necessary resources:

- In developing innovative and standards-compliant legislative regimes;
- In becoming a true international partner who responds effectively to global co-operation expectations;
- In safeguarding its financial services perimeter against abuse and criminality; and
- In promoting its financial services industry to both a domestic and global audience.

Thank you for your kind attention.