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TECHNOLOGY

Model Office-MO[®] Cost of Compliance Survey 2023

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Contents

1. Introduction	3
2. Increasing demand for GRC data analytics	5
3. The costs of compliance.....	9
4. RegTech adoption	11
5. Conclusion	15

The FCA: a data led regulator

‘The FCA will become a different type of regulator...our regtech systems monitor transactions and spot outliers that could suggest fraudulent behaviour. We are already working on automated systems for our threshold permissions. And our organisation has moved to the Cloud and revolutionised the ease with which we can access vital data to prevent financial crime and protect consumers. We have migrated more than 52,000 firms and 120,000 users to our RegData platform, which grants access to flexible and scalable data collections....Regulators will have to ensure that firms can show not just how data was gathered or stored or used, but why it was decided it was important in the first place and how they avoid it being used to discriminate against minorities and people with other protected characteristics.’

Nikhil Rathi, FCA Chief Executive

“..we are particularly focused on ensuring you prevent financial crime and meet your Consumer Duty outcomes. Our supervision is shifting to become more assertive, intrusive, proactive and data driven. We are conducting more short notice and unannounced visits where we deem it appropriate. And we are significantly increasing the use of our formal intervention powers for the worst cases.”

FCA Dear CEO Letter - Wealth management & Stockbroking Firms

1. Introduction

Model Office-MO® latest annual benchmark report builds on 5 years of reporting on its RegTech data across hundreds of retail intermediary advice firms (RIAs). With 900 firms across its 4 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, with the Consumer Duty coming into force in August '23, 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 struggling with the cost-of-living crises and managing other regulatory directives such as the FCA, Appointed Representatives (AR) regime review, High Risk Investment Review, ESG, and the incoming FCA directives around later life advice fees and equity release advice. Also, as our [CEO has written](#), firms need to ensure they are using AI and tech compliantly within their governance, risk and compliance activities. If not, this will have severe ramifications.

Benchmark trends and themes

Regulatory challenges



1 in 2 firms are concerned that they are not gaining rigorous external compliance support services and **1 in 3** are similarly concerned about their internal compliance support services.



1 in 3 firms are concerned about regulatory reinforcement directives and the impact on compliance costs (up from **1 in 4** in 2022)



1 in 2 firms are still concerned they have work to do for validating their consumer duty implementation project planning, with 80% of firms particularly concerned they still need to tweak their value proposition across charging, segmentation, and evidencing proof of service value.







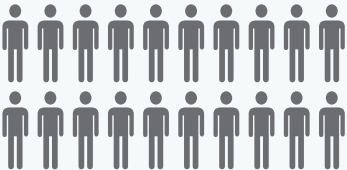







1 in 4 firms have prepared for their Consumer Duty Annual Report. Enough said!



Over 70% of firms are showing that Professional Indemnity Insurance is a key challenge with rising costs against the backdrop of such prevailing economic uncertainty.

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 9%	 Spend 9%
RIAs with 11-20 RIs 	 Spend 8-13 Hours per week	 Spend 8%	 Spend 10%
RIAs with 20+ RIs 	 Spend 15+ Hours per week	 Spend 10%	 Spend 12%

Reasons for costs



72% say it's professional indemnity insurance



1 in 2 feel compliance officers and staff contribute significantly



1 in 3 point to paraplanning, administration and third-party support



1 in 2 attribute the Consumer Duty implementation and on-going validation

2. Increasing demand for GRC data analytics

The [FCA business plan 2023/24](#) and [Consumer Duty regulations](#) 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. The FCA want firms to harness the benefits of the data and technology that they must improve the services 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. 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. You can read more on the FCA's new supervision strategy in our [blog here](#).

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 supporting good client outcomes.

The data firms need to collect is not as clear as it could be from the FCA Consumer Duty regulations, but Model Office challenges firms around their activities across key areas such as.

- Business persistence and client retention
- Claims, churn, and cancellation rates
- Complaints and root causes
- Encouraging client and staff feedback
- Clear communication strategy
- Challenge to status quo bias across the business

All the above (and more) paint a positive picture for those firms meeting these conduct and competence risks, but those falling short gain the data to focus on where training interventions are required.

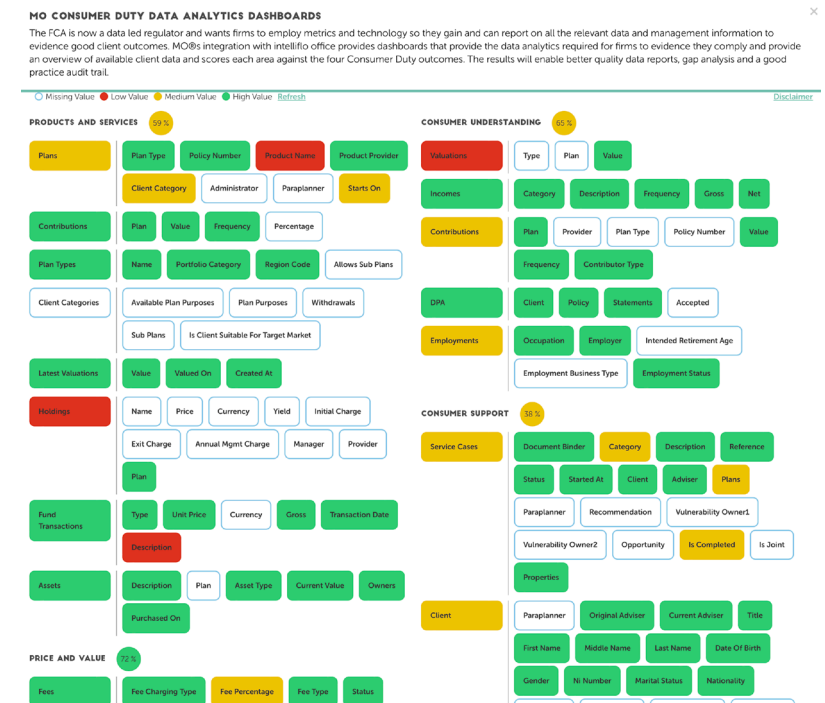
Similarly, Model Office's integrations with third parties such as intelliflo and IRESS means we can assess the quality of client data, segment that data across the 4 Consumer Duty outcomes and RAG rate the data so firms can clean up their data to ensure accurate client file audits and client review meetings. 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.

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

Chris Davies Founder, Model Office

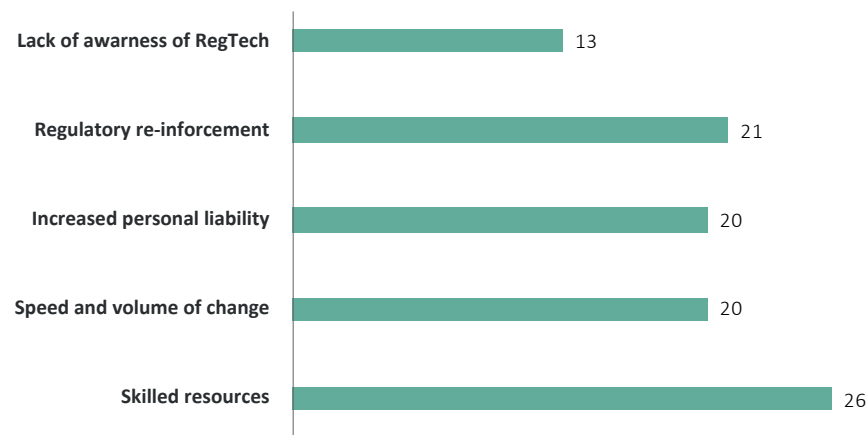


Example of Model Office Consumer Duty client data analytics



[Click here](#) to view the MO® Consumer Duty data analytics video.

Over the next 12 months, what concerns you?



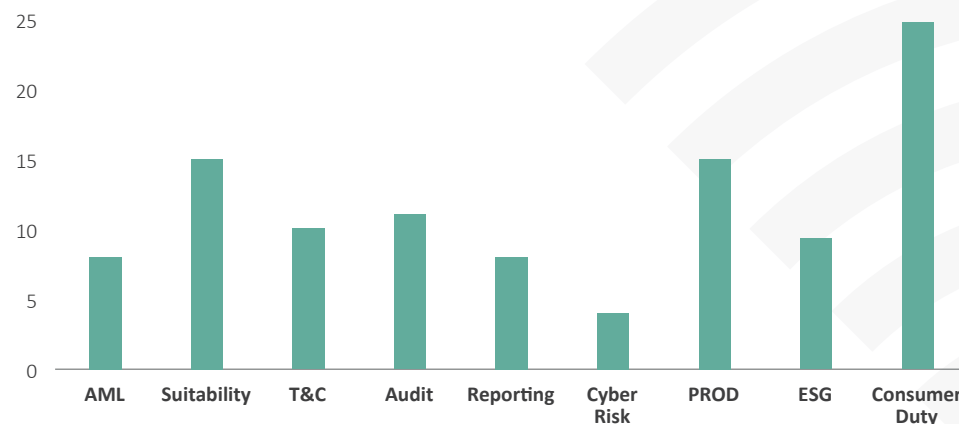
We guess it goes without saying, but one thing's for sure, it's raining regulations. With increased regulatory obligations, scrutiny, Financial Ombudsman activity, FSCS levies and more, firms are having to double down on gaining the right staff skill sets, outsourced support, and technologies in place to meet governance, risk, and compliance challenges.

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

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 over 6 months away, firms should now be collating, monitoring, and reporting on data to evidence on-going compliance. 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 identified and fixed via RegTech data analytics capabilities. This is very important particularly with the latest FCA 'Dear CEO' letter which points to RIAs need to re-assess their value proposition and the fact the FCA are now sending unsolicited information requests for RIAs to produce granular information across their business registers.

What are your biggest compliance challenges over the next 12 months?



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.

Table 1. The Consumer Duty Qualitative Data

Regulatory Issue	Highest scoring	Lowest scoring
Governance and due diligence	<ul style="list-style-type: none"> ● Senior managers have full accountability and responsibilities allocated ● Staff training is aligned and conducted ● Challenge is evident through governance processes 	<ul style="list-style-type: none"> ● Annual report covering results, actions, risks, gap analysis ● Training and competence assessment strategy against Duty's directives ● Revisited key regulations such as SM&CR, COLL, SYSC
Vulnerable customers	<ul style="list-style-type: none"> ● Reviewed strategy to identify, understand needs of clients in vulnerable circumstances ● Service proposition incorporates products designed for clients in vulnerable circumstances 	<ul style="list-style-type: none"> ● Granular monitoring and evaluation process across client segments to identify and support client with vulnerability ● Strategy and ongoing staff training to ensure appreciation of likely needs for clients in vulnerable circumstances
Products and services	<ul style="list-style-type: none"> ● PROD strategy aligned ● Services are assessed and benchmarked against good outcomes ● Research and due diligence conducted across products 	<ul style="list-style-type: none"> ● Open banking utilised to assess unstable client finances, low erratic income, over-indebtedness, change in circumstances, scams ● Awareness of the Collective Investment Regulations (COLL) and impact on service, performance, charges
Price and Fair Value	<ul style="list-style-type: none"> ● Annual value assessment across all relevant products and services ● Distribution chain assessment includes manufacturer information, costs and charges, stability, client segmentation assessment 	<ul style="list-style-type: none"> ● Value for money assessment benchmarked to comparable products and services and non-monetary costs to clients ● Agreements reviewed and amended to protect the client relationship across distribution chain participants ● Uniform communication strategy across client segments
Consumer understanding	<ul style="list-style-type: none"> ● Support service enables client informed decisions ● Review, test and adapt communications to ensure client's understanding 	<ul style="list-style-type: none"> ● Evidence for understanding is sense-checked by support staff ● Client file reviews cover consumer understanding audits
Consumer Support	<ul style="list-style-type: none"> ● Strategy to assess gap analysis where support is not working and foreseeable harm is identified 	<ul style="list-style-type: none"> ● Client segmentation is used as a tool to benchmark and identify areas where clients are gaining good outcomes
Data, MI, and reporting	<ul style="list-style-type: none"> ● Data collected across training and competence areas: persistency, complaints, NTUs, cancellations 	<ul style="list-style-type: none"> ● 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 RIAs struggling to identify, monitor and report 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. This is very important when you consider the FCA [Dear CEO letters](#) and unsolicited information requests strategy where they will ask RIAs for specific Consumer Duty related information across all relevant service and product operations.

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

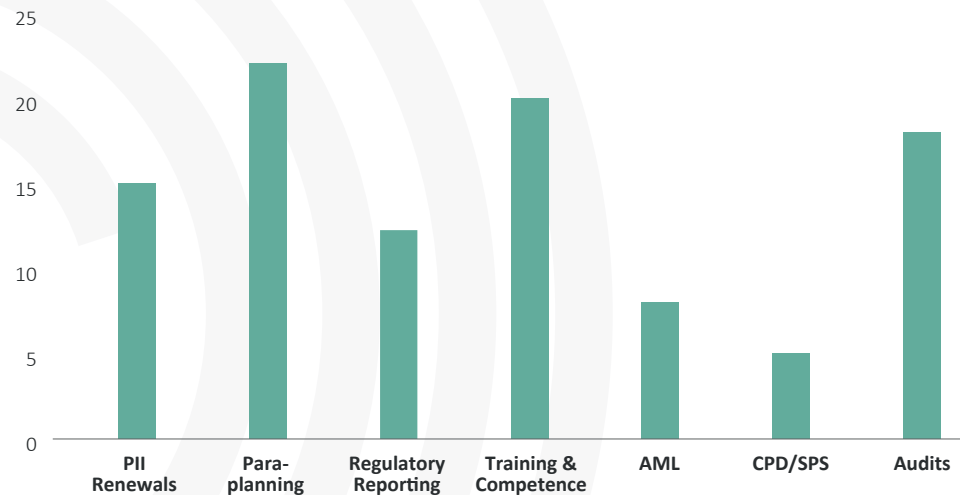
As the FCA presented in their recent speech, [Consumer Duty; Not once and done](#), The Consumer Duty (as all compliance activities) is not a tick-box or check list exercise, but a granular and holistic ongoing analysis of the business strategic focus, operations, services, products, human resources 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?



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 and Audits are still high, yet RegTech tools can help across all these areas, providing instant MI and data reports.

Rate how much time is taken across business v compliance activities



Not much has changed from 2022, still only 36% 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 'Tech Stack' (see section 4).

Monetary

As we can see from the below charts, the total RIA firms' pay in direct and indirect compliance costs illustrate that margins are being continually squeezed. Against the current economic uncertainties and cost of living crisis, one of the key concerns we have with the Consumer Duty (and FinProm, Advice fees and Equity release) 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.

How much is the direct compliance cost as a % of your annual revenue (eg. PII levies/fees/licences)?



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



Summary

What are the biggest reasons for costs of compliance?



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 European and Middle East wars contributing to a cost-of-living crisis.

The total direct and indirect compliance costs are very telling:

1. RIA 1-10% 18% revenues. 2. RIA 10-20 18% revenues. 3. RIA 20+ 22% revenues

RIA firms have been suffering a hard professional indemnity insurance (PII) market for some time and the data shows us this is not getting any better as the largest contributory factor to compliance costs. 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.

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.

Figure1. Example tech value driven business model

Capital value

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

Capital value with RegTech and AI

Turnover	1.35m
Variable Costs	260K
● Compliance (staff, internal/external audit)	
● Professional Indemnity	
● Training and competence	
● Human Resources (recruitment, legal, management)	
● Client servicing (cost of advice/planning)	
Fixed costs	250K
Front – Back-office operations/technology	
Paraplanning	
Regulatory levy	
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.

Your RegTech Stack

Given the potential for AI and tech to streamline RIA firm activities, the quintessential 'tech stack' needs review to ensure the right tech is being utilised and it integrates seamlessly to ensure data flow and the right data can deliver the required MI to evidence sound business practice and good client outcomes. With RegTech in mind, the below table provides some examples of excellent tech tools and platforms that can support good practice, good outcomes and deliver considerable governance, risk and compliance benefits including improving profitability as the example above.

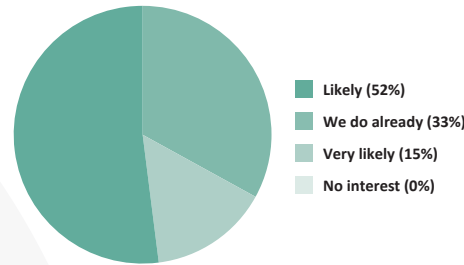
Table 3. Example RegTech Stack

RegTech	Governance Risk and Compliance Benefits
Microsoft 365	Co-pilot, M365 chat AI assistant, automated text, and enhanced presentations across Word, PPT, XCEL, Teams
Aveni	Using AI to assess adviser client calls/meeting & identify verbal indicators for vulnerability risks, soft skill strength and compliance with FCA regulations
Model Office	AI Audit across all FCA regulations, automated diagnostics, gap analysis, audit reports, consumer duty annual MI report, Compliance chat bot guidance across FCA handbook providing 24/7 compliance support
Money Alive	Video tech providing instruction videos for clients to understand technical aspects of financial advice
Oxford Risk EValue Dynamic Planner	Research driven risk management technology to assess client's attitude to risk and capacity for loss
Lang Cat Analyser / Tracker	Comprehensive analysis of platforms and regulatory horizon scanning software
BareRock	Industry first tech driven Professional Indemnity Insurance assessment and risk management platform
SECCL	Tech driven platform with open API allowing adviser firms to develop their own platform solutions
intelliflo office wealthlink	Holistic practice management and integrated platform technology client investment data in one dashboard
FTRC Protection Guru Pro	Automated analysis to select best protection policy for clients
FINTEL defacto	Financial product and market intelligence using product data, technology, and consumer insight
Salesforce Hubspot	Market leading CRMs offering AI tools to better understand client needs, supporting client segmentation, targeted and clear communications
Chat GPT Google Bard	Generative AI platforms providing Large Language Model platform supporting general guidance & content
Google EEAT score	Experience, Expertise, Authoritativeness, Trustworthiness measures the quality of website search results
FINTEL Vouched for Elevation	Collate client feedback to drive compliant business practice and MI on client understanding / support
Conquest intelliflo IRESS CURO	Holistic cashflow modelling and practice management tech providing the ability to scenario plan and factor in client trade-offs in their financial journeys along with tech to aid client management providing income reconciliation, CRM, business, and activities management
Door FE Funds Info AssetQ	Standardising data reporting across the financial service distribution chain (asset managers, owners, product manufacturers, investment advisers)
Dextera	All in one digital business management platform, enabling workflow, business, compliance operational management in one technology driven platform

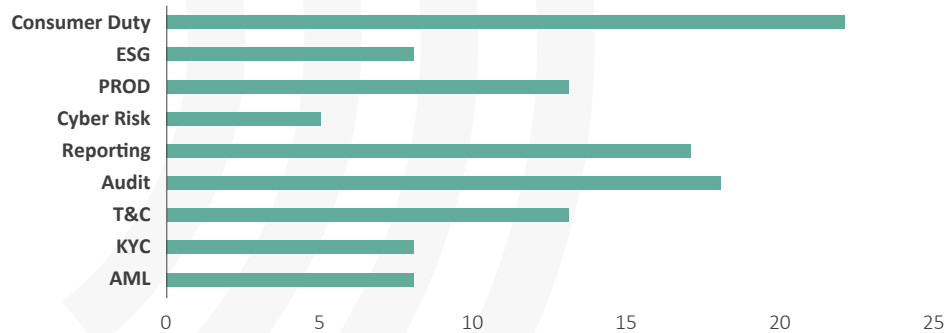
How likely are you to adopt RegTech over the next 12 months?

Over 1 in 3 firms are now using RegTech in their business and encouraging trend and good to see that nearly 2 in 3 firms are likely or very likely to adopt RegTech.

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.



Which areas will you adopt a RegTech solution?



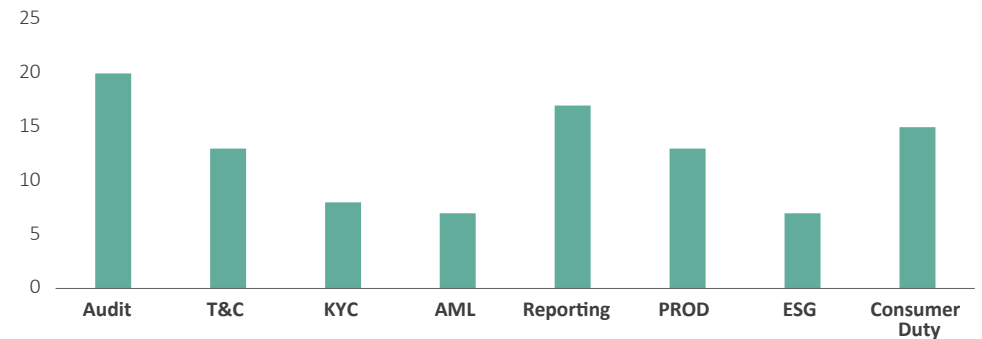
It is also interesting to assess which compliance areas RIAs are adopting RegTech. The Consumer Duty is by far the area that is viewed as requiring technology to enable evidence-based compliance reporting and no doubt this is due to its over-arching framework across all regulations. RegData and PII reporting, 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.

What will the future compliance function look like?

Indeed, 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



In which areas is RegTech saving you costs?

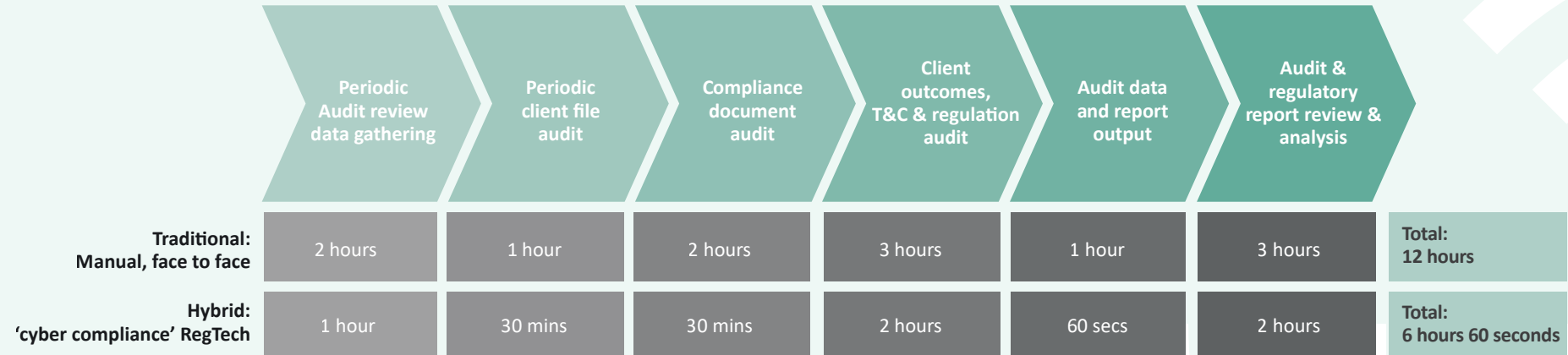


There is clear evidence that (if researched and applied correctly) RegTech has demonstrable benefits for saving time and costs across key compliance requirements. As the Consumer Duty becomes embedded and given the latest FCA speech, they are keen to ensure RIAs realise this is a cultural and purpose 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.

Summary

As we wrote in last year's report, the key theme with RegTech if positioned and applied in the right way is cutting compliance dead time and this year we would add, providing demonstrable time and cost savings.

Cutting compliance dead time



Cutting out "dead time": travelling, onsite/virtual audit fact finding, manual file, document, analysis reviews and reporting. Plus increasing speed of response, MI and data access and quality.

From our experience, Model Office is now savings RIAs at least 15% of compliance time and associated costs with networks and support services up to 25%. This is considerable and allows firms of all sized 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 above diagram, of AI is applied, these cost/time savings could be almost 50% of current manual governance, risk, and compliance audit activities.

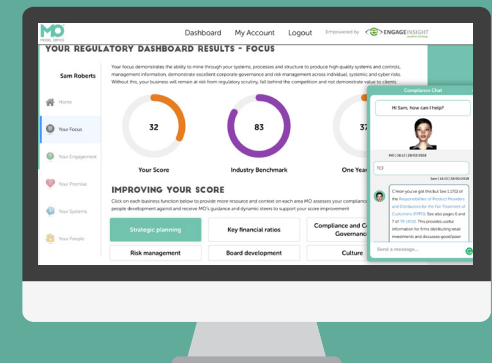
5. Conclusion

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 that they are complying with all relevant regulations at all times and it is those firms who invest in 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.

RIA firms are not only incorporating RegTech into their compliance practice for data and MI purposes, but beginning to look at the time and cost savings such tech can bring.

With the fourth industrial revolution now in full swing, it is those RIA firms who engage AI and tech strategically across their compliance activities who will benefit the most 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. Remember the Model Office mantra; **if you haven't got the data, it didn't happen, if you have the data, then it better have happened.**

How much time do you spend each week on GRC tasks with/without RegTech?





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