Model Office-MO® Cost of Compliance Benchmark Report 2024

MODELOFFICE
compliance · alignment · sustainability

Fidelity
INTERNATIONAL

Contents

The FCA: a data led and pro-active regulator

'Innovation plays a vital role in growth and competitiveness of UK financial services. Another thing that's changed in the last 10 years is the addition of our secondary international competitiveness and growth objective. Our Innovation services play a key role in helping us realise our vision for the future.

Our commitment to innovation isn't just rhetoric. We've witnessed, and supported, huge growth in the financial sector. Firms have brought forward new solutions to old problems, sometimes through our TechSprints, our Sandboxes, or through our Innovation Pathways. Helping to improve financial inclusion, drive efficiency, and better serve customers".

Jessica Rusu, FCA Chief Data, Information and Intelligence Officer 2024

"As we look to the future, we expect the sector will continue to evolve. This is likely to be driven by, among other things, ageing consumer and adviser populations, the transfer of wealth, a shift from defined benefit to defined contribution pensions, geopolitical and climate uncertainty, interest rates, industry consolidation, technology advancements, and regulatory requirements.
This presents opportunities for firms to grow and serve new markets. It also poses challenges and risks, which could lead to harm to consumers and the market. We want to work with you to ensure consumers receive consistently good outcomes from a sector which is sustainable and well placed for the future. We also want to empower more consumers to manage their finances".

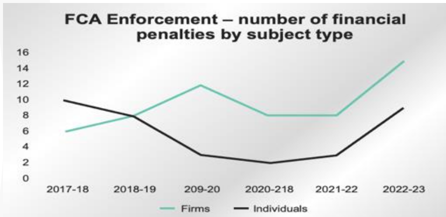
FCA Dear CEO Letter – Financial advisers and investment intermediaries Firms 7th October 2024

1. Introduction

Model Office-MO® latest annual benchmark report, in association with **Fidelity Adviser Solutions**, builds on 6 years of reporting on its RegTech data across hundreds of retail intermediary advice firms (RIAs). With 1,000 firms across its 5 platforms, MO® has rich data and trend analysis that provides a good benchmark and comprehensive review across the key governance, risk, and compliance (GRC) challenges RIAs are facing. As we will see, and in particular with the Consumer Duty now in full swing and the [FCA's latest RMAR data pointing to an on-going decline in firm profits](), RIAs are now challenged particularly around their value propositions and how to identify, monitor and report on client data to evidence ongoing good client outcomes.

RIAs are also still struggling with the cost-of-living crises and managing other regulatory directives such as the FCA Consumer Duty, Appointed Representatives (AR) regime review, High Risk Investment Review, ESG, and the FCA directives around retirement income advice and equity release.

Figure 1. FCA enforcement penalties



Source Linklaters 2023.

Against this backdrop, It is clear that the FCA (as they say) are becoming more rigorous and intrusive in their supervisory activities. You only have to look at the increasing numbers of supervisory tools; *skilled persons reviews, market disclosures, listing suspensions, use of insolvency powers, on notice letters, data/questionnaire information requests and enforcement penalties* which are increasing with fine amounts falling, which points to smaller along with larger firms are now very much in the regulatory cross hairs.

Indeed, the FCA's latest Consumer Duty publication [Price And Value Outcome: Good And Poor Practice Update]() stipulates; "The examples in this publication can assist firms of all sizes. We are nevertheless conscious of the need for specific engagement with small firms as we continue to embed the Consumer Duty". Plus, the regulator are committed to a reasonable and proportionate supervisory strategy, good news, but firms of all sizes need to ensure they have quality data to evidence ongoing good client outcomes.

RIAs are also being hit by a wall of white noise when it comes to technology and Artificial Intelligence (AI) and indications are firms are interested but slow on the uptake which jars with clients demanding their financial service firms modernise their businesses by deploying and embedding the latest digital tools that will enable intuitive, streamlined and cost-effective services.

So, lot's going on to say the least. These reports are designed to provide a longitudinal gap analysis for ongoing compliance challenges and point to tech-based solutions that can enable more efficient and effective GRC good practice.

Benchmark trends and themes

Regulatory challenges

1 in 2 firms are concerned that that they are gaining external rigorous compliance support services and **1 in 3** are similarly concerned about their internal compliance support services

1 in 2 firms are concerned about regulatory reinforcement directives and the impact on compliance costs (up from **1 in 3** in 2023)

1 in 3 firms are still concerned they have work to do for validating their consumer duty implementation project planning, **with 70%** (slightly down) of firms particularly concerned they still need to tweak their value proposition across charging, segmentation, and evidencing proof of service value.

2 in 3 firms are confident their Consumer Duty Annual Report meets all FCA requirements but **1 in 2** are concerned that the reports need more data and evidence.

2 in 3 firms believe AI and digital tools will aid more cost-effective compliance activities, increase data/MI and streamline regulatory reporting, yet only **1 in 3 firms** have actually researched and deployed such tech.

1 in 2 firms are unsure their governance, risk and compliance data is of the highest quality and when asked if they have one touch access to GRC data to prepare for a regulatory or audit visit this falls to **1 in 3 firms**

70% of firms say that Professional Indemnity Insurance (PII) is a key challenge, this is down which indicates a 'softer' PII market with the demise of pension transfers but is still high enough to indicate a key ongoing risk.

When asked what the regulatory challenges are, our survey said...

	Compliance time	Compliance cost: Direct as % of revenue	Compliance cost: Indirect as % of revenue
RIAs with 1-10 RIs	*Spend* 4-7 Hours Per week	*Spend* 7%	*Spend* 8%
RIAs with 11-20	*Spend* 10-15 Hours Per week	*Spend* 8%	*Spend* 11%
RIAs with 21+ RIs	*Spend* 16+ Hours Per week	*Spend* 12%	*Spend* 13%

Reasons for costs

- 70% say it's professional indemnity insurance
- 1 in 2 feel compliance officers and senior management contribute significantly
- 1 in 2 points to paraplanning, administration and third-party compliance support
- 2 in 3 attribute the Consumer Duty implementation and on-going validation
- 1 in 2 stipulate lower firm profitability probably due to market volatility and rising cost of living

2. Increasing demand for GRC data analytics

There is a disconnect in the industry that [The FCA business plan 2024/2025 Consumer Duty regulations] and [the FCA Dear CEO letter 7th October '24] both paint a clear picture that there is a strong expectation from a data led regulator that RIAs need to employ and apply data analytic tools to their GRC activities across their businesses. Yet we see RIA firms continue to use legacy tech and paper driven check list, tick box compliance activities with filing cabinets still in use. This will only cause challenges to support services/networks and firm's evidence-based practice and to those firms who are looking to exit and also to consolidators who are buying up RIA firms given the FCA's data driven supervisory policy. Can these firms really evidence on-going good client outcomes?

The FCA want firms to harness the benefits of data and technology so that they improve their self-audit activities and continually assess and understand the outcomes they achieve for their customers. In other words, RIAs should have a digital strategy in place to ensure they have the right data and intelligence to prove compliance. This will enable firms to identify risks to their client's good outcomes and spot where clients are getting poor outcomes and drill down into the root causes of these poor outcomes to identify a solution in real time.

Data analytics will also ensure RIAs are gaining all the data required to measure the firm's success against key regulatory risks and evidence such to third parties such as potential acquirers, compliance oversight and professional indemnity insurers to showcase they are a good risk and walking their talk on support good client outcomes. For instance, with a data led regulator, more firms will gain more regulatory visits, given increased questionnaires, data requests and Dear CEO letters. So, reliance on filing cabinets, checklists and spreadsheets has a short shelf life.

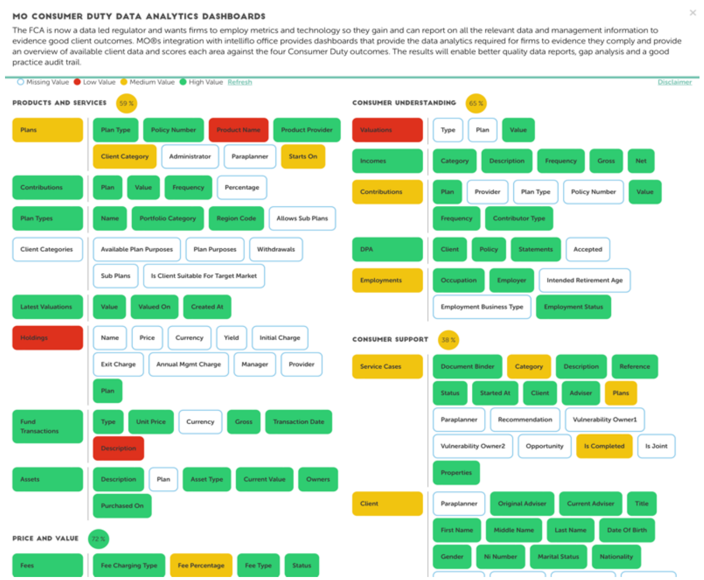
As we mentioned last year, the data firms need to collect is not as clear as it could be from the FCA Consumer Duty regulations, but Model Office are working with the regulator on this and expect to see the FCA demand the following in any data requests focused on business models, advice suitability and good outcomes:

- **Business model:** Charges, revenue by product group, persistence and client retention, future business model plans
- **Business size metrics:** Number of firms and advisers, total revenue, number of initial / on-going advice transactions
- **Financial performance:** Profitability, capital position, liquidity, resilience
- **Client outcomes:** FOS complaints, Firm complaints and root causes, FSCS claims, churn, and cancellation rates, client demographics and how are clients targeted and supported
- **Four Outcomes:** Types of products and services provided and how delivered, value delivered, client support and understanding
- **People based:** Encouraging client and staff feedback, communication strategy, challenge to status quo bias across the business, adviser demographics
- **Systems and controls:** On-going performance monitoring against all relevant regulations, operational and cyber resilience

"If you haven't got the data, it didn't happen and if you do, it better have happened".

Chris Davies Founder, Model Office

Example of Model Office Consumer Duty client data analytics



Culture, competence and conduct

There is also a continued regulatory interest in how firms are measuring, monitoring and improving their culture, staff skills and behaviours. The FCA's continued focus on culture and governance and indeed how central this is to the Consumer Duty showcases that RIAs need to ensure they continue to measure this area carefully and identify and remedy any dysfunctional activities that could lead to poor culture.

One key area the FCA highlights as a firm risk is board structure and indeed you can go right back to FSA papers CP10/3 and 15 that identified five areas for immediate attention:

1. **A dysfunctional board**
2. **A domineering CEO**
3. **Posts held by individuals lacking technical competence**
4. **Inadequate 'four eyes' oversight of risk**
5. **A poor understanding of aggregation of risk**

The FCA's current business plan also highlights such concerns in dealing with problem firms, ensuring market integrity and using RegTech and AI to help identify bad actors. We also have the FCA's excellent on-going 5 conduct questions programme which focuses on 5 strategies firms should be using to manage and measure compliance risks. So, the FCA are well aware of the benefits RegTech can offer firms in evidencing a functional board and business culture which will in turn lead to business benefits such as loyal staff, clients and increased profitability and sustainability.

FCA 5 conduct risk questions

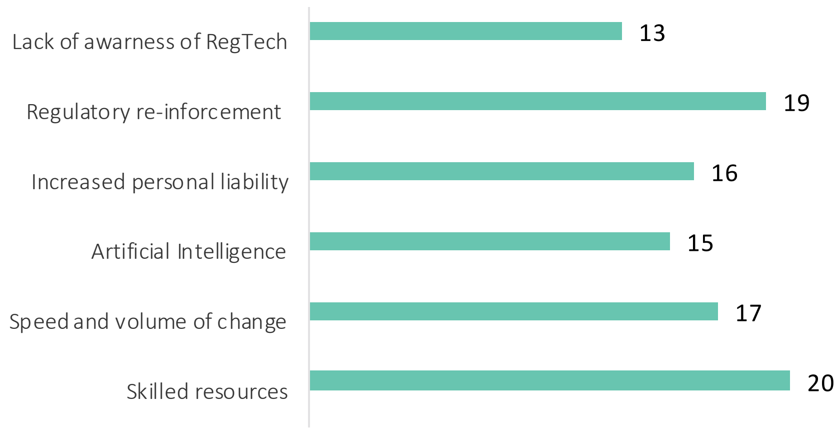
1. Have you Identified all risks e.g. Roles and Responsibilities, Internal communications, Client Informed consent, Breach policy
2. How do you empower individual's accountability to manage business risk and conduct e.g. Accountabilities
3. What mechanisms are there to improve risk management and conduct e.g. Digital Tools, Training and Development
4. What strategic oversight do you employ e.g. Investment committee/Board meets
5. How do you assess activities that could undermine good risk management and conduct e.g. Remuneration, Complaints procedures

This all means it is those RIA firms who engage and embed RegTech who will be better able to meet and report on conduct and competence risk management, with those falling short gaining the data to focus on where training interventions and new strategies are required.

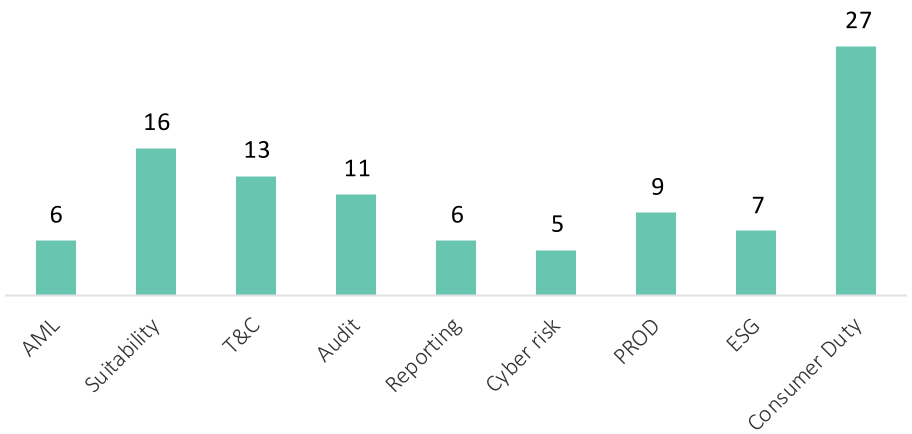
Similarly, Model Office's integrations with third parties such as intelliflo, IRESS, CURO and newcomer Plannr in the pipeline, means we can assess the quality of client data, segment that data across the four Consumer Duty outcomes and RAG rate the data so firms can clean up their data to ensure accurate client file audits and client review meetings.

This also identifies any potential foreseeable harm, for instance if a client is flagged vulnerable yet has little or no data in service cases/advice planning or scant data in product fees and charges section can flag barriers such as poor communications and client segmentation practice.

Over the next 12 months, what keeps you up at night



What are your biggest compliance challenges over the next 12 months



With the recent FCA Dear CEO letter clearly showcasing the need for firms to prepare for regulatory visits which can take many forms, and the fact that tech and AI is speeding up change, this report data shows that RIAs are aware of the need to apply a digital and data led strategy to enable GRC activities.

The good news is there is a strong trend in awareness for AI, RegTech and digital tools across compliance challenges which can certainly help with the concerns across reinforcement, personal liability, speed/volume of change and need for skilled resources.

It is clear the Consumer Duty is still going to be a salient regulatory issue for firms for the foreseeable future. Also, given the Duty's far reach across most regulatory directives, firms are certainly right in their concern for meeting other key regulations and highlight (as above) the need for skilled resources including RegTech to help them monitor and manage regulatory challenges.

Advice suitability, audits and Training and Competence (T&C) reporting are all considered big challenges which is particularly understandable where evidence-based practice is central to GRC reporting

Consumer Duty challenges

With the below Consumer Duty qualitative data and MI trend analysis produced by Model Office across 900 RIA firms, the Consumer Duty and validation of the implementation planning is front and centre when it comes to compliance challenge. Indeed, one of the key concerns here is the low score for firms understanding and implementation of the FCA requirement for an annual Consumer Duty report covering results, data scrutiny, trend and gap analysis and strategy consistent with good outcomes. Although we're over a year in, firms should now be validating, monitoring, and reporting on data to evidence on-going compliance and client good outcomes. Other areas such as aligning staff training, applying data monitoring, utilising open banking, and focusing on outsourcing relationships and agreements across the distribution chain can be easily fixed via RegTech.

Table 1. The Consumer Duty Qualitative Data

Regulatory Issue	Highest scoring	Lowest scoring
Governance and due diligence	• Senior managers have full accountability and responsibilities allocated • Staff training is aligned and conducted • Annual report is aligned to FCA requirements	• Annual report covering results, actions, risks, gap analysis, changes to firm policy • Training and competence assessment strategy against Duty's directives • Non-monetary risks such as data security and acquisition
Vulnerable customers	• Reviewed strategy to identify, understand needs of clients in vulnerable circumstances • Service proposition incorporates products designed for clients in vulnerable circumstances	• Granular monitoring and evaluation process across client segments to identify and support client with vulnerability • Strategy for on-going complaints, markers on client files, alternative communication formats, legacy systems strategy, quant/qual data analytics
Products and services	• PROD strategy documented and aligned • Services are assessed and benchmarked against good outcomes • Research and due diligence conducted across products, targeted appropriately, vetted for negative markets, suitably communicated	• Open banking utilised to assess unstable client finances, low erratic income, over-indebtedness, change in circumstances, scams • Strategy to offer refunds to clients • Awareness of the Collective Investment Regulations (COLL) and impact on service, performance, charges
Price and Fair Value	• Annual value assessment across all relevant products and services • Distribution chain assessment includes manufacturer information, costs and charges, stability, client segmentation assessment • Communication strategy assessed regularly • Identify unreasonable pricing	• Value for money assessment benchmarked to comparable products and services and non-monetary costs to clients / cost benefit analysis • Agreements reviewed and amended to protect the client relationship across distribution chain participants • Uniform communication strategy across client segments
Consumer understanding	• Support service enables client informed decisions • Review, test and adapt communications to ensure client's understanding	• Evidence for understanding is sense-checked by support staff • Client file reviews cover consumer understanding audits • Pre-application survey offered for client understanding of products/services
Consumer Support	• Strategy to assess gap analysis where support is not working and foreseeable harm is identified	• Client segmentation is used as a tool to benchmark and identify areas where clients are gaining good outcomes
Data, MI, and reporting	• Data collected across training and competence areas: persistency, complaints, NTUs, cancellations, staff feedback, persistence	• Data identification, monitoring data quality, reporting on client data to support good outcomes • Distribution chain data collection in one dashboard to ease reporting

Consumer Duty compliance and Model Office data reporting

With the above in mind, RIAs struggling identify, monitoring and reporting on client data and the FCA demanding RIA firms employ data analytics to evidence validation and ongoing Consumer Duty compliance, Model Office RegTech has been designed to streamline firms GRC processes and automate the regulatory diagnostic, gap analysis and audit reporting, providing a third line of defence and data driven audit trail so firms not only know but can evidence they are complying with all relevant rules in one regulatory data hub.

Table 2. Model Office Consumer Duty reporting capabilities

	Regulatory benchmarking & validation	Compliance scoring	Action tracker compliance alerts	Automated gap-analysis	Automated audit reports	AI Chat bot signposting & resources	Consumer Duty Client Data Analytics
Cross cutting rules							
Good faith	✓	✓	✓	✓	✓	✓	✓
Foreseeable harm	✓	✓	✓	✓	✓	✓	✓
Enable and support	✓	✓	✓	✓	✓	✓	✓
4 outcomes							
Product & service	✓	✓	✓	✓	✓	✓	✓
Price & value	✓	✓	✓	✓	✓	✓	✓
Consumer understanding	✓	✓	✓	✓	✓	✓	✓
Consumer support	✓	✓	✓	✓	✓	✓	✓

Summary

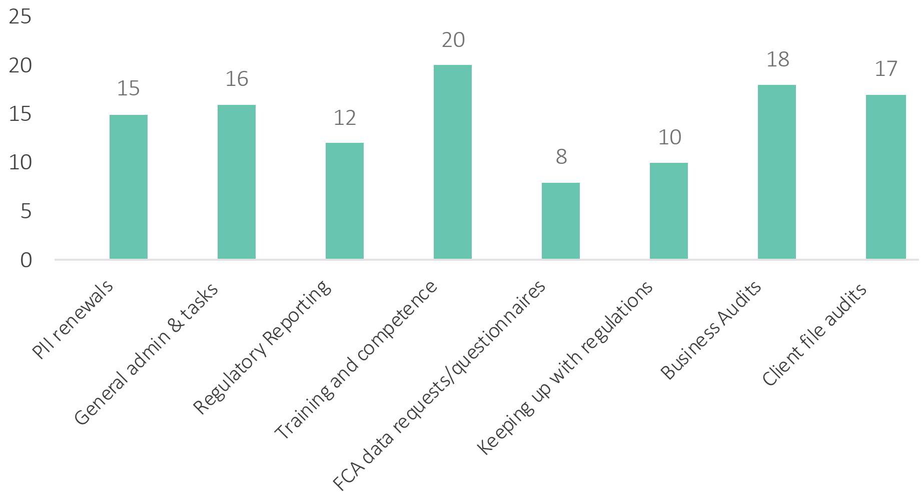
As the FCA presented in their speech, Consumer Duty: Not once and done, and recent webinar Consumer Duty: 1 year on the Consumer Duty (as all compliance activities) is not a tick-box or check list exercise, but a granular and holistic ongoing analysis of the business strategic focus, operations, services, products, human resources development, system and controls which ensures good outcomes are maintained and any foreseeable harm addressed quickly. RegTech is a resource that will certainly ensure RIAs are taking a holistic and root and branch approach to all Duty compliance requirements.

3. The costs of compliance

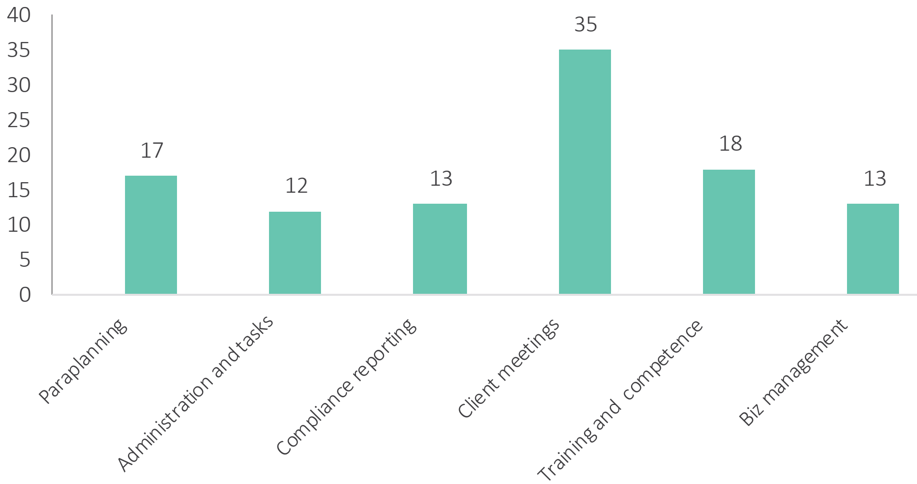
Time

As last year, the benchmark results are clear in this area, that firms are spending an increasing amount of time on compliance activities within their business. This increases dependent on the size of business yet is still proportional to a sizeable chunk of time no matter how big or small the RIA is. It gets interesting when we look at the compliance activities the firm is taking time to execute.

Which compliance activities take more time?



Rate how much time is taken across business v compliance activities



Paraplanning is still integral to the financial planning engine room and although take up significant resources, is a central and important to compliance activity. AI may streamline some para-planning activity which could then allow para-planners to spend more time on technical assessment of advice suitability.

With regulatory reporting and T&C activities, this is highlighting the pressure the Consumer Duty is placing on RIA internal and external compliance resources. PII is notably down on last year maybe due toa 'softer' market with lower pension transfer activities. Business and client audits and T&C are still high, yet RegTech can help across all these areas, providing instant MI and data reports.

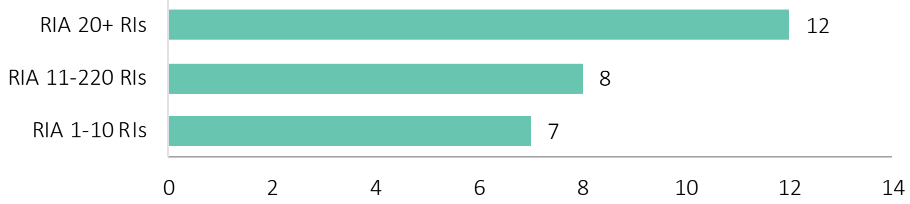
Not much has changed in the last 2 years, **still only 35% of RIA time is spent with clients**, the rest is made up of compliance and business management activities, again some of which could be alleviated by introducing RegTech into the firms 'eco system' see part 4.

There is no doubt that if RIAs continue to adopt digital strategy across their business and end-to-end AI software that can help with specific activities such as client on-boarding, meeting arrangements, assessing advice suitability, streamlining client reviews, suitability reports, research activities, general business admin and management, then this will streamline operations and free up more time for client engagement and meetings. This could in turn increase firm profitability as we illustrate in part 4's tech driven firm example.

Monetary

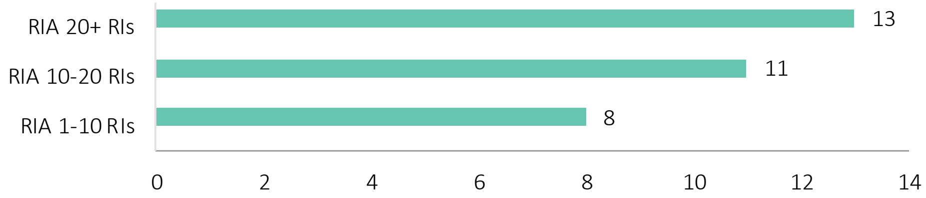
Squeezed margins is a continual theme that runs through these reports year on year and it's no different in 2024. One of the key concerns we have with the ever-expansive Consumer Duty is the implementation and on-going monitoring costs. There is no doubt, RIAs will have to invest in more business strategy, T&C, audit, and oversight activities to ensure they comply. Generally, this means that some or all this cost may well be passed on to the clients, an unintended consequence maybe, but a significant self-defeating consequence if this happens. Also, even though we are experiencing a 'softer' PII market, the indirect (audit, staff, training) and direct (levies) costs remain high with the average across all firms rising slightly to 19% of revenues.

How much is the direct compliance cost as a % of your annual revenue (PII levies/fees/licenses) chart



There is a marginal increase for the larger firms in direct compliance costs, with medium size firms the same and smaller firms slightly down. This tallies with the FCA RMAR reports, given profits for large and medium sized firms falling dramatically whilst smaller business less so

How much is the indirect compliance cost as a % of your annual revenue (training, recruitment, compliance support, audit)



Again, larger firms are feeling the heat with rising indirect compliance costs and medium size firms the same, yet smaller business are experiencing slightly less cost here, probably down to their agility in delivering changes more swiftly around the Consumer Duty requirements.

When it comes to the total direct and indirect compliance costs the results are very telling:

1. RIA 1–10 = 15% revenues

2. RIA 10–20 = 19% revenues

3. RIA 20+ = 25% revenues

Summary

The survey results are indicating a worrying trend that the costs of compliance are climbing against a grim economic outlook, a political and social backdrop of instability and higher business taxes and European and Middle East wars contributing to a cost-of-living crisis.

What are the biggest reasons for costs of compliance?

The good news is PII costs are down, as mentioned given we have a softer market post the FCA tightening the pension transfer market, but GRC audits are now demanding data led reporting and granular information on increasing regulatory demands the FCA are imposing across key directives such as the Consumer Duty. Most audits are still people, paper, pen and spreadsheet driven which can create tick-box mentality and disparate resources used. T&C is also an area of concern with poor access to adviser KPI data and scrutiny of theme and trend analysis.

Something must give, and we hope it is not the firm's resilience! As section 4 will illustrate, RegTech provides a great opportunity for RIAs to adopt technology that will enable them to gain quality and focused data and MI across the plethora of regulatory directives they are having to manage and monitor, plus save them significant costs and time across GRC activities which will help boost performance and ensure clients are served and good outcomes are maintained.

4. RegTech adoption

What is clear from firms who are adopting RegTech is that not only are they able to increase data and MI whilst reducing costs and time, but they are also adding significant capital value to their businesses. In an industry where mergers and acquisitions has dominated over the past few years seeing a consolidation of firms, adding AI, FinTech and RegTech into their business operations, procedures, systems, and controls, means firms can increase the value of their business by streamlining operations and services plus enabling risk management and evidencing excellent governance framework.

Our working example below showcases a case study across one firm continuing with traditional business model and an AI, tech driven model.

Figure 2. RIA firm capital value

Capital Value

Turnover	1m
Variable Costs • Compliance (staff, internal/external audit) • Professional Indemnity • Training and competence • Human Resources (recruitment, legal, management) • Client servicing (cost of advice/planning)	**300K**
Fixed costs Front – Back-office operations/technology Paraplanning Regulatory levy	**300K**
EBITDA	**400k**
PE Ratio	**5**
Value	**2M**

Capital Value with AI Tech

Turnover	1m
Variable Costs • Compliance (staff, internal/external audit) • Professional Indemnity • Training and competence • Human Resources (recruitment, legal, management) • Client servicing (cost of advice/planning)	**260K**
Fixed costs Front – Back-office operations/technology Paraplanning Regulatory levy	**250K**
EBITDA	**840k**
PE Ratio	**7**
Value	**5.9M**

As we can see, by applying AI and tech across key operations and activities, can significantly decrease the costs and improve efficiency across business activities which in turn can increase the capital value of the business.

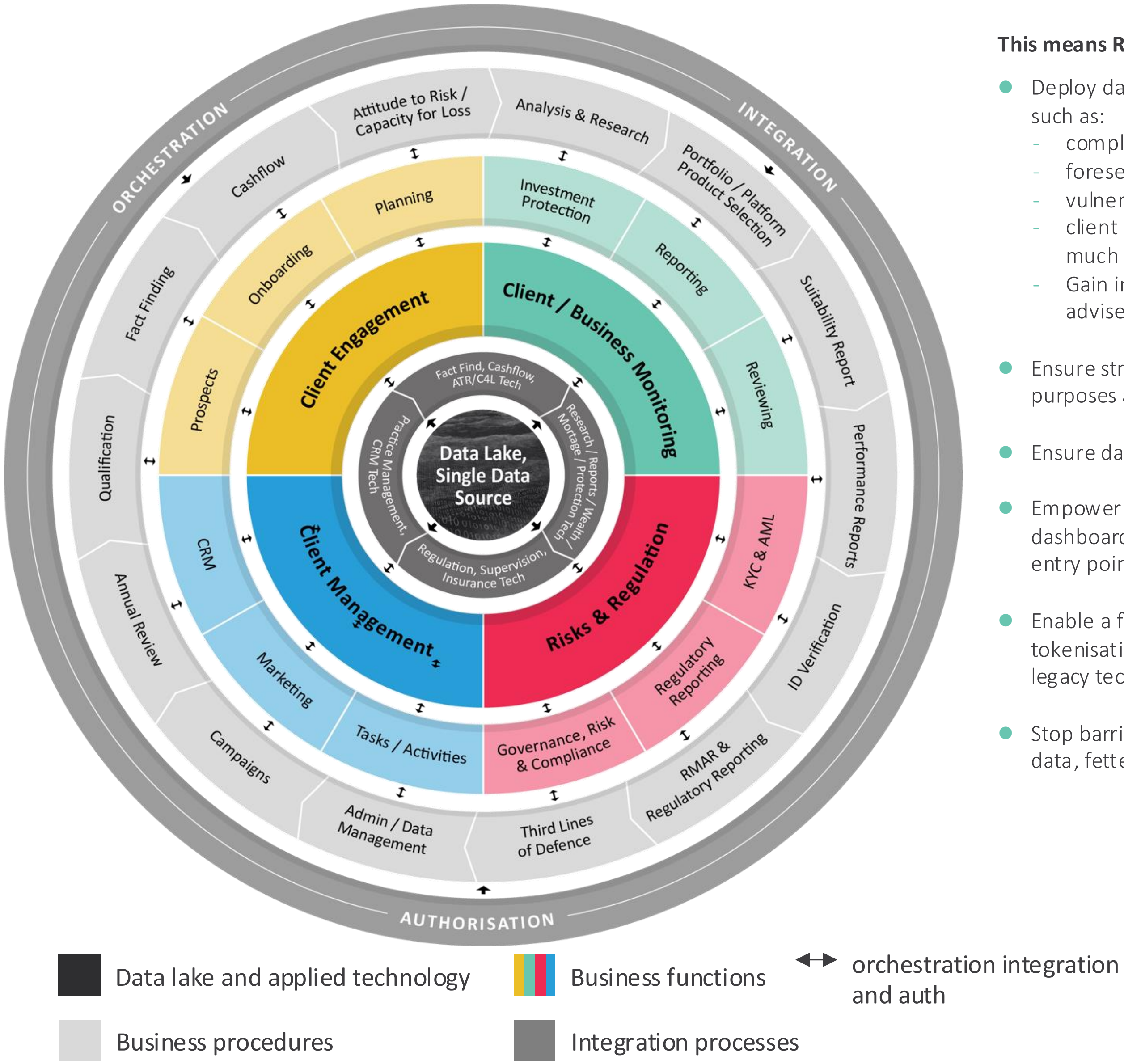
This will not only streamline business practice but also increase the governance, risk, and compliance profile, which will significantly enhance the capital value.

Developing a data lake driven Eco-system

Last year's report showcased the importance of an integrated TechStack. Although this still holds, it is imperative the industry looks to the future. As Bill Gates said not much changes in the short term, but a lot can change in ten years!

As we find ourselves in the fourth industrial revolution, digitisation of the retail financial service distribution chain is inevitable. Having worked with the FCA on synthetic data lake and digital regulatory reporting, we argue that tech suppliers, in particular back office and digital platforms need to offer a single sourced data lake so straight through processing, regulatory and client reporting, becomes streamlined, not reliant on fettered APIs and the whole distribution chain becomes ready for a whole new world of investment services which are token, blockchain, smart contract, web3 and digital wallet driven.

Figure 3. Retail Financial Services Eco-system



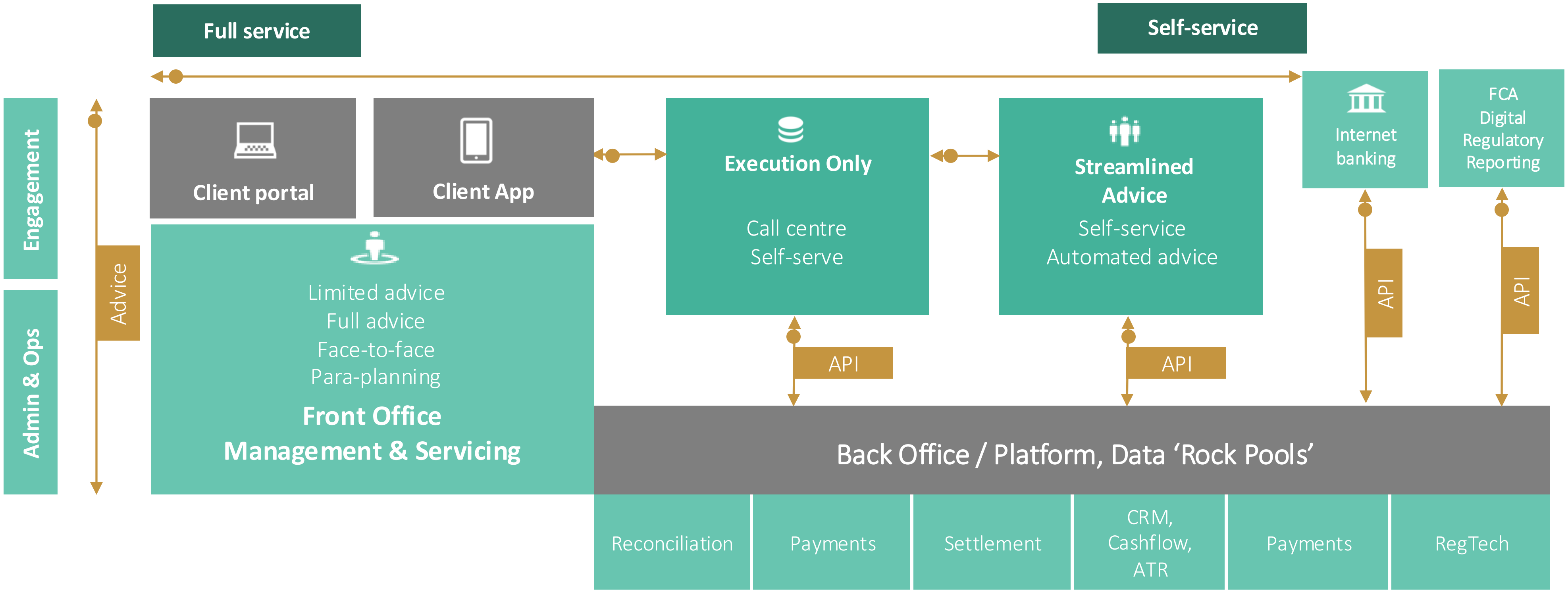
This means RIAs who can access synthetic data lakes can:

- Deploy data trend and theme analysis against regulatory responsibilities such as:
  - compliant root causes,
  - foreseeable harms,
  - vulnerability characteristics and suitability of services,
  - client segmentation is appropriate to products and service offered and much more.
  - Gain instant business model, performance, size metrics, controls, adviser, client and financial resilience data the FCA now require
- Ensure straight through processing for regulatory and client reporting purposes across complimentary tech
- Ensure data quality is the best it can be across individual and all clients
- Empower single entry data and aggregated client and regulatory reporting dashboards to finally out an end to legacy tech offering multiple data entry points
- Enable a future ready business to engage web 3, blockchain and tokenisation which will finally enable a move away from fettered APIs and legacy tech
- Stop barriers to good client and business outcomes such as low-quality data, fettered data access and use of disparate resources

Current Interoperability

The current tech interoperability framework is API dependent and tech stack led. As long as the tech and APIs are unfettered, two-way (push/pull) data processed and can access data lakes, then this can deliver meaningful, cost and time saving procedures across client service, compliance reporting, investment management and other related activities and tasks. The challenge is where legacy tech and fettered APIs restrict data access and flow.

Figure 4. Retail Financial Services API driven interoperability



Single view of client | Consolidated advice | Streamlined compliance
Seamless channel transfer | Consistent advice outcomes | Data driven | One touch

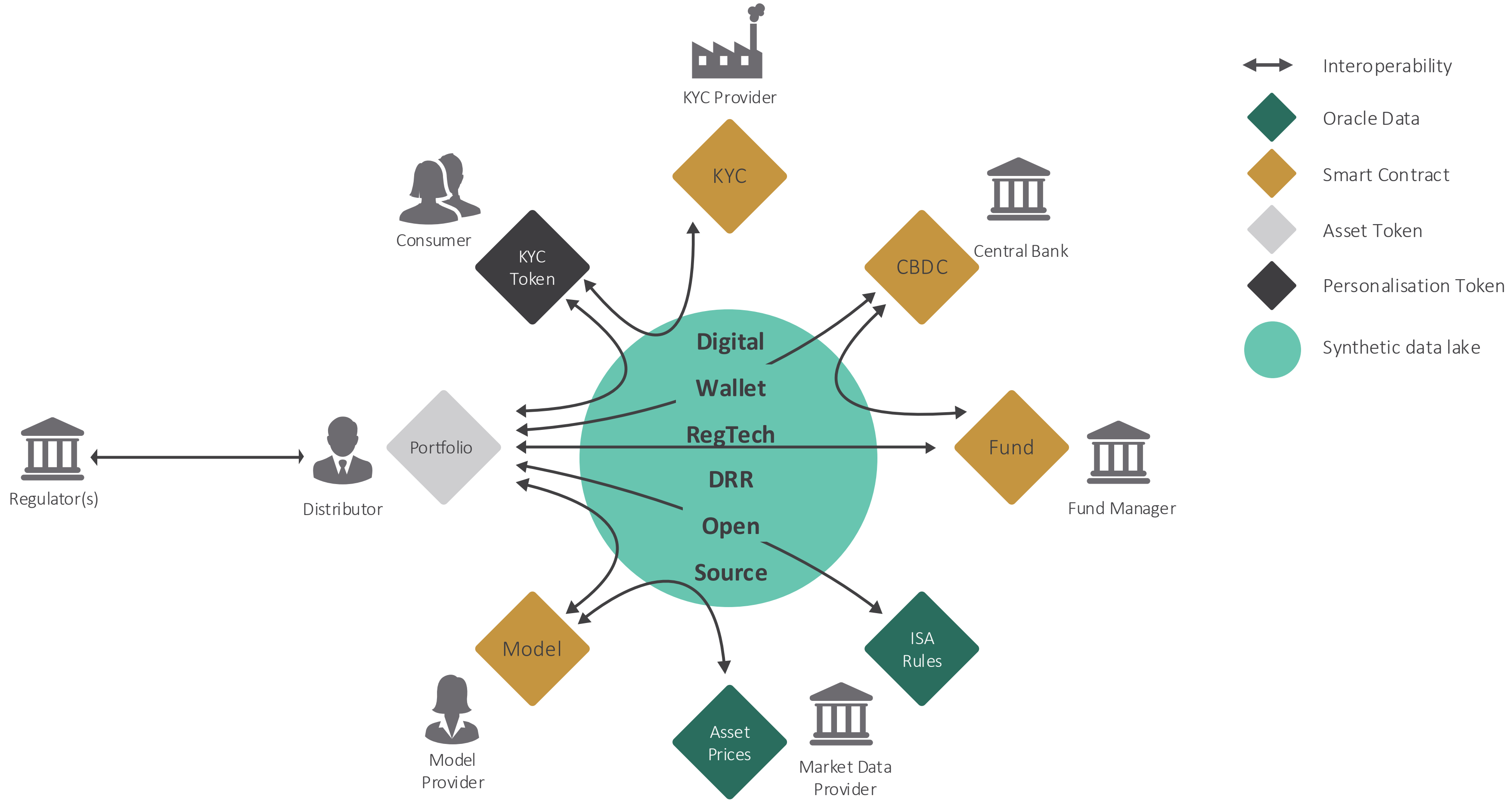
Fidelity Adviser Solutions' *IFA DNA research is an annual examination of the opportunities and challenges facing advice businesses today and provides great insight into how firms are reacting to regulatory and other industry pressures.* ***Download the latest report***

Fidelity and Conquest Planning *offer next-generation financial planning software that goes beyond traditional cashflow modelling.* ***Find out more***

Future Interoperability

It is clear, with the fast -moving pace that the digital revolution is delivering, a fettered API driven interoperability system will be replaced with a Web 3, blockchain agnostic eco-system where interoperability is powered by connecting tokens and smart contracts across multiple blockchains and will connect on -chain and off-chain data through oracles and a suite of applications for streamlined dealing, investing, product purchase, regulatory reporting.

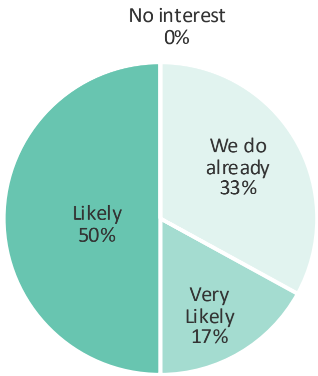
Figure 5. Retail Financial Services Blockchain and Token driven Eco-system



Source: Tokenbridge

How likely are you to adopt RegTech and AI over the next 12 months

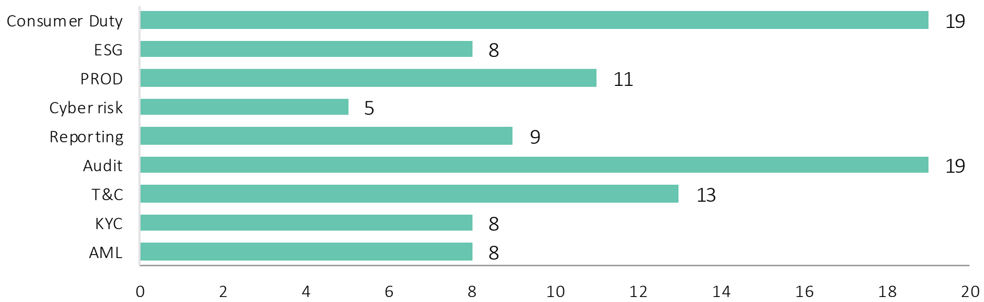
Over 1 in 3 firms are now using RegTech in their business in various ways and encouraging trend and good to see that nearly **2 in 3 firms are likely or very likely to adopt RegTech if this includes AI of sorts**. This is an increase on '23 and may indicate the rise of generative AI and its popularity as a powerful enabler tool. This is great news and a positive shift where RIAs are now willing to investigate and invest in their compliance resources to ensure they meet the FCA requirements for firms to apply data analytics to their compliance practice. This involves trend and gap analysis and ensuring their practice management, risk, CRM and platform technologies and platforms deliver streamlined and clear data points to support regulatory reporting and good client outcomes. AI seems to make RegTech more attractive, with firms now trialling AI within their businesses. Again, this is good news given there are new up and coming AI drive GRC end-to-end software tools available.



What will the future compliance function look like

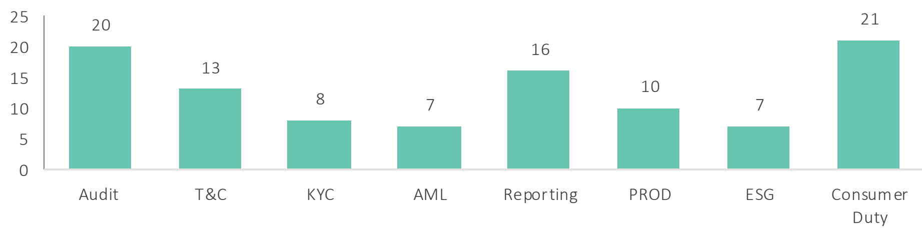
When asked what the future of compliance looks like, respondents are under no illusions that end-to-end RegTech solutions are central to their sustainability and growth potential. Data is seen as key to regulatory reporting with fully integrated tech stacks and recruiting those with tech, digital and AI skills sets is very important. This also plays to the research we have seen in the market that points to clients are now demanding firms modernise their businesses via technology to gain a more intuitive, insightful and cost-effective experience. This is not just a generation Z issue, those baby boomers at retirement also are tech savvy and want digital engagement with their financial needs.

Which areas will you adopt a RegTech solution



It is also interesting to assess which compliance areas RIAs are adopting RegTech. The Consumer Duty and firm audits are up on last year and by far the key areas that are viewed as requiring technology to enable evidence-based compliance reporting and no doubt this is due to its over-arching framework across all regulations. RegData and PII reporting, suitability reports and para-planning activities can benefit from the adoption of RegTech in providing data analysis, streamlined client reports and compliance reports and communications.

In which areas is RegTech saving you time and costs



There is clear evidence that (if researched and applied correctly) RegTech has demonstrable benefits for saving time and costs across key compliance requirements. With ongoing validation for Consumer Duty implementation and given the FCA not once and done approach, and the Dear CEO letter advocating data analytics, the regulator are keen to ensure RIAs realise this is a cultural and outcomes led directive which will require on-going monitoring and analysis and data to evidence ongoing compliance and good client outcomes. RegTech is an enabler allowing firms to get straight to the issues at play, gain gap analysis and data points that can illustrate how the firm is performing across the cross-cutting rules and 4 outcomes and distribution chain relationships are constructive, with open communications and clear agreements.

The cost of inaction (COI)

Last year's report, focused on the key theme for RegTech cutting compliance dead time and providing demonstrable time and cost savings.

With AI in the mix which enables the ability for streamlining audit practice across areas such as compliance document text analysis, client file reviews, regulatory horizon scanning, this should mean a call to action and firms need to be acutely aware of the cost of inaction to their business interests. **It is not necessary the AI that is a threat, but other businesses deploying AI better and faster than them that could seriously affect profits and put them out of business.**

We now face the 'microchip calculator moment' which revolutionised accountancy practices in the early 1960's. There is no doubt that generative AI is here to stay, and with incoming AI Agents, it is those firms who are able to identify and deploy specialist focused end-to-end AI RegTech solutions that will avoid any cost of inaction and leverage AI benefits across effectiveness and efficiencies.

Cutting compliance dead time

	Periodic audit review data gathering	Periodic client file audit	Compliance document audit	Client outcomes, T&C & regulation audit	Audit data and gap report output	Audit & regulatory report review & analysis	
Traditional: Manual, face to face	2 hours	1 hour	2 hours	3 hours	1 hour	3 hours	**TOTAL 12 hours**
Hybrid: 'Cyber compliance' RegTech	1 hours	30 mins	30 mins	2 hours	60 secs	2 hours	**TOTAL 5.30 hours 60 seconds**

From our experience, **Model Office is now saving RIAs at least 30% of compliance time and associated costs with networks and support services over 25%**. This is considerable and allows firms of all sizes to re-invest in their businesses and spend quality time in not on their business with increasing client meeting time and investment in staff development, two crucial ingredients to a sustainable and profitable business. As we can see from the left diagram, **if AI is applied, these cost/time savings could be 50% of current manual governance, risk, and compliance audit activities**.

Streamlining client file reviews

One of the key areas the FCA see as a quality control issue is client file reviews and audits. With compliance support services and internal compliance teams unable to audit all firm's client files and its time-consuming activities, means this compliance area is ripe for automation. Model Office Monitor has now launched which fully automates client file reviews, integrating with back-office tech, its generative AI assesses each client file, RAG rating against each document present and identifying anymissing documents and scanning specific compliance templates such as suitability reports, AML, client agreements so auditors and firms gain instant real time MI and cut audit time by over 50%!

The below table showcases that a support service employing 20 file checkers covering 20,000 files pa and averaging one in twenty client file audits can significantly increase the amount of client files and accuracy of audits across these files whilst reducing time and associated costs by over 50%.

Example support service client file review process v MO®nitor AI auto client file check audit software

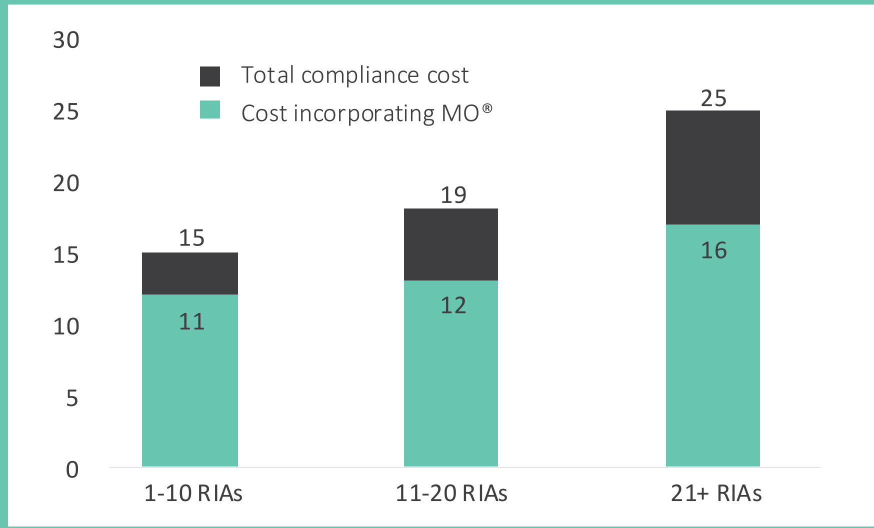
Client file audit system	Number of auditors	Average client files audited per firm	Client files audited per year	Time taken	Time savings
Manual	20	1 in 20/30 per auditor	20,000	1 hour per audit	
MO®nitor	20*	All clients	All clients	30 mins per audit	50%

MO®nitor is designed to make auditors more effective and efficient not replace them, but fims using MO are now not recruiting as many due to efficiencies gained

Table 3. Firm type time and cost savings using MO

Firm type	Annual time saving	Annual direct/indirect compliance costs as % revenues	Annual direct/indirect compliance costs savings with MO	Annual direct/indirect compliance costs with MO	% cost savings with MO
1-10 RIs	96 hrs	15%	4%	11%	26%
11-20 RIs	144 hrs	18%	6%	12%	33%
21+ RIs	240 hrs	25%	9%	16%	35%

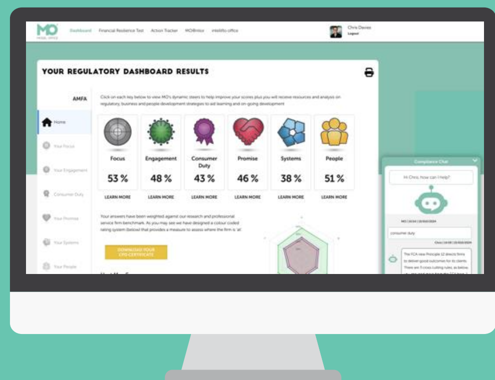
Figure 5. Firm cost of compliance as % revenue and savings using MO



5. Final thoughts

As we can see from this year's report, with the Consumer Duty in particular, there is pressure on firms to ensure they can evidence their data that they are complying with all relevant regulations at all times and it is those firms who invest in AI, RegTech and think strategically who will reap the rewards, not only in implementing a third line of governance, risk and compliance management defence and provide MI to evidence compliance, but also in increasing the value of their business with ensuring sustainable and professional practice and that the price is right if they should decide to gain involvement in M&A activity at some stage in their journey.

With the fourth industrial revolution now well underway, and the industry in the early stages of AI adoption, it is those RIA firms who engage AI and tech strategically across their compliance activities who will benefit the most as this report illustrates and meet the new FCA requirements to employ data analytics to gain quality MI and data to evidence professional standards and good ongoing client outcomes. The risk of AI and data to firms is not the tech itself but those firms who are adopted and embedding end-to-end AI and data driven solutions better than others.



MODELOFFICE
compliance · alignment · sustainability

www.model-office.co.uk

Governance, Risk and Compliance Success by Design