



Reporting Success for the Isle of Man

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Regulation touches our every day lives as a matter of course in one way or another. From the barriers set for maximum daily deposit amounts to having to produce background transactional details and KYC for various transactions. Gone are the days when we would ever consider paying for anything in cash other than maybe a meal or buying cinema tickets.

What we often see as an invasion of our privacy, or yet another frustration in what would otherwise be a simple business transaction, is part of the requirements of living and running a business in a well-regulated jurisdiction.

Listed as a 'group one' offshore financial centre by the G-7's Financial Stability Forum, the Isle of Man is seen to be under 'good quality' supervision. The Isle of Man Government has put a great deal of effort and priority into ensuring the Isle of Man is a top listed jurisdiction that has a strong regulatory environment in which to carry out business.

Isle of Man accreditation retained

With recent confirmation that the Isle of Man has retained its 'AAA' accreditation by Standard & Poor's and the resolution of the Island's position regarding preferential tax regimes and exchange of information arrangements, the Isle of Man's future as an international finance centre seems very strong.

The Island has two regulators, the Financial Supervision Commission (FSC) and the Insurance and Pensions Authority (IPA). The FSC licenses and supervises all banks, investment businesses, collective investment schemes and building societies. The IPA is responsible for the licensing and supervision of insurance companies and insurance intermediaries.

The FSC lists its primary objectives as maintaining confidence in the Isle of Man as a financial centre, securing the appropriate

degree of protection for consumers and reducing the scope for financial crime. Using a risk based approach; the FSC assesses each institution individually for the specific activities the entity conducts regardless of its part in any bigger regulated group.

To supervise effectively the number of firms which carry out regulated activities the regulators need to receive, on a timely basis, relevant information about firms and their activities. This data helps the regulators to monitor firms' adherence to threshold conditions and specific rule requirements. The returned data also allows the regulator to spot trends in individual firms and identify those firms that should receive greater supervisory attention.

The FSC's supervisory approach is a combination of activities to create a risk profile for each institution, which involves both on-site compliance meetings and off-site information gathering and reporting.

Virtual visits

For any regulator, data collected through electronic media is extremely desirable. Assuming that the method used can be fully validated, then the returns data can be considered "fit for purpose" and can then feed directly into the risk assessment process without further review.

Removing the process of manually re-keying and validating returns data from paper forms allows more resources to be applied to the regulator's supervisory role and enhances its ability to identify risks, fulfilling the core objectives in a timely fashion.

The practical "nuts and bolts" of reporting and information gathering is far from easy. Software vendors and regulators alike have struggled to provide systems that adequately support this data collection process. The UK's FSA announced a change to information gathering and reporting in its consultative papers CPI97 and CPI98. Presentations by the FSA to institutions and

would-be systems providers announced the adoption of a new standard of XML for reporting, XBRL.

In a keynote speech to institutions in May 2005, the FSA commented regarding the adoption of XBRL that "arguably the biggest IT challenge this year is the introduction of new reporting forms". In a summary of the overall project aims, the FSA listed the ability to carry out a 'virtual visit' from their desks.

Systems design

The major difficulties of designing a system to collect regulatory data are found as soon as you start to understand the nature of the returns data and the paper forms normally used. A set of banking returns by their nature are complex: each form has multiple pages, with optional forms to be filed dependant upon certain conditions.

The forms need to be individually validated and cross-validated between forms. Fields from one form need to pre-populate into others. Optional forms need to be triggered and all of this completed by more than one user at the same time.

Application security has to be high on the agenda for any regulator. Data leakage issues like those that recently plagued TK Maxx would have a dramatic effect on the reputation of any regulator. Encryption is the most obvious way to protect data in transit and any static copies held. However, this has its processing penalties and the requirement to protect the encryption keys then becomes a big design issue in its own right.

Like any number of other forms signatures are required, which in the case of regulatory returns may be by one or more directors on behalf of the institution. Determining the method used to replace the wet signatures on forms can be a complex choice and one that must marry the requirements for security with usability against cost.

Institutions have a legal requirement to return required data in good time. Each institution has a time window from the publishing of returns forms to the deadline for completion. It is not uncommon for institutions to be submitting data on the expiry of the deadline or just before.

With data being collected on a regular basis and with the mass of the data being returned within the last few days of a deadline, timing becomes a key consideration. Hardware and bandwidth that has stood idle outside of the reporting time window can suddenly become very busy indeed.

In an age where broadband speeds of 16 mbps are not uncommon, the media of the Internet may be viewed as a reliable method for delivering forms data to the regulator. This is a sound assumption in theory, but this is not the case in practice. The Internet has to be viewed as a disconnected environment where devices and software may prevent legitimate transfer of data. From firewall security rules through to data line and server uptimes, all have a part to play in the possible failure of data transmission.

One of the FSA's primary systems considerations was to meet the diverse needs and capabilities of its users. I believe meeting this one requirement is the most challenging part of any system design. For the people tasked with preparing and sending data to the regulator, regulation and data

reporting is more than just a quarterly task. The actual submission of data is the final act of many weeks of effort. Guaranteed delivery of the submitted forms is a must, no matter what obstacles are put in the path of transmission.

For both the regulator and the person submitting the data the whole process has to be smooth, effortless and as flawless as possible. Error handling has to be something of an art form. The loss of the carefully prepared data is unacceptable not to mention the fact that in some instances the statute only requires that the data be returned on paper forms.

Reporting solutions

It becomes obvious through this dialogue, that to create an integrated electronic reporting system is not only complex but offers a number of embarrassing opportunities to fail. Even large regulators like the FSA have taken a turn on the adopted technologies for reporting like XBRL.

Some regulators have opted for a simple route to reporting electronically. By using a password protected spreadsheet, with macros to validate the forms. The spreadsheet is returned to the regulator attached to an email or is simply printed out and signed.

For most, the spreadsheet is a very sensible solution to a challenging problem

providing you can ignore the "fire and forget" nature of the process and the lack of any kind of tangible security. Albeit that no training is required, the approach where a spreadsheet is the electronic reporting method has some concerning imperfections.

Competitive advantage

Since 2000, the Isle of Man Government has run a project to upgrade and bring online the systems belonging to each department. It is a compliment to the skills and determination of those involved that the project for joined up government and the "One Mann" project, where businesses and residents on the Island can interact with the government electronically, can now boast the completion of VAT and tax returns online.

As worldwide efforts to combat money laundering, the financing of terrorism and financial crime increases; it is difficult to predict how far the concept of the "virtual supervisory visit" will go. Extensive design and development work has gone into the FSC system from the back office through to Internet data submission. However, as the threats to our financial centres become ever more sophisticated, the capabilities of the local regulator's tools will need to adapt. Only by continuously developing and improving the technology can we have a better chance of identifying threats and risks effectively.



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