



The Financial Services Commission On-site Inspection Programme

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Order of Presentation

- Objective of Presentation
- FSC's Mission
- International Standards
- Importance of the FSC's On-site Inspection Programme
- On-site Inspection Process
- K-Review



Objective

- To provide participants with an overview of the FSC's On-site Inspection Programme for Trust Service Providers and Insurance Managers.



FSC MISSION

To uphold the integrity of the BVI as a well-regulated International finance centre and safeguard the economic interests of the territory by:

- protecting the interest of the general public and market participants
 - Ensuring industry compliance with the highest international regulatory standards and best business practices
 - Ensuring that the BVI plays its part in the fight against cross-border, white-collar crime, while safe-guarding the privacy and confidentiality of legitimate business transactions
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International Standards

- BCBS Core Principles for Effective Banking Supervision - CP 6: requires that an effective banking supervisory system consist of both on-site and off-site supervision
- IAIS Insurance Core Principle 13: requires the supervisory authority carries out on-site inspections to examine the business of an insurer and its compliance with legislation and supervisory requirements.



International Standards

- IOSCO's Objectives and Principles: Principle 10 The regulatory system should ensure an effective and credible use of inspection, investigation, surveillance and enforcement powers and implementation of an effective compliance programme.



Importance of On-site Inspections

- Vital component of the FSC's on-going monitoring and supervisory process
- Process of verification of data and information
- Supplement information sent to the FSC by relevant financial businesses
 - ✓ E.g. annual accounts and returns



Importance of On-site Inspections

- Enables the FSC to obtain information and detect problems that may otherwise go undetected
 - ✓ Asset deterioration
 - ✓ Impairment of capital and solvency problems
 - ✓ Accounting irregularities
 - ✓ Inadequate internal controls
 - ✓ Non-compliance with laws and regulations



Importance of On-site Inspections

- Enables the FSC to assess management decisions
- Offers the opportunity for the FSC to improve communication and contact with management
- Valuable for assessing fitness and propriety



On-site Inspection Process

- Full Scope On-site Inspections cover all aspects of the financial institution's business.
 - Management and internal control systems
 - Nature of business activities and risks
 - Financial strength
 - Compliance with relevant laws and regulations
 - ✓ AML/CFT, Corporate Governance
- Partial Inspections Possible

On-site Inspection Process

- On-site inspections prioritised
- FSC will notify institution of pending on-site visit date 3 weeks in advance
- FSC will request certain information is provided prior to on-site visit
 - ✓ Up-to-date organisational structure
 - ✓ Up-to-date compliance and internal controls manuals
 - ✓ External auditor's engagement letter
- Visit will last from 2 days to 2 weeks

On-site Inspection Process

- The FSC will conduct a pre-inspection assessment of the institution prior to the actual on-site visit using:
 - Information received on a regular basis
 - Information received from request made in the pre-inspection planning and preparation

On-site Inspection Process

Opening Meeting With Senior Management

- Inspections will be conducted by skilled and experienced staff
- May include director of the regulatory division conducting the inspection
- Explain the FSC's goals
- Type of inspection
 - ✓ Full Scope Vs Limited Scope
- Expected duration of visit

On-site Inspection Process

Actual fieldwork:

- Confidentiality
- Documents will not removed from institution's office
- Copies of documents, where necessary, will be requested

On-site Inspection Process

Actual fieldwork:

- Review of books and records
- Review of client files
 - ✓ Testing of KYC Policies
- Evaluation of fitness and propriety of approved persons
- Examination of internal procedures and risk control systems

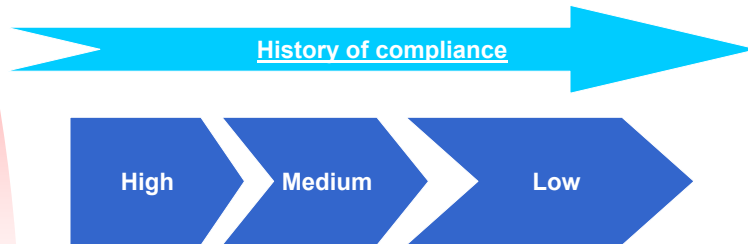
On-site Inspection Process

Actual fieldwork:

- Evaluation of financial strength, capital adequacy and solvency
- Authentication of information sent to the FSC on a regular basis
 - ✓ Determination of institution's fitness and propriety
 - ✓ Compliance with laws and regulations

On-site Inspection Process

- Compliance with Laws and regulations will be assessed on every inspection



On-site Inspection Process

Closing Meeting With Senior Management

- Re-emphasise inspection goals
- Discusses main findings and likely recommendations
- Gauge management's reaction
- Explain the preparation and presentation of final report
 - ✓ Final report is presented to the LSC
 - ✓ Copies of final report will be provided to the institution
- Institution will be given opportunity to respond to the FSC's main findings

On-site Inspection Process

Final Report

- Report on main findings
- Ratings for assessed criteria
- Recommend corrective actions necessary
- Establish timetable for correction actions

KReview

- KReview comprises a range of automated supervisory tools used by the FSC to undertake effective and detailed on-site inspection
- Proprietary software

KReview

- Standardised inspection work process and result analysis
- Improved consistency between reviews, supervisory capability and training
- Efficient and effective use of resources

KReview

- Extensive bank of review questions covering
 - ✓ AML
 - ✓ Trust/Insurance requirements
- KReview guides the FSC's inspector through the review program
- Matrix behind the questions leads to appropriate follow up questions.

KReview

- KReview produces a draft report of the findings
- Reviewer can then adapt or amend before providing it to LSC
- Final report submitted to the Institution
- Review findings can be downloaded remotely
- Electronic record of review history

KReview

- Thus KReview allows all reviewers the opportunity for fast, detailed and properly documented assessments of a financial institution's regulatory compliance.