

FUTURE-PROOFING THROUGH RE-ORGANISATION, CHANGE AND INNOVATION.

SPEECH DELIVERED BY MFSA CHIEF EXECUTIVE OFFICER, JOSEPH CUSCHIERI AT THE FINANCE MALTA 12TH ANNUAL CONFERENCE 2019 - INNOVATION VISION 2021: GOVERNMENTAL, REGULATORY AND BUSINESS INITIATIVES IN MALTA

Ladies and gentlemen, distinguished guests,

It is a pleasure for me to be here today to explain our vision of making our supervision future-proof and more robust. During this speech I will be highlighting how the MFSA intends to enhance its achievement of its statutory objectives of consumer protection, financial market integrity and stability, through its reorganisation, reform and change but also through technological innovation. My speech will also touch upon the six cross-sectorial pillars of the strategic plan which the Authority will be launching in the coming weeks: [i] Governance culture and conduct; [ii] Combatting financial crime, money laundering and terrorism financing; [iii] technology and innovation; [iv] Cybersecurity and resilience; [v] organisational change and operational capacity; and [vi] enhanced consumer awareness and protection.

Reorganisation – strengthening our governance, culture and conduct:

In line with the MFSA Vision 2021, we have embarked on a restructuring and reform exercise in the Authority's organisational structure with the aim of: [i] addressing supervisory fragmentation; [ii] ensuring efficacy in the decision-making process; and [iii] addressing supervisory gaps, as well as eliminating duplication of supervisory processes. This will see the establishment of a number of critical functions, such as that for FinTech and Innovation, risk management as well as the new Financial Crime Compliance structure in line with our AML/CFT Supervisory Strategy.

In order to provide a clear line of demarcation between authorisation, supervision and enforcement, the restructuring exercise will also lead to the establishment of an Enforcement Directorate and Enforcement Decisions Committee thus ensuring that the principles of natural justice - [i] the right to be heard; [ii] the rule against bias; and [iii] the no evidence rule; are followed.

We are also seeking to enhance our engagement with stakeholders. To this effect, the MFSA shall be setting up a Financial Services Stakeholder Panel which will provide a forum that will facilitate discussion with industry participants with respect to matters falling within the Authority's remit.

Strengthening our Supervisory Engagement

We are seeking to strengthen our supervisory engagement, with the purpose of better achieving our statutory objectives, and this will in turn, safeguard the reputation of Malta as a jurisdiction of choice for financial services. Whilst supervisory engagement shall be enhanced across the board, particular emphasis shall be placed on AML/CFT Supervision, in line with our AML/CFT Supervisory Strategy.

More robust supervisory engagement is a general expectation of European and supranational supervisory authorities, including the European Central Bank. The achievement of this enhanced supervisory engagement will require investment in technology and human resources. As a result, the Authority will require an increase in its revenues to cover the relevant costs of enhanced supervision but also in building the required capacity and technology arrangements which will take us to the next level. Given that the MFSA is expected by international standards to be operationally independent, we are currently considering an increase in authorisation and supervisory fees to reduce dependence on government funding and in the long term become financially independent.

Risk Management

The MFSA adopts a horizontal supervisory risk-based approach. Our new organisational chart includes a risk committee and risk management function. Whilst the risk management function will be involved in the day-to-day work in relation to risk, the Risk Committee will be assisting the Executive Committee and the Board of Governors in calibrating the Authority's risk appetite and risk framework. Risk management is crucial and will define our long-term development.

Taking the VFA framework as an example, one of the main risks identified at the conceptual stages of the framework, was the risk that entities operating in this sphere are used for purposes of money laundering and the financing of terrorism. In this respect Malta has sought to mitigate this risk by going beyond what is required by the EU's fifth anti-money laundering directive and legislating to make all operators in this field subject persons for anti-money-laundering purposes.

Furthermore, the Authority, together with the FIAU, has also issued for consultation, Guidance for Credit Institutions, Payment Institutions and Electronic Money Institutions opening accounts for FinTechs to assist such Institutions to acquire a better understanding of any such prospective customers, active in technology reliant areas, prior to servicing them. Another risk identified was that of Cyber-security. In this respect we have been proactive and have, in the past days, issued a set of Guidelines on cyber-security within the context of crypto assets for public consultation. Going forward we plan to take a similar proactive approach in relation to all sectors falling within our remit.

Technology

In today's supervisory world, technology is mission critical. The MFSA will be launching an ambitious initiative which will make the Authority a role model in the application of the latest technologies which will enable the concept of data driven supervision coupled with an evidence-based approach. In this respect, the MFSA will be investing Eur 12m between 2019 and 2022 which will result in the implementation of technological platforms which will assist the Authority in automation of authorisation and supervisory processes making the MFSA a more efficient and dynamic regulator. This will be underpinned with investment in the latest supervisory technology, business intelligence and knowledge management tools. For example, the Authority has already partnered with CipherTrace whose compliance monitoring solution provides an effective SupTech tool which continuously rates the risks of crypto-currency businesses and will therefore assist us to better manage such risks.

FinTech Strategy – Harnessing innovation through technology

Vision 2021 places FinTech at the forefront of our agenda and it is our aim to build on past successes as a financial services centre, by working with new and existing companies to attract and drive the implementation of FinTech in our jurisdiction. Following a public consultation and the publication of a feedback statement, we have published our FinTech strategy. We have a vision to establish Malta as an international FinTech hub and are currently assessing viable solutions to foster FinTech and nurture innovation, particularly with respect to the implementation of a regulatory sandbox and an innovation hub.

Without going into the intricacies of the strategy itself, we shall be focusing on six strategic pillars: [i] regulation; [ii] ecosystem; [iii] architecture; [iv] international links; [v] knowledge; and [vi] security. From feedback received and our discussions with stakeholders, the most anticipated pillars appear to be: Pillar 1 – regulation, which will *inter alia* see the setting up of a regulatory sandbox, a controlled environment wherein participants may test innovative products or services; and Pillar 2 – ecosystem, which focuses on the establishment of an innovation hub which will support and provide guidance to innovative firms and start-ups in relation to the understanding and interpretation of the applicable regulatory framework.

We will be publishing various consultation documents on the six pillars of the strategy and I am pleased to announce that the first consultation document – that on Pillar I – will be published in the coming weeks.

Capital Markets Strategy – Taking the markets to the next level

My team is also working on a policy for Security Token Offerings which will form part of an overarching Capital Markets Strategy. In line with Vision 2021, the Capital Markets Strategy will facilitate the sustainable growth of capital markets in Malta, taking into consideration the evolving needs of the industry whilst ensuring high standards of investor protection and market integrity. This will *inter alia* include a revision of the listing rules and Listing Authority policies, investment in technology and human resources and an educational campaign on investment in listed securities.

Education – Training Supervisors and Enhancing Consumer Awareness

We are firm believers in the power of education - education is key to the sustainability of any industry. Whilst the MFSA shall continue working on communication strategies designed to inform and educate consumers, in the coming months the MFSA will be embarking on another exciting initiative – the formation of an Academy of Excellence for Financial Supervisors. The Academy will have a two-fold objective: [i] that of training young and upcoming financial supervisors; and [ii] giving the opportunity to experienced supervisors to grow further and update their knowledge. Particular focus on training supervisors in innovative areas of financial services is being envisaged.

The International Dimension

Before concluding I would like to reiterate the MFSA's commitment towards cooperation with other regulators – we consider it essential to exchange views and collaborate both formally and informally with our peers on all areas of financial regulation. We shall maintain open channels of communication with all regulators, both at national and international level.

Conclusion

We are positive that in the coming years, innovation will continue to redefine the financial services sector, and this will certainly bring about a number of challenges for all stakeholders within our industry; however, I am sure that by working together we can translate any challenge into an exciting opportunity. During the past year, the MFSA has made great strides and we are expecting this momentum to be maintained. Of course, it is only by working together that we can harness the full potential which the financial services industry can offer. I therefore urge you to engage with us, to participate in the consultation documents we issue, to provide us with feedback – so that we can work together to provide an approach to regulation and supervision which is really and truly future-proof.

Thank you for your attention and I wish you a good conference.