

Digital Jersey's response to

The Corporate Services
Scrutiny Panel

On the Regulatory Technology (RegTech)
Super-Deduction

REGULATORY TECHNOLOGY (REGTECH) SUPER-DEDUCTION WHICH AIMS TO INCENTIVISE JERSEY'S FINANCIAL SERVICES BUSINESSES TO INVEST IN PRODUCTIVITY-ENHANCING TECHNOLOGIES RELATED TO REGULATORY COMPLIANCE WITH THE AIM TO BOOST PRODUCTIVITY IN THIS SECTOR AND THEREBY BENEFIT THE BROADER JERSEY ECONOMY.

Jersey has been a significant player in the global financial services industry, particularly known for its strong regulatory framework, political stability, and expertise in wealth management, funds, and banking services, and at present this is at risk due to Jersey not proactively supporting the adoption of regulatory technology across the financial service industry.

As already seen in the Government's Consultation *Strategy for Sustainable Economic Development*, increasing the adoption of technology is a key pillar to increase productivity and support growth intentions to help address the Island's changing and ageing population demography. Whilst the pace of change could occur organically, the Super-Deduction initiative is designed to accelerate this pressing step change. RegTech adoption will be one of many key steps to contribute to increasing effective and optimised productivity, enabling further innovation and providing businesses with a competitive offering on an international scale.

CONSULTATION PROCESS

- Digital Jersey, as Jersey's economic development agency for digital, was approached by government colleagues at Revenue & Tax, to share our thoughts on a potential tax incentive tailored to enhancing productivity through technology.
- After a discussion relating to our tax system, it became clear that regulated businesses would predominantly benefit from such an incentive.
- In our consultative capacity, we emphasised the importance of a targeted approach for the allocation of public funds towards qualifying technologies. With this principle guiding us, we pinpointed Regulatory Technology (RegTech) within the financial services industry as a key area for investment. Our recommendation stems from the industry's high demand for regulatory compliance expertise and the presence of a thriving RegTech community within Jersey.
- Supporting RegTech not only aids financial institutions in refining their compliance capabilities but also stimulates the local digital sector. To continue momentum and encourage a joined-up approach it only made sense to recommend the consultation of the JFSC regarding this scheme. Such collaboration is especially relevant as it dovetails with the JFSC's objectives pertaining to MONEYVAL targets, ensuring a synergistic approach to regulatory enhancement and economic development.

SUMMARY ON THE FINANCIAL SERVICES INDUSTRY

- The value chains that Jersey's financial services sector supports contributed an annual average of £62 billion of UK GDP between 2017 and 2020, representing approximately 2.9% of total UK output; a significantly greater share than in any of the regions analysed.¹
- The number of live companies on the JFSC registry stood at 35,028 at the end of the fourth quarter of 2022.
- The net asset value of regulated funds under administration increased by £1.3bn from £487.5bn to £488.8bn during Q4 2022.
- The total value of banking deposits held in Jersey increased from £144.3bn to £148.3bn during Q4 2022.
- The number of banking licences stood at 20 at the end of Q4 2022.
- The total number of regulated collective investment funds decreased from 658 to 637 as at the end of Q4 2022.
- The value of total funds under investment management stood at £30.2bn at the end of Q4 2022. These figures do not include the total assets under management within the qualifying segregated managed accounts (QSMA) which stood at £6.9bn at the end of the quarter.
- As at 31 December 2022, there were 638 JPFs registered and 107 GIMBs registered.²
- Overall, £1.4 trillion of capital was intermediated in Jersey, supporting £170.3 billion of global economic output, 5.1 million jobs worldwide, and £73.3 billion in associated wages.³
- Jersey's Financial Services sector is currently the largest sector, contributing 21% of employment and 36.7% of GVA in Jersey.^{4 5}

¹ <https://www.jerseyfinance.je/check-file?file=wp-content/uploads/2022/06/Quarterly-Report-Q1-Mar-2022.pdf>

² <https://www.gov.je/StatisticsPerformance/BusinessEconomy/pages/financialservices.aspx>

³ <https://www.jerseyfinance.je/check-file?file=wp-content/uploads/2022/12/Jerseys-Contribution-to-Global-Value-Chains-1.pdf>

⁴ <https://www.gov.je/StatisticsPerformance/EmploymentEarnings/pages/labourmarket.aspx>

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<https://www.gov.je/SiteCollectionDocuments/Government%20and%20administration/R%20GDP%20and%20GVA%202022%2020231004%20SJ.pdf>

WHY IS THE IMPLEMENTATION OF REGULATORY TECHNOLOGY SO VALUABLE TO THE ISLANDS, FINANCIAL SERVICES INDUSTRY, AND WIDER ISLANDS ECONOMIC DEVELOPMENT.

Regulatory Technology (RegTech) has been a transformative force in the financial services industry, especially pertinent given the sector's complex and evolving regulatory landscape. Here are some of the notable benefits of adopting RegTech solutions:

EFFICIENCY AND AUTOMATION

Data Aggregation and Analysis: RegTech can quickly aggregate data from multiple sources, enabling streamlined compliance reporting and real-time risk assessment.

Automated Processes: Advanced algorithms can automatically conduct tasks such as customer identification, transaction monitoring, and fraud detection, significantly reducing manual effort and mitigating human error.

COST-EFFECTIVENESS

Reduced Operational Costs: The automation of compliance and reporting tasks can significantly reduce administrative overheads, allowing more investment into business development, marketing and enhanced compliance.

Resource Allocation: By automating routine compliance functions, human resources can be redirected to areas that add more value, such as strategy and customer engagement.

ENHANCED COMPLIANCE

Real-Time Monitoring: Unlike traditional compliance frameworks that work on periodic audits, RegTech solutions can offer continuous surveillance.

Global Regulatory Database: Some RegTech platforms maintain a database of global regulations, ensuring compliance across multiple jurisdictions, especially useful for firms with international operations.

RISK MITIGATION

Predictive Analysis: Advanced analytics can predict potential areas of risk, allowing for proactive measures rather than reactive interventions.

Transparency: End-to-end visibility into transactions and customer behaviour enhances the capability to detect and manage risks.

SCALABILITY

Flexibility: Cloud-based RegTech solutions are often more easily scalable compared to traditional systems, adjusting to the size and scope of the operation.

Adaptability: RegTech platforms are generally designed to adapt to changes in regulatory requirements, avoiding the need for periodic overhauls of the compliance infrastructure.

COMPETITIVE ADVANTAGE

Speed to Market: With quicker compliance checks and onboarding processes, financial firms can deploy new products and enter new markets more rapidly.

Client Experience: Enhanced data handling and processing speed can significantly improve client onboarding and service.

INDUSTRY TRENDS

AI and Machine Learning: Artificial intelligence is increasingly used for sophisticated data analysis, including predictive analytics and natural language processing for scanning regulatory text.

Blockchain: Utilisation of blockchain technology for smart contracts and secure, immutable records is gaining traction, particularly in identity verification and audit trails.

CONCLUSION

Given the local financial services industry is the driving factor behind the islands economy and sustainability for the majority of employment, its vital that the Government of Jersey supports and accelerates the continual improvement and adoption of regulatory technology across the finance sector.

The risk of not supporting the adoption of technology will render Jersey potentially unviable for international trade, UHNW, HNWs and Corporates are choosing to take their administration elsewhere, this is primarily down to international clients feeling its easier to be onboarded in other competing finance centres, this would be detrimental to our economy.

The use of RegTech will also support continual efforts at maintaining compliance, reducing and mitigating risk and improving operational efficiency for all stakeholders.

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