

Preparing for PRISM

What is PRISM?

The Probability Risk and Impact System (PRISM) is the GFSC's risk based framework for the supervision of regulated firms. The practical implementation of PRISM in Guernsey is still relatively NEW, however some firms have already undergone site visits based on their PRISM rating and the difference in approach is evident.

Risk Rating

Under PRISM firms are assigned a risk rating of high, medium high, medium-low or low based on an assessment of the potential impact that the material failure of that firm might have upon Guernsey in terms of its financial stability or reputation. This risk based approach enables the GFSC to focus resources where they are most needed with those firms assessed as presenting a higher risk receiving closer and more frequent supervision than lower risk firms. A medium-high firm can expect a full assessment visit every 2-4 years while low risk firms might have thematic reviews instead of a full assessment visit. It's worth noting that under PRISM some lower risk firms might actually receive less frequent visits than under the previous system of supervision. However, it would be unwise for any firm to become complacent, since any failure to comply with the GFSC Rules might ultimately lead to enforcement action.

Risk Assessment

PRISM takes a 'top down' approach to supervision with 11 risks being considered as part of a full assessment. They are:

- Strategic
- Capital
- Liquidity
- Credit
- Insurance
- Governance
- Conduct
- Environmental
- Market
- Operational
- Financial Crime

Even when there are 'nil findings' during a PRISM visit individual ratings are applied to each of these risk categories contributing to the firm's overall rating.

Of course these risks are nothing new and many regulated firms may already routinely consider them as part of their existing risk management programme, it is nevertheless prudent to ensure that your firm has appropriate systems and controls in place to evidence such ahead of receiving notification of a PRISM visit.

Change in Emphasis

So for practical purposes, what will feel different about a PRISM visit?

Even under the "old" regulatory system some of these risk categories did receive careful consideration, however the primary focus then was on checking the firm's compliance with the GFSC's Rules. Under PRISM the focus is on assessing the firm's ability to identify, assess and strategically manage the risks to which it is exposed.

There will still be a comprehensive pre-visit information request, however do expect a change in focus. There will be closer consideration of governance arrangements and the quality of key individuals responsible for strategic management.

The PRISM visit will be mainly interview based and will focus on key individuals, board members, the compliance officer and division heads.

This interview based assessment will focus on certain key areas which include (but are not limited to):

- **Strategic risk management** - be prepared to discuss your firm's business model and business plan for

- **Growth strategy** – how do you plan to grow your business - by organic growth, merger/acquisition or product diversification?
- **Sustainability** – focussing on the direction your business is forecast to take and how it is going to get there (together with the risks it is exposed to?)
- **Product life cycle** – how does this impact your business model?

Post Visit

A risk governance panel which includes individuals with a wide range of experience will scrutinise findings and your firm's risk management plan prior to a draft report being issued. The business then has 10 business days to respond prior to the report being made final.

To Conclude

For a successful PRISM visit a firm must have a clear governance framework and the Board and Senior Management must be fully conversant with the firm's risk management programme including their own responsibilities.

The firm's appetite/ tolerance for risk should be defined and systems and controls in place which evidence that management of the 11 risks. These should be embedded within the firm's business operations, and also within its business strategy including the development of new products and services.

Active participation in board meetings by ALL Directors is therefore vital together with minutes which evidence the contribution of individual board members as well as the appropriate consideration of risk in decision making.

Furthermore, it is essential that the messages that the GFSC receive from interviewees is supported by the firm's own records, available management information and communications to and from the Board.

There can be no doubt that PRISM will present a challenge for some firms (and key individuals), however the outcome of such a review should be a stronger and better managed businesses with a higher degree of risk awareness and reduced risk of failure.

We recommend that regulated firms be well prepared for this new approach to regulatory supervision and consider their existing arrangements critically.

We would be delighted to answer any questions you may have or to have a coffee and a chat about PRISM. Just give us a call or drop us an email.



Sharon Alvarez
Director

Important - these notes are prepared for guidance and do not constitute advice. Should you wish to take any actions as a result of the content you do so at your own risk. For specific advice relative to your business you should contact Jo or Sharon and we would be delighted to discuss your needs.

Resolve are able to provide assistance with PRISM as well as other compliance and governance matters based on practical experience. Whether it's undertaking an independent regulatory health check, providing assistance with a pre-visit action plan or post visit risk mitigation or remedial work we can offer a flexible and practical solution. For further details please either contact us or visit our website www.resolvepartners.net.

Sharon Alvarez – sharon@resolvepartners.net
Mobile 07911 721600

Joanne Gill – jo@resolvepartners.net
Mobile 07781 403506