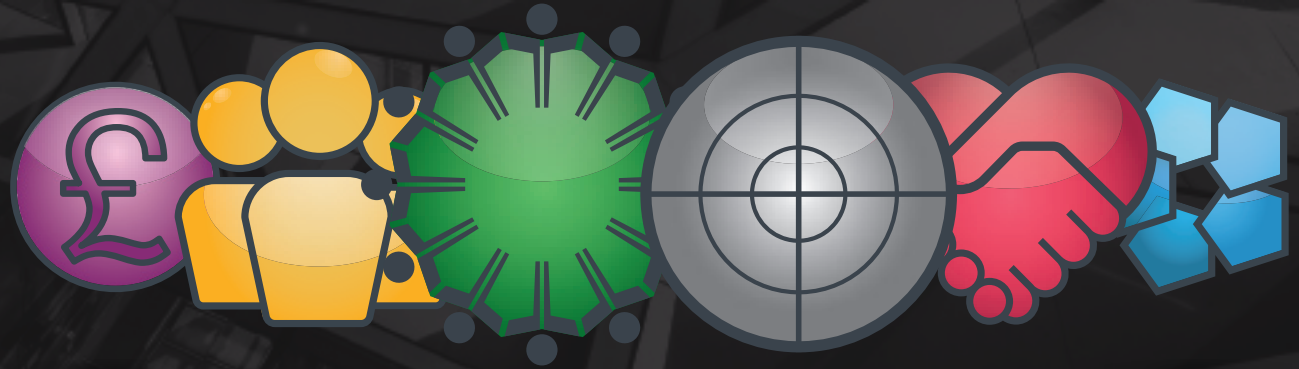








# ***RETAIL INVESTMENT ADVISER BENCHMARK REPORT 2020***



# MEET MODEL OFFICE AND MO®

## Model Office 6 Keys

-  (AML, KYC, TCF, MiFID II, Suitability, IDD, SM&CR) Financial, Cultural and Risk Management
-  Your Engagement: Client and stakeholder engagement (Marketing, documentation, digital engagement)
-  Your Promise: Client service and centralised investment proposition, technology due diligence (ATR, Capacity for Loss, Cash flow, Research)
-  Your Systems: Practice Management, CRM, Operations (Accountancy, Work flows, Admin, Tasks, Data Flow and The GDPR). Integration with back office technology
-  Human Resource Development strategy (Talent management, Roles and Responsibilities, Accountability, Competence, SM&CR, Training and Development)
-  Financial Ratios: Stress test your financial strengths and performance against key accounting metrics



## Meet MO Your Compliance Chatbot Assistant

Hi, Nice to meet you. My name's MO and I'm your Digital Compliance Assistant. You can chat with me online at anytime and ask me all sorts of questions about your compliance and professional development journey. My mission is to make compliance more pro-active, prescriptive and yes engaging, saving you compliance costs and time.

The only thing that's certain in our industry is it's raining regulations and I will assist you in assessing how The FCA rules, their papers across Suitability, Anti-Money Laundering (AML), Know Your Client (KYC), Treating Customers Fairly (TCF), The Senior Managers Certification Regime (SM&CR) The General Data Protection Regulation (GDPR) and MiFID II and more impact your business. I'll interrogate The FCA handbook and World-Wide-Web to give you more knowledge and resources. I'll even provide guidance on BREXIT risks. So log onto [www.model-office.co.uk](http://www.model-office.co.uk) and let's start the compliance chat....see you soon...



## MO on Model Office – Success by Design

Who loves compliance? Well, a firm's professional practice and good conduct is not just a regulatory requirement, It also provides you with a competitive advantage – our research shows clients are more likely to choose firms they believe will treat them fairly and they think are well managed and offer professional services. Model Office is an evolutionary #RegTech concept that is designed to benchmark and support your firm's compliance journey. Model Office's audit diagnostic platform provides you with the ability to take a snapshot of your current compliance and business performance and ensure you are, compliant, client centric and sustainable.

Model Office benchmarks your firm against 6 keys our research has found form the foundation of compliance success. These 6 keys are detailed far left...

Model Office now integrates with Intelliflo allowing you to run streamlined reports initially providing a Client Data Quality Health check to ensure your data is high quality at all times. We are also working to integrate with other back office technologies. For more on iO click here <https://www.professionaladviser.com/news/4009052/model-office-integrates-intelliflo-intelligent-office-software>

# CONTENTS



Meet Model Office and MO® .....	2
Contents .....	3
Executive Summary and Key Findings .....	4
Introduction – Competency and Conduct .....	7
Key 1: Your Focus .....	8
Key 2: Your Engagement .....	17
Key 3: Your Promise .....	24
Key 4: Your Systems .....	31
Key 5: Your people .....	37
Summary .....	41

# EXECUTIVE SUMMARY AND KEY FINDINGS

This year's benchmark report showcases a similar story in that the top two areas that RIAs are concerned about are Compliance and Risk. Can you blame them? It has been raining regulations since our 2018 paper with major consumer protection regulations coming into force:

**PRIPs:** The Regulation on Key Information Documents for Packaged Retail and Insurance based Investment Products, aimed to extend the MiFID II standards of consumer protection. A tad controversial with [The FCA having to clarify expectations on PRIIPs communications](#)

**MiFID II:** Introducing new demands across service disclosure, distribution, client communications, Inducements, Conflicts of interest Advice suitability and product features and benefits appropriateness

**The General Data Protection Regulation (GDPR):** Covering all firms processing and storing client data, new lawful basis, stronger consent controls, purpose limitation and data minimisation

**Insurance Distribution Directive (IDD):** Concerning the distribution of insurance-based investment products (IBIPs) and builds on the Insurance Mediation Directive (IMD) brought additional knowledge and competency, product oversight and governance requirements, disclosure around bundled products and remuneration, conflicts of interest and inducements.

**The Senior Managers and Certification Regime (SM&CR):** This is the big one in regard to individual accountability and (in our opinion) is the biggest piece of regulation to effect retail financial services to date. This builds on The FCA push for high standards of individual and firm accountability and requires a root and branch review with firms required to identify, measure and improved conduct and culture. In essence Human Resources (HR) becomes a new compliance department.

**Asset Management Review:** Which builds on 2018 rules introduced to ensure fund managers act on behalf of their client needs and helping investors understand more about how their money is managed.

**Pension Transfer Consultation:** It is clear the FCA are taking strong action around Defined Benefit Pension Transfers and this paper points to the key outputs from their latest consultation paper and what you might want to think about if you are active in this area.

**Advice Suitability Review:** Advice Suitability Review II is coming, mainly due to the fact the FCA found only 50% advice was deemed suitable on more complex issues such as Pension Transfers and Wealth Management.

The recent FCA Dear CEO letter to Retail Investment Advisers (RIAs) show cases they are really concerned on De-accumulation advice and charges, DB transfers, PROD and client segmentation and protecting vulnerable clients <http://resources.model-office.co.uk/dearceo>

## Top areas for RIA concern

1. Compliance
2. Brexit
3. Pension Transfers
4. Cyber-crime
5. People Development (SM&CR)
6. Time on versus time in the business

Yet our annual benchmark study showcases there are positives and interesting concepts to focus on:

1. Continued flexibility in adviser charging across ad valorem, retainers, task/time and performance-based charging, plus a lower preference for contingency charging
2. A move towards Discretionary Fund Management (DFM) from the traditional outsourced Centralised Investment Proposition (CIP)
3. More use of technology across the advice proposition streamlining through auto-advice and client portals
4. There is robust research and due diligence around the tools used for attitude to risk and loss capacity assessment, plus cash flow modelling
5. Confidence in staff skills and talent management

Yet those two top concerns regarding compliance and risk are a big challenge particularly with the [FCA 2019/20 Business Plan](#) which focuses on:

- Firms' Culture and Governance
- Tackling Financial Crime
- Data security
- Innovation
- Existing client service quality
- Intergenerational issues and
- High cost credit

Firms are rightly fearful of a [hardened Professional Indemnity Insurance \(PII\) market](#), which surrounds pension transfer concerns plus the increase in Financial Ombudsman (FOS) award limit from £150,000 to £350,000 and increased PII means the rising compliance costs and time management shows firms now need to answer the question; **How do they know they are compliant?**

## Using RegTech can drive business efficiencies

- This Survey indicates advice firms value Regulation Technology that can streamline Governance, Risk and Compliance (GRC) management
- Model Office user data showcases:
  - 95% of firms have GRC blind spots
  - 70% of firms engage with resources and take action
  - 55% of firms send in queries through the chat bot to find out how to improve their compliance scores
  - 50% of firms contact Model Office for more guidance and support (we refer these on to compliance professionals)

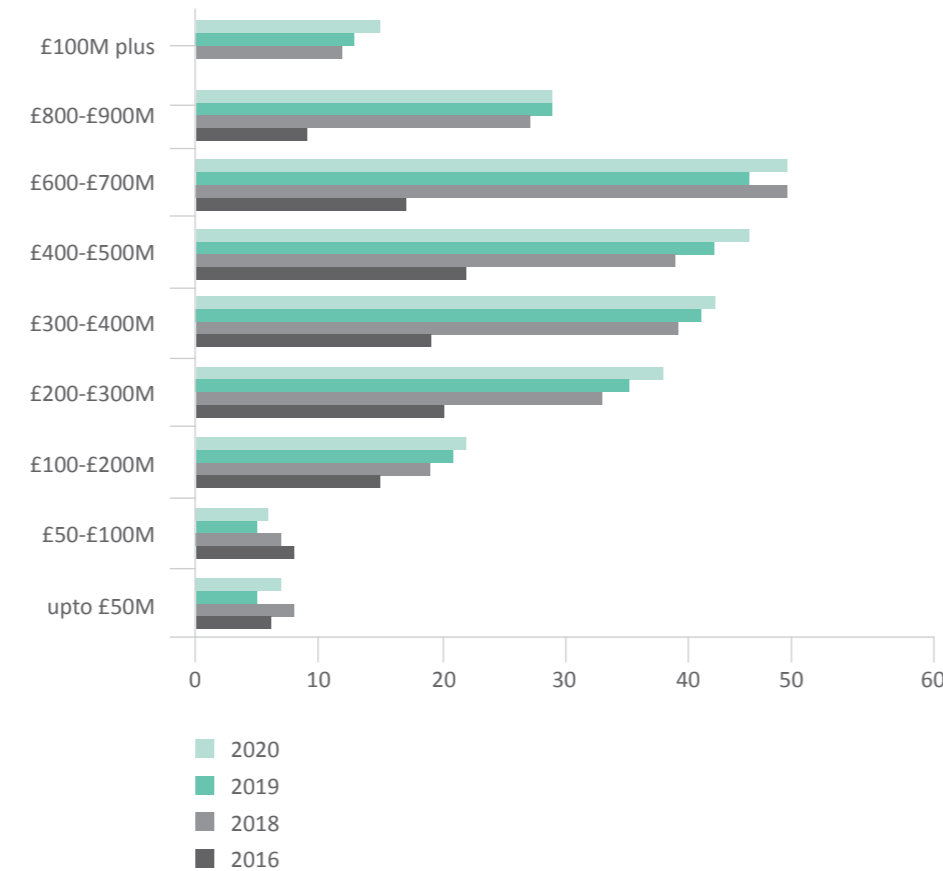
# INTRODUCTION – COMPETENCY AND CONDUCT

## Benchmark survey participant statistics

Number of Firms Surveyed 135  
Gross Turnover



## Assets under influence



This longitudinal survey of the RIA market reveals that there is plenty to be pleased about when it comes to professional development with an increase in certified planners and chartered advisers, the rise of the NextGen Planners community and a strong focus on soft skills for example, but there are blind spots at the firm level. With a regulatory and industry focus on technical skills and knowledge i.e. competency and now with the SM&CR there is a need to focus on risk management through governance, systems and controls and high levels of accountability to ensure the right people are in the right role with the right skills and responsibilities.

As we wrote in 2018 the Financial Conduct Authority (FCA) has also struggled with the concept of measuring conduct (which hasn't helped). Yet the good news is the FCA produced their follow up paper entitled '5 Risk questions'<sup>1</sup> focused on five key questions they see as pertinent to identifying, measuring and improving risk management:

1. What proactive steps do you take as a firm to identify the conduct risks inherent within your business?

2. How do you encourage the individuals....to feel and be responsible for managing the conduct of their business?
3. What support does the firm put in place to enable those who work at the firm to improve their conduct of the business of their function?
4. How does the Board gain oversight of the conduct of business within their organisation and ...consider the conduct implications of the strategic decision that they make?
5. Has the firm assessed whether there are any other activities that it undertakes that could undermine strategies put in place to improve conduct?

In fact, in our last benchmark report, we highlighted board structure as a key concern, quoting FCA papers CP 10/3 and 15<sup>2</sup> 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

This problem has been compounded by the fact that for too long compliance has been reactive and checklist driven. This benchmark report seeks to demonstrate how important it is to employ RegTech diagnostics within a business to ensure that firms gain insight into any conduct or cultural blind spots and develop proactive strategies and steers to improve performance on an ongoing basis.

This has measurable benefits, such as potentially reducing compliance costs –currently estimated on average at 11% of RIA turnover<sup>3</sup> – and improving time spent on the business to ensure professional practice is attained and sustained.

<sup>1</sup> 5 Conduct Risk Questions FCA April 2018

<sup>2</sup> Effective Corporate Governance FSA 2010

<sup>3</sup> HM Treasury and FCA, Financial Advice Market Review: Baseline Report, 2017

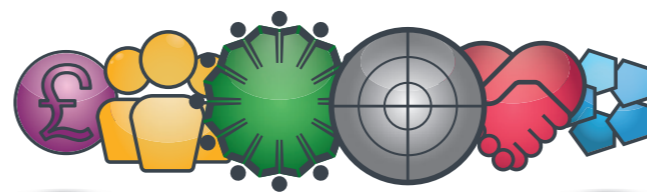
# KEY 1: YOUR FOCUS

## Introduction

We focus on how well firms are leading their businesses through key compliance strategies (the FCA's Assessing Suitability Review, Anti Money Laundering - AML, Financial Advice Market Review - FAMR, MiFID II) and how they are identifying and managing key risks and financial strategies.

### Top 3 Planning Points

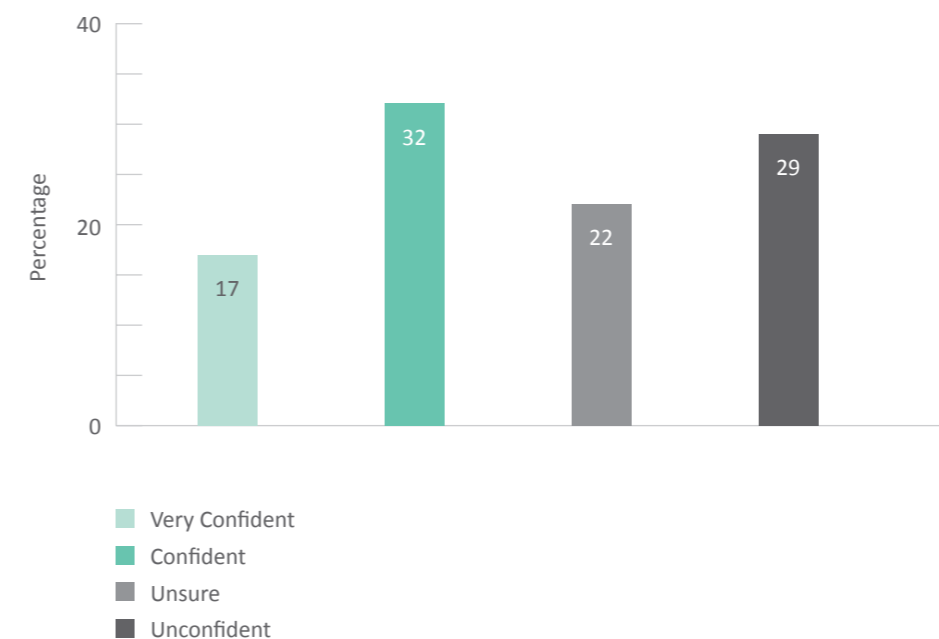
1. High confidence in advice suitability but compliance is viewed as THE big challenge
2. Governance across risk management needs focus particularly cyber-risk and outsourcing
3. MiFID II service costs, PROD and client segmentation strategy need attention



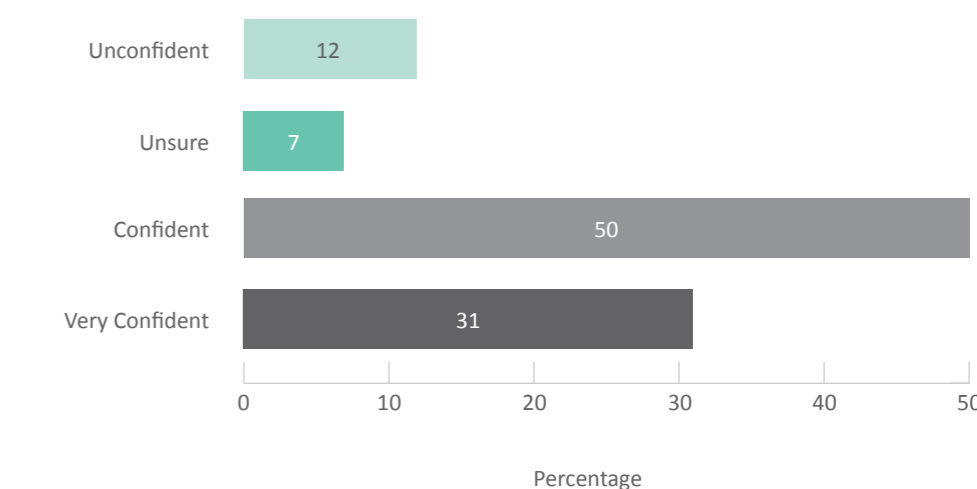
## 1.1 The Data

Business and financial strategy

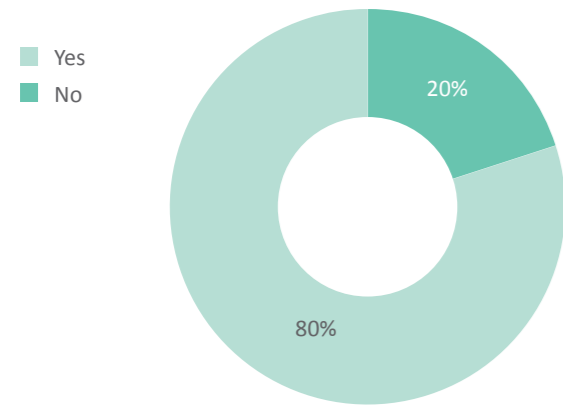
**Figure 1.1:** How confident are you that your business plan determines the cost of delivering your advice service?



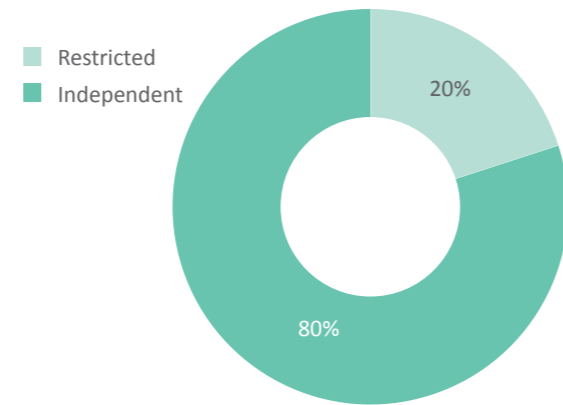
**Figure 1.2:** How confident are you that fee revenues cover service costs?



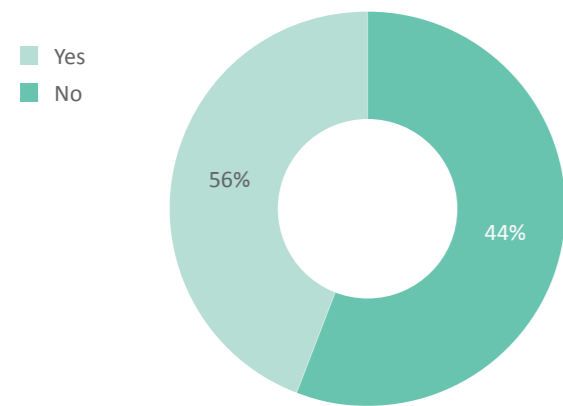
**Figure 1.3:** Do you have a board?



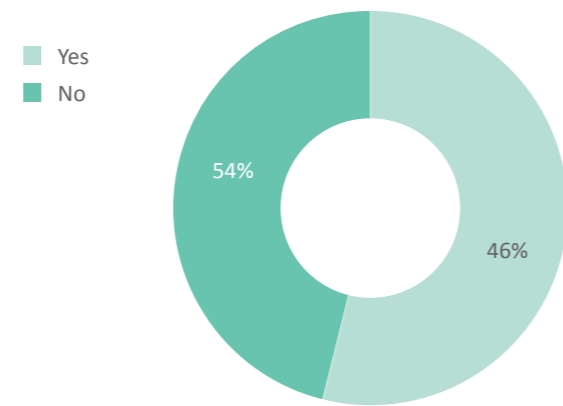
**Figure 1.5:** Are you restricted or independent?



**Figure 1.4:** Wind down/succession plan in place

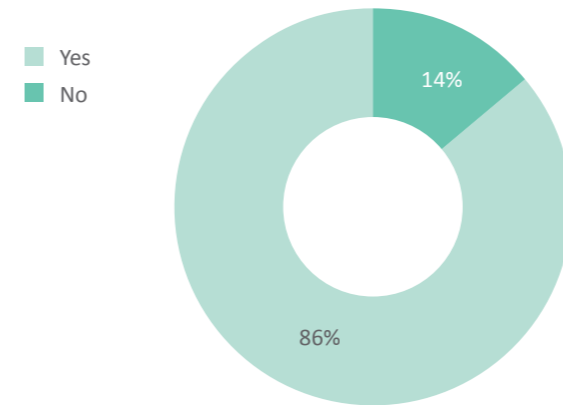


**Figure 1.6:** Have you implemented a bona fide plan?

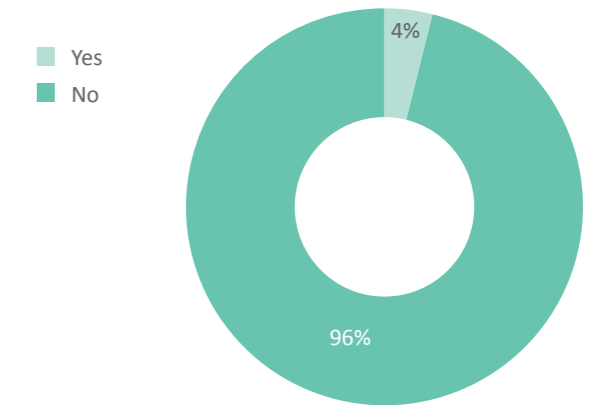


Governance, risk and compliance

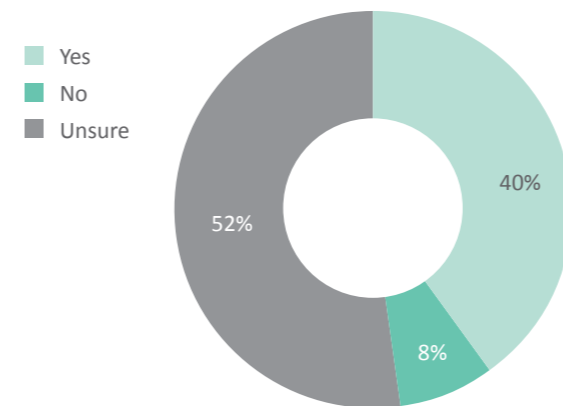
**Figures 1.7:** TCF MI systems and controls in place



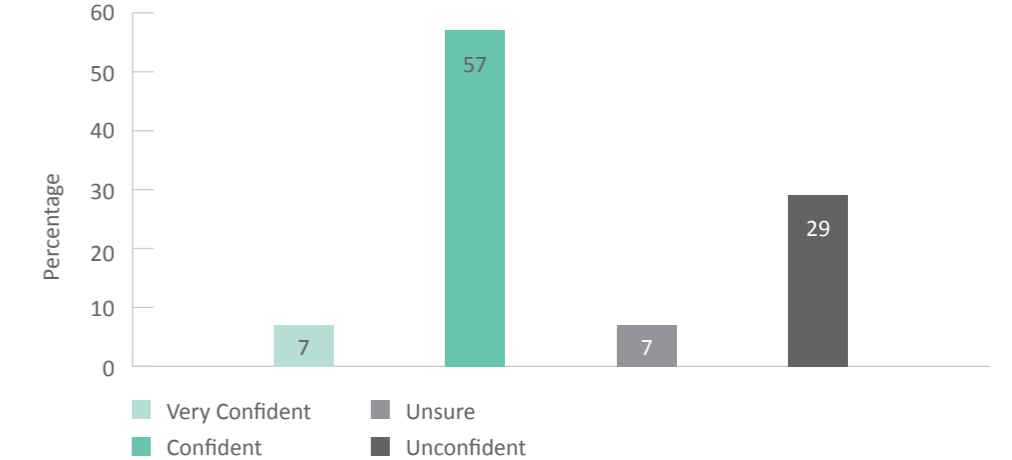
**Figures 1.9:** Do you have Cyber-risk insurance?



**Figures 1.8:** Cybercrime strategy in place

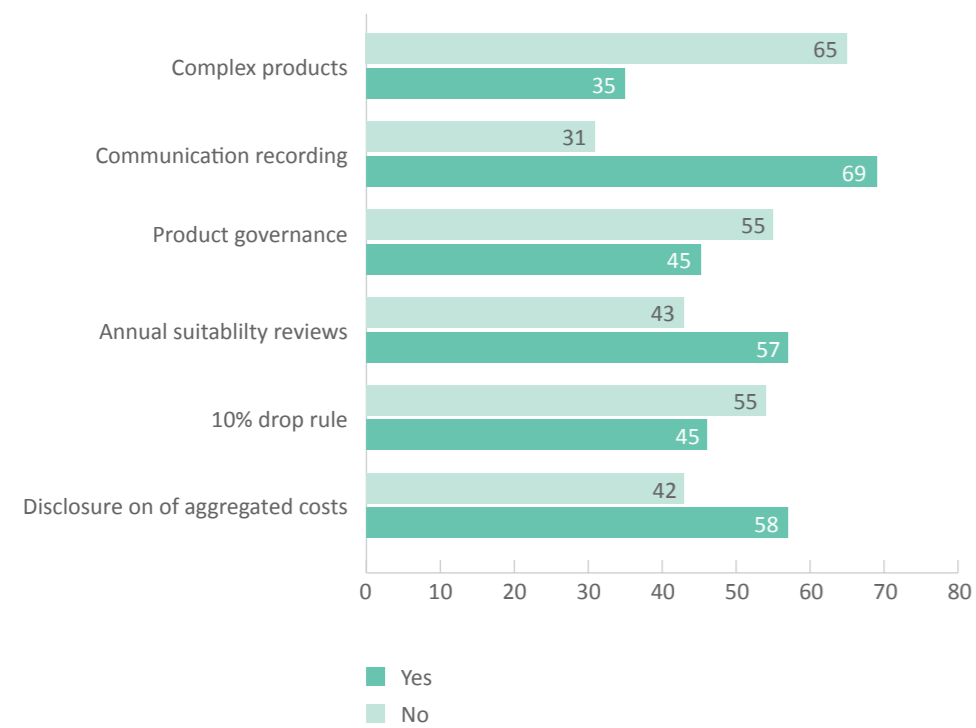


**Figures 1.10:** Research and due diligence for outsourced suppliers

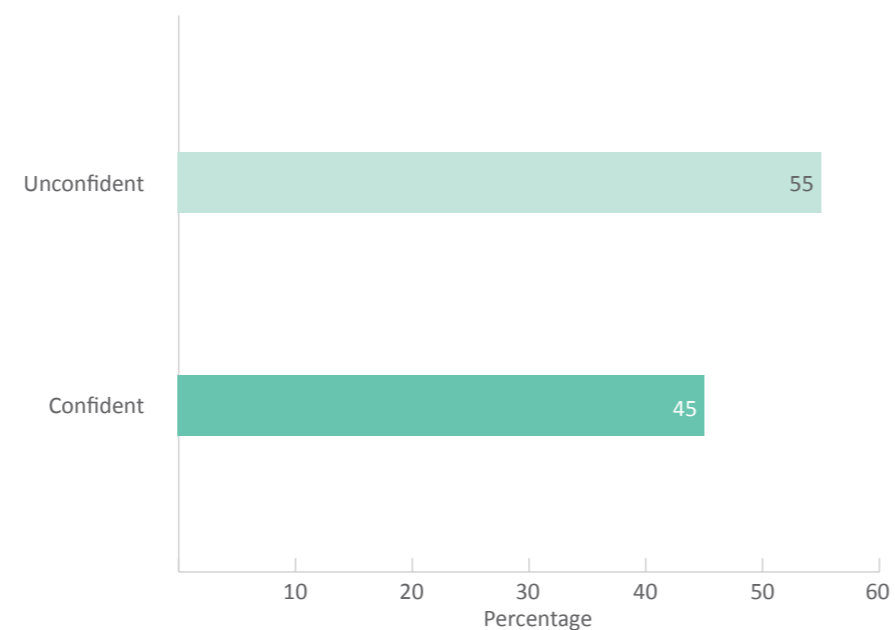




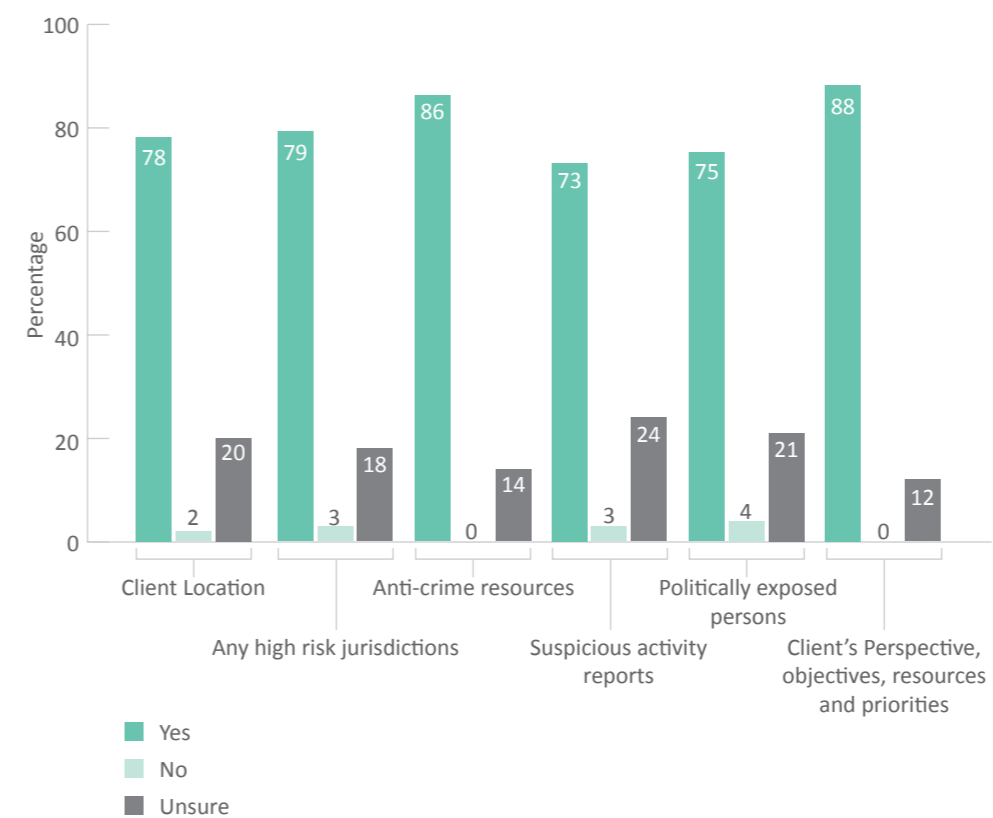
**Figure 1.11:** How MiFID II compliant are you?



**Figure 1.12:** Confidence for Pension Transfers



**Figure 1.13:** AML: system to measure aggregated financial crime data

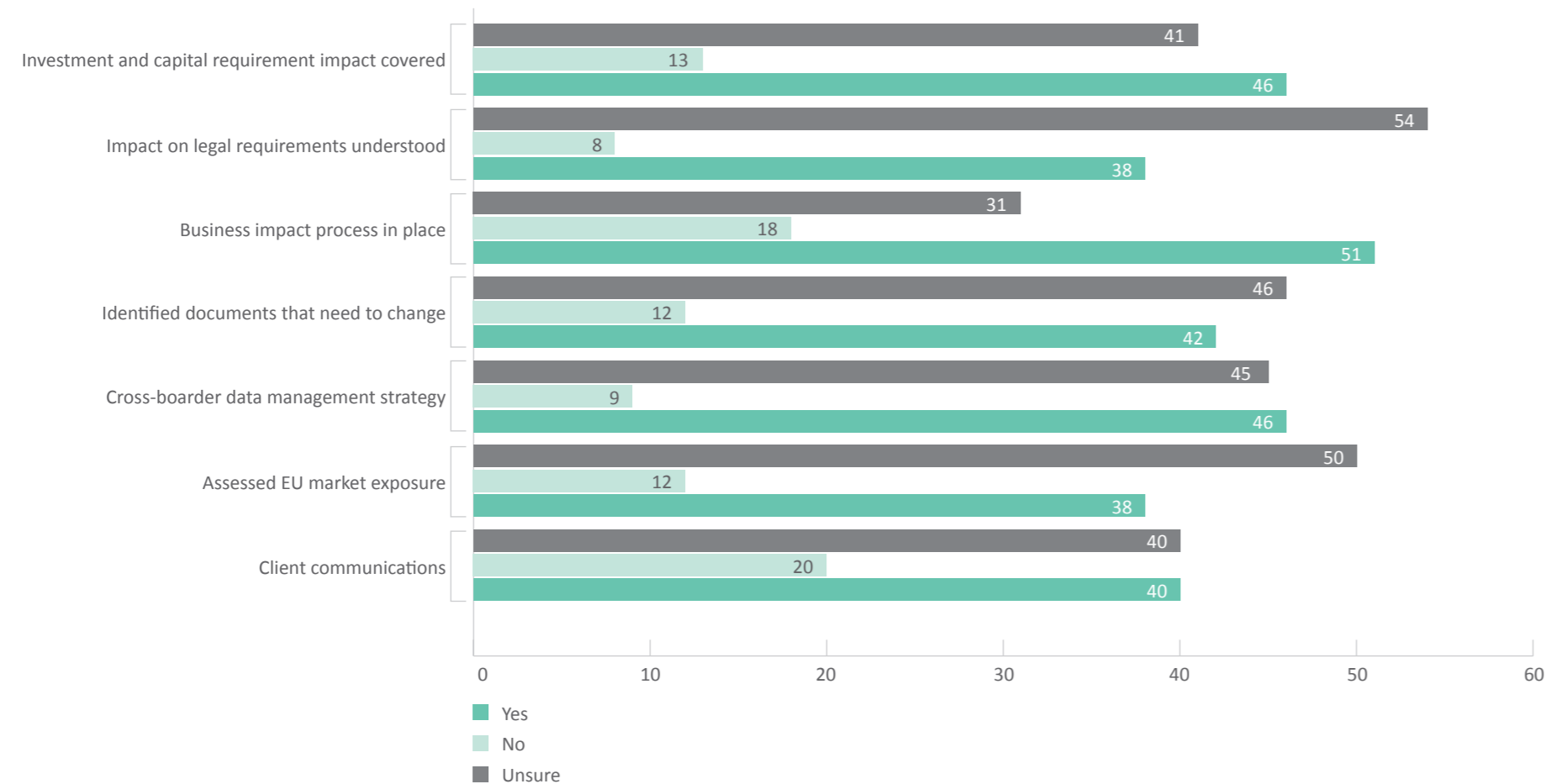


**Figure 1.14:** Time spent on practice management





**Figure 1.15:** How concerned are you about the impact of BREXIT?



## 1.2 MD Reports

Key issue	Comment	Strategies
Advice Suitability	The FCA focus is on improving standards, targeting firms that cause harm, supporting customers expectations, aiding advisers to share the regulators learnings	A focus on fact- finding across hard and soft facts, recording client meetings (yes recording them!) Challenge client's biases, evidence alignment between the product and client needs and risk attitude and use advice tools such as cash flow modelling, Attitude to Risk and research technology. Self-Audit using RegTech to assess your culture, and staff conduct and competence, so you know you comply. Check out our blog Improving Advice Suitability <a href="http://resources.model-office.co.uk/advice suitability">http://resources.model-office.co.uk/advice suitability</a>
Employ a client lifetime value strategy (CLTV) not just business management	Too much focus on operations and a lack of knowledge of long-term cash flow, strategic planning and implementation	There is still conflict, with 50% of firms unsure or unconfident that their business plan determines the cost of advice and 80% believing that client fee income covers servicing costs. Strategic planning, defining the mission, using available resources, SWOT analysis and measuring CLTV via cash flow minus costs of servicing x client loyalty rate.
Use of boards is increasing	Good work here – boards can set the tone for constructive conduct and culture	No matter the size of the business, board oversight is crucial. It helps to ensure quality governance with challenges to 'group think' required to keep the business client centred.
Research and due diligence (R&DD)	Outsourcing and managing the status quo	Aligned with board oversight, ensuring robust R&DD is crucial to professional practice. We see good confidence in this being the case.
MI collation	Systems and controls	Ensure technology is used correctly
Risk and inclusivity	Silos, lack of communication Lack of Cyber-risk protection	With the FCA business plan focused on firm's robust data protection, firms need to gain protection, develop risk registers and break down service silos through structure and communication channels, e.g. social enterprise technologies, and develop a balanced scorecard across business practice
Outsourcing	Controls and client relationship	Due diligence process needs to be followed and Terms and Conditions –T&Cs carefully crafted to protect client relationships and advice suitability
MiFID II	Firms need to avoid complacency in leaving key requirements to others such as Discretionary Fund Managers-DFMs (10% value drop reporting rule); ensure uniformity of communication recording and clear disclosure structure	Good evidence of engagement with reporting, disclosure and suitability reviews. However, more focus on product governance will aid accountability and systems and controls for ensuring the firm meets PROD 3.3 requirements: products and services should be compatible with client needs (i.e. their knowledge and experience, risk appetite and loss capacity) via annual suitability reviews and segmentation of services.





Key issue	Comment	Strategies
Pension Transfers	Confusion and fear in this market given the FCAs stance	Firms can still operate compliantly and effectively given there is a need for professional advice for suitability of pension transfers. A focus on client needs, best interests along with the 'abridged advice' option means advisers can still engage if systems and controls are in place. <a href="#">Our blog</a> covers this and more.
Know Your Client and anti-money laundering (AML)	TKeep abreast of the FCA's AML requirements	Ensure that governance, systems and controls strategies incorporate all relevant data such as: client high-risk jurisdictions, anti-crime resources, suspicious activity reports, politically exposed people, fact-finding hard and soft facts
Practice management	Learn the art of delegation and team building	Too many advisers/planners seem to be bogged down in time on and in the business management activities rather than spending the time required to nurture trusted partnership client relationships. This can cause risk in not playing to strengths and thus building a diversified team with the right skills is required not only so time spent on client meetings but also to ensure business operations, systems and controls are expertly managed
BREXIT	Plenty of uncertainty needs to be addressed	Firms now need to have strategy and documentation in place across key issues such as: <ul style="list-style-type: none"> <li>• Client communications</li> <li>• Legal contracts and mandates</li> <li>• EU market exposure</li> <li>• Impact assessment across business strategy, product distribution and investment decisions and capital requirements</li> <li>• Third party outsourced risks</li> <li>• Cross boarder data management</li> </ul>

## KEY 2: YOUR ENGAGEMENT

### Introduction

How has the RIA brand's presence, marketing plan and documentation supported the client journey, embraced digital design and involved key stakeholders?

#### Top 3 Planning Points

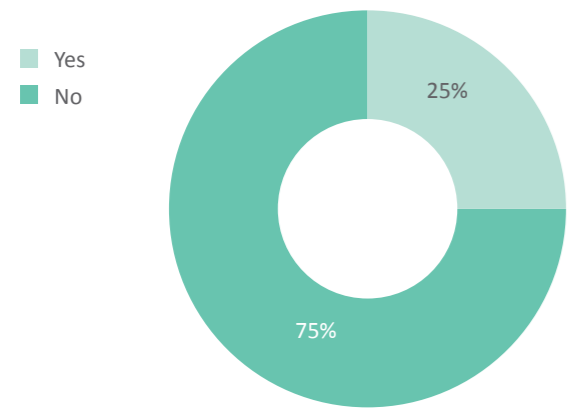
1. Clients value the soft stuff; Strategy planning and advice
2. Firms need to think digital and how they can streamline/segment services including technology (e.g. Video) to heighten client engagement
3. Client documents act as a compliance and marketing opportunity



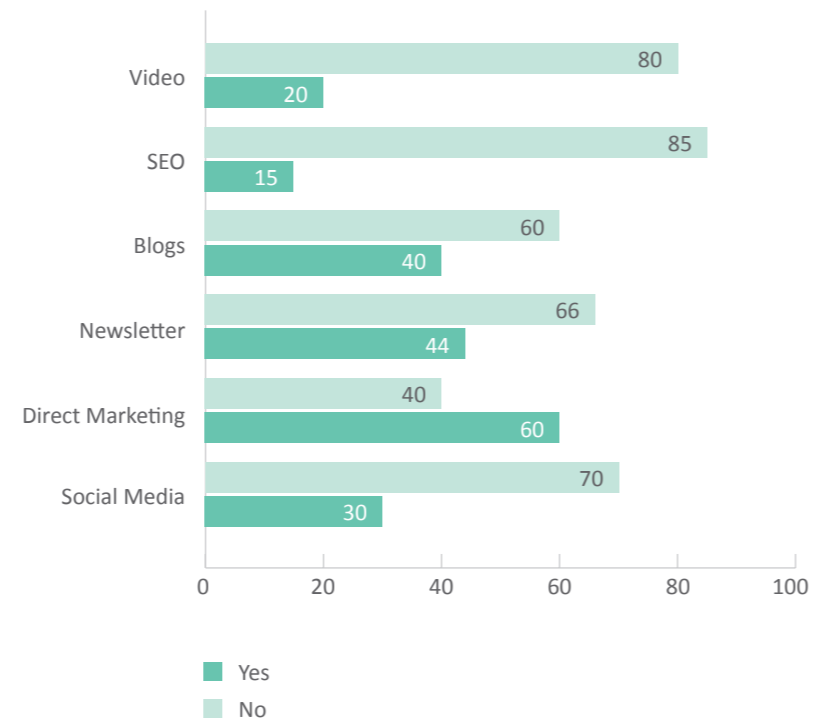
## 2.1 The Data

### Marketing

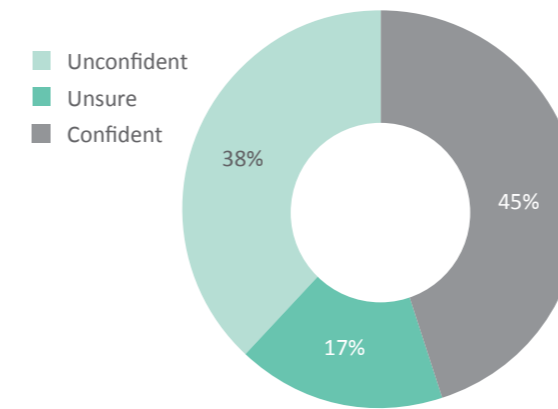
**Figure 2.1:** Do you have a marketing plan?



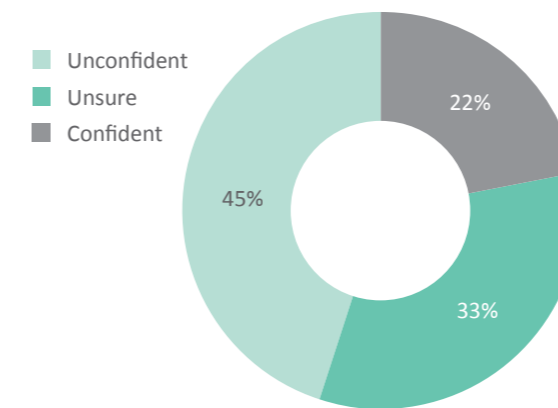
**Figure 2.2:** What channels do you proactively use for acquiring new clients?



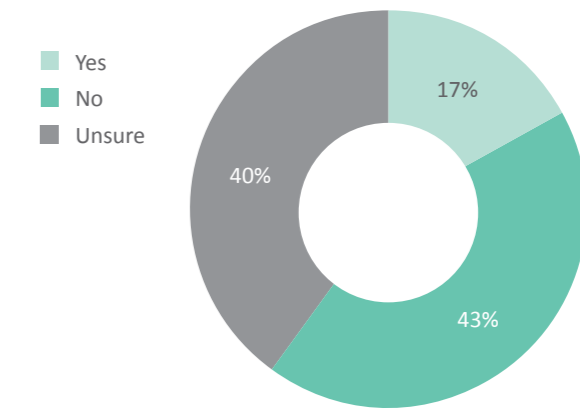
**Figure 2.3:** Marketing your firm's value



**Figure 2.4:** Confidence in marketing activity



**Figure 2.5:** Measure marketing ROI



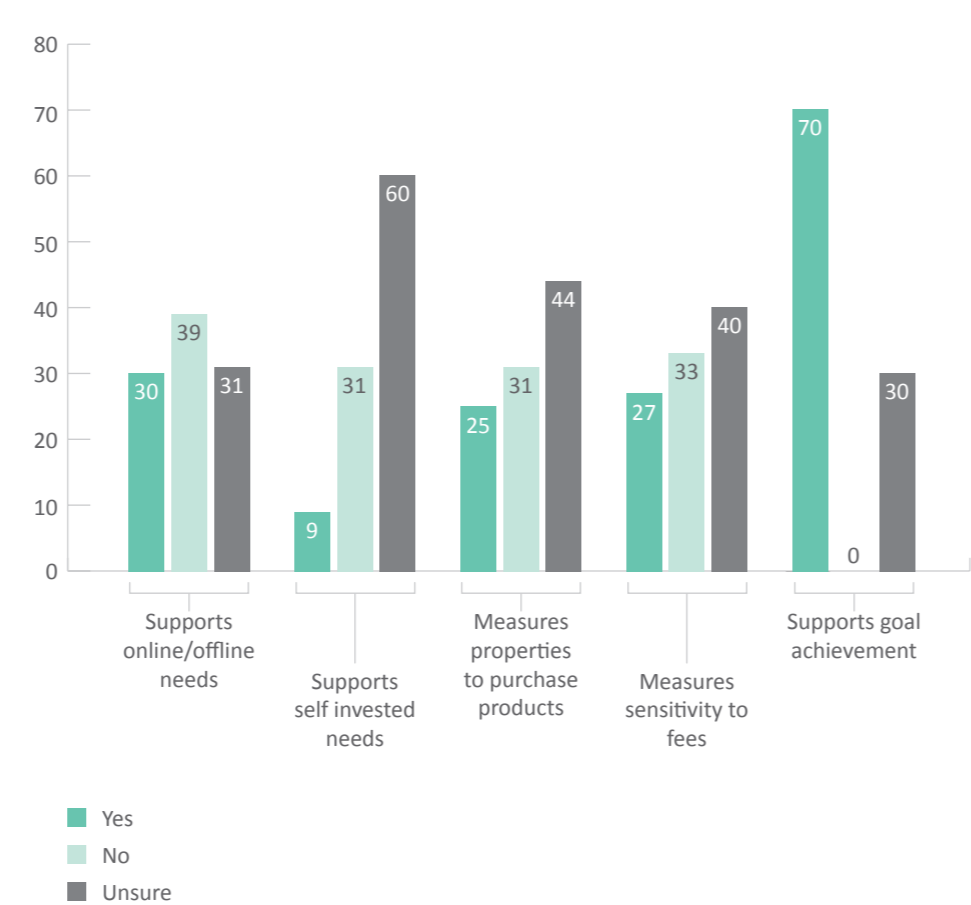


Client behaviour

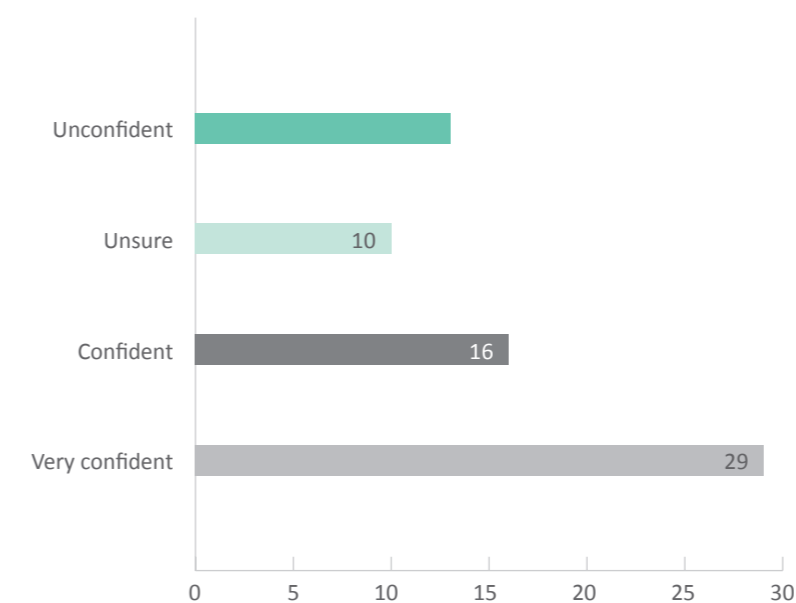
**Figure 2.6:** What do your clients most value?



**Figure 2.7:** Client journey incorporates client behaviour and digital engagement

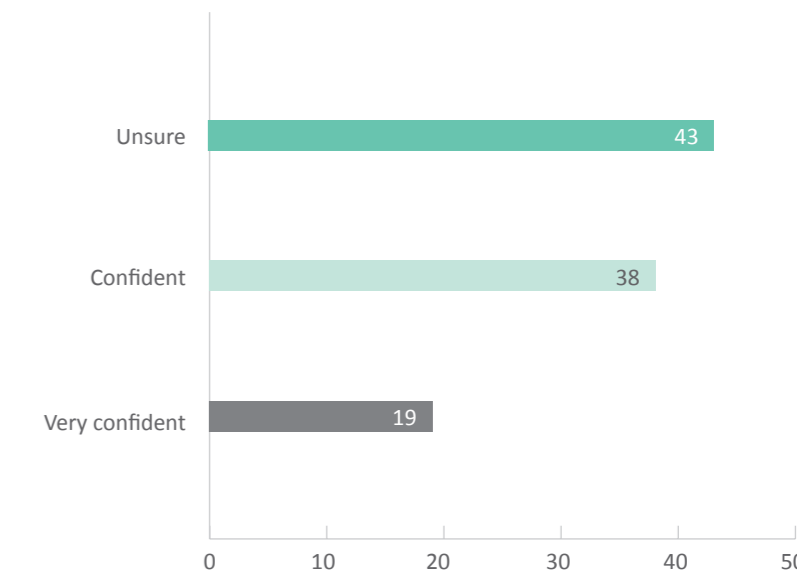


**Figure 2.8:** Clients understand the key issues affecting them



Document gates

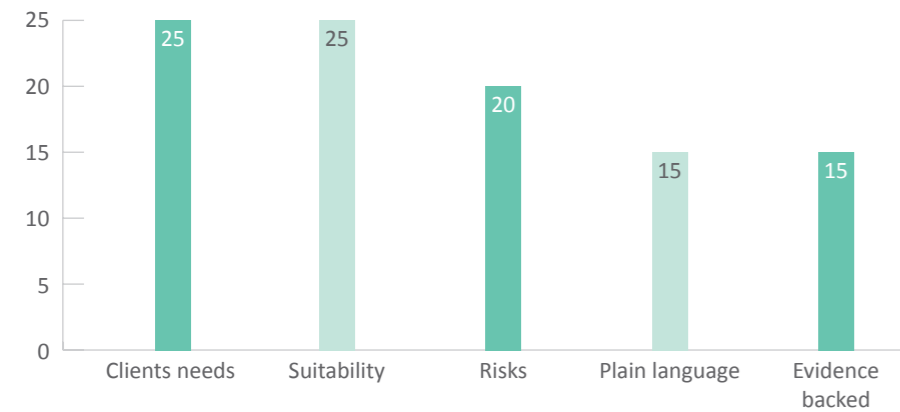
**Figure 2.9:** Fact-finding meets understanding clients' perspective, objectives, resources and priorities and associated soft facts



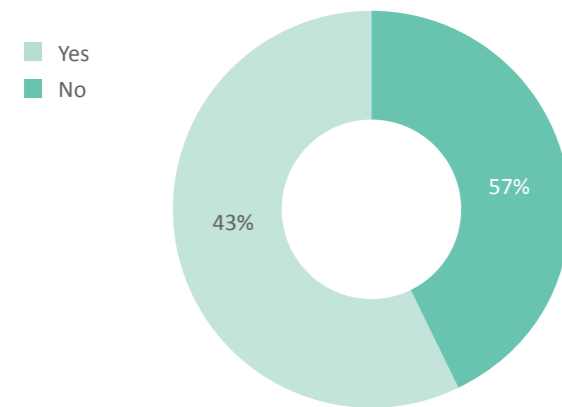


## 2.2 MD Reports

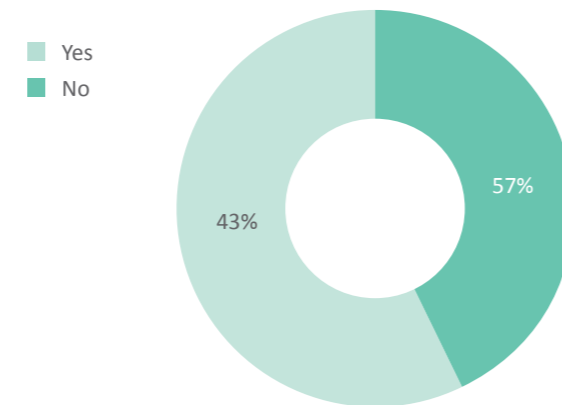
**Figure 2.10:** Which areas are most important to include in a suitability letter?



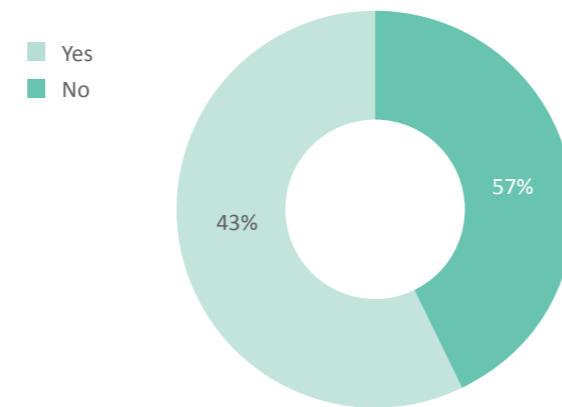
**Figure 2.11:** Client agreement relationship



**Figure 2.12:** Clear on disclosing clarity aggregated costs



**Figure 2.13:** Client agreement compliance and marketing document



Key issue	Comment	Strategies
Marketing	Consistent lack of marketing plan can be down to the fact that these firms are mature and have a strong existing client base	This should not be discounted; firms which regularly market to and survey their clients can ensure they build even stronger trusted relationships, attract more referrals and gain more business opportunities
Social media	This is showing an increasing trend as firms begin to attract next generation clients into their practice	Video streaming has been found to be one of the most attractive marketing tools along with blogging, LinkedIn and Twitter for business profiling
Client behaviour and value	RIAs tend to charge for transactional-based activities (e.g. implementation of advice)	Clients say they value planning and relationship management, so RIAs should start to charge for what clients say they value the most
Documents structure	Key documents are only used for compliance purposes and this can mean marketing opportunities are lost	Client agreements, terms of business and investment philosophy are not only compliance documents but can also showcase the value of services and long-term financial planning
Think digital, not robo	Slow uptake on direct-to-client and Robo-advice, but there is evidence of marrying offline and online client behavioural engagement	Those firms which build a digital framework around the client journey are ensuring that high engagement and next generation clients receive instant information. This can include marrying the client offline and online journey, their social media engagement and propensity to self-invest, e.g. ISAs and auto-investment.

# KEY 3: YOUR PROMISE

## Introduction

RIA service proposition is robust in relation to service and product suitability and appropriateness, which are crucial in meeting UK/EU regulatory requirements. The firm identifies and incorporates new technologies to meet ongoing client needs?

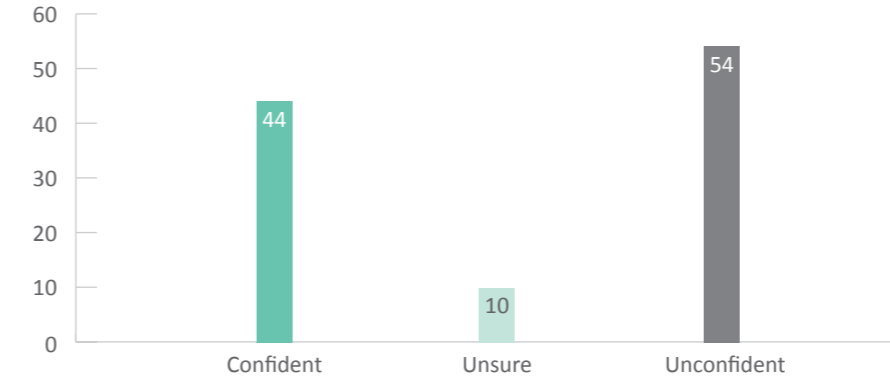
### Top 3 Planning Points

1. Adviser fees are becoming more client friendly and offer value but focus is required at de-accumulation stage
2. Research and Due Diligence is good and advisers value platform's robustness and technology supports
3. Cash flow and Attitude to Risk technologies are well embedded in the advice process

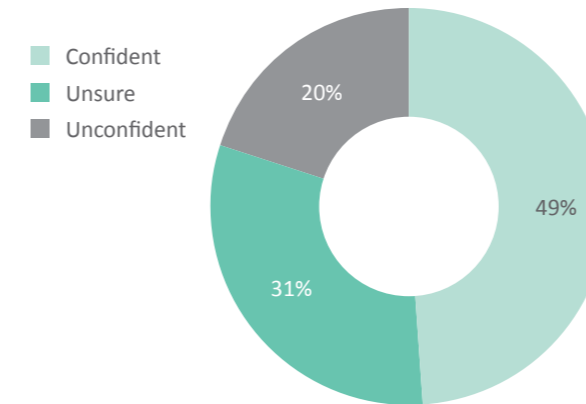
## 3.1 The Data

### Segmentation

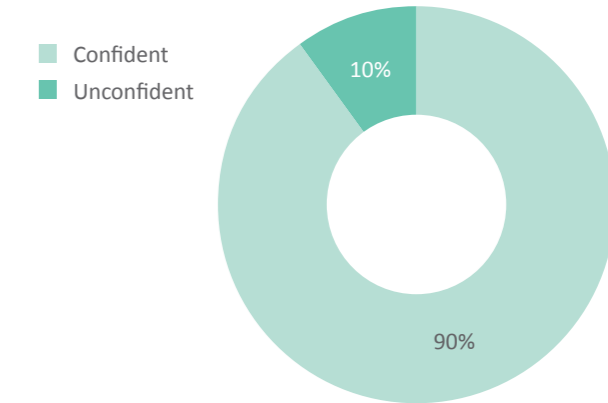
**Figure 3.1:** How confident are you that your client segmentation process matches client financial planning needs?



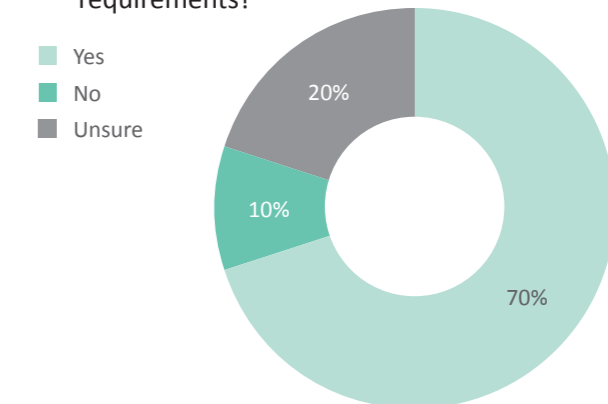
**Figure 3.2:** Rate how well your service proposition meets clients' expectations



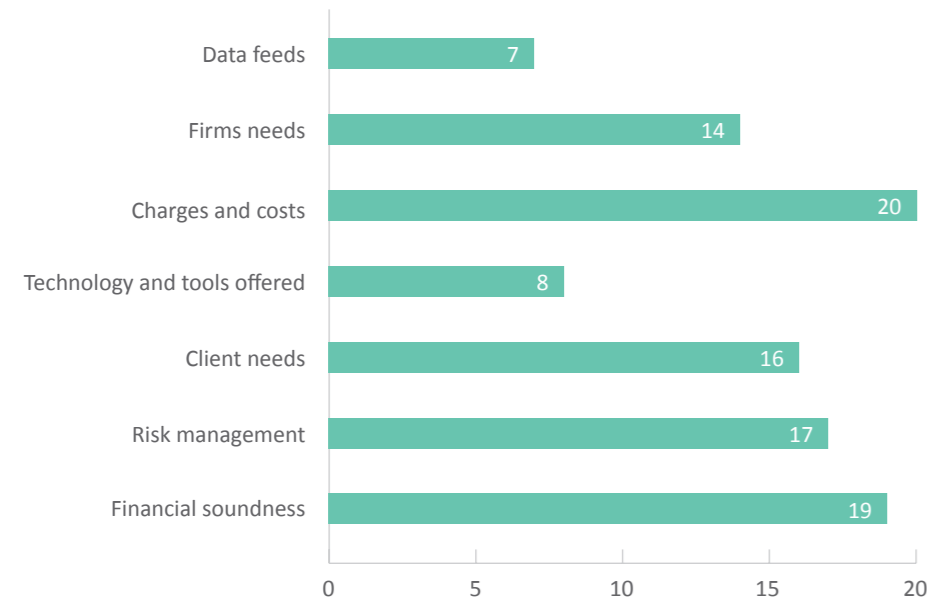
**Figure 3.3:** CIP R&DD



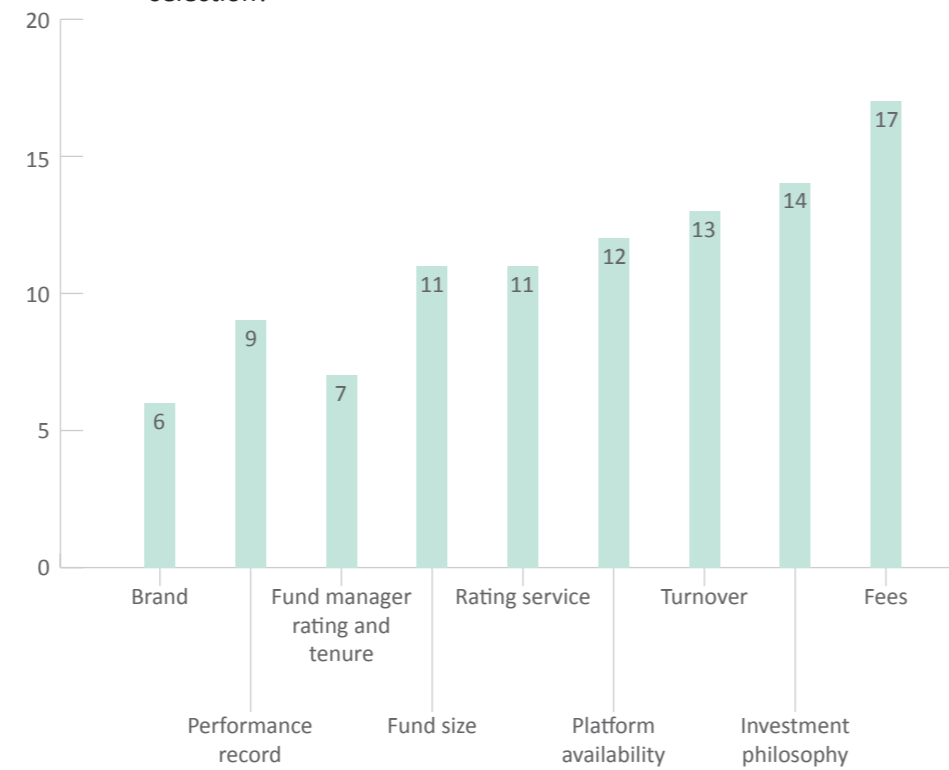
**Figure 3.4:** How confident are you that fund research meets suitability requirements?



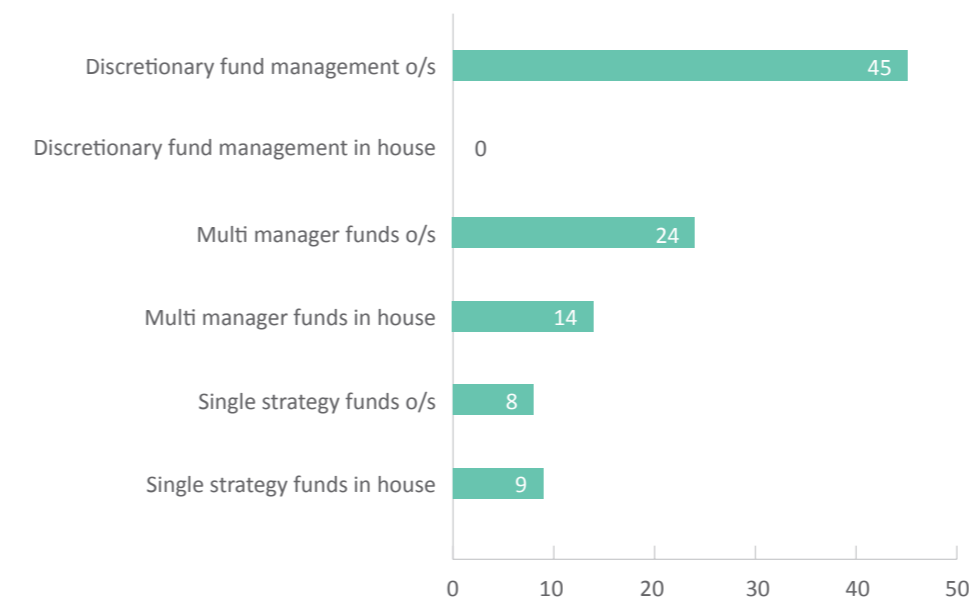
**Figure 3.5:** What key criteria determine platform use?



**Figure 3.6:** Which areas are seen as important for investment portfolio/fund selection?

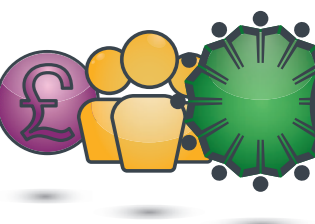


**Figure 3.7:** Research dictates which investment strategies?



Service proposition technology

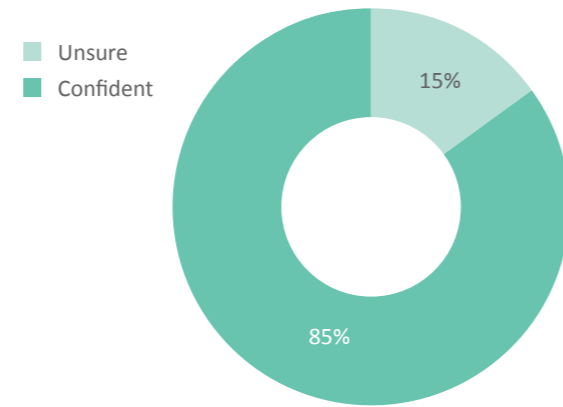
**Figure 3.8:** Which cash flow technology do you use?



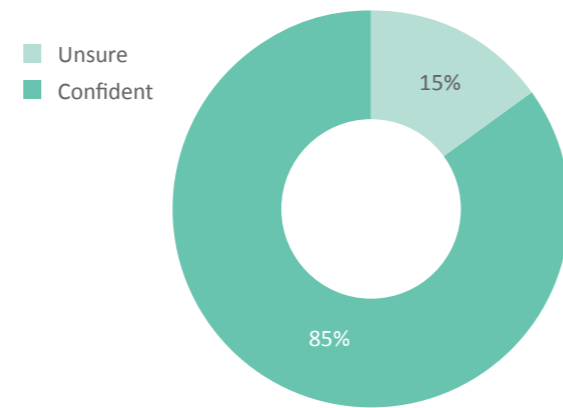
**Figure 3.9: Which risk tools do you use?**



**Figure 3.10: Confident measure Capacity for loss?**

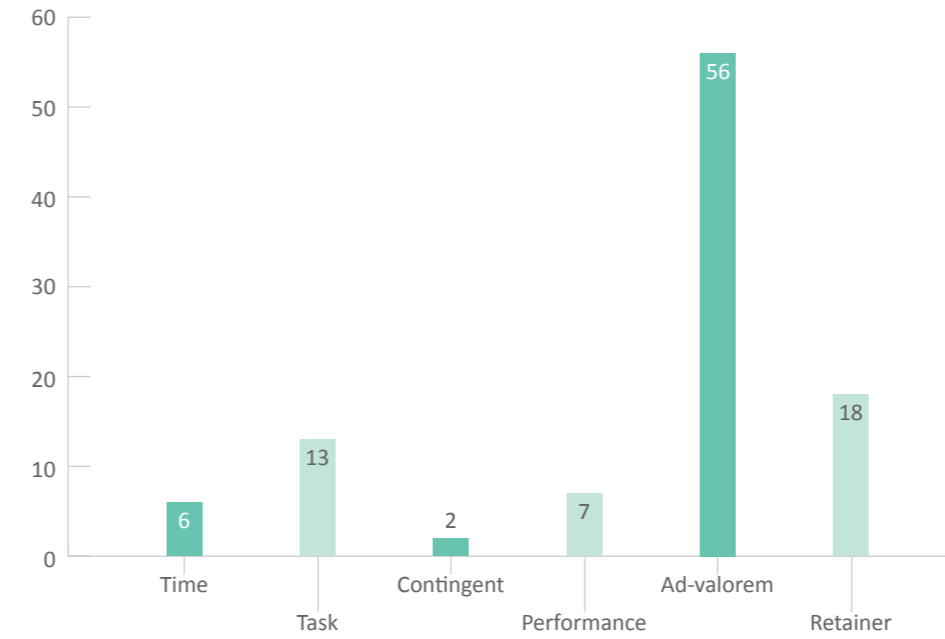


**Figure 3.11: Confident you measure risk tolerance/risk required**

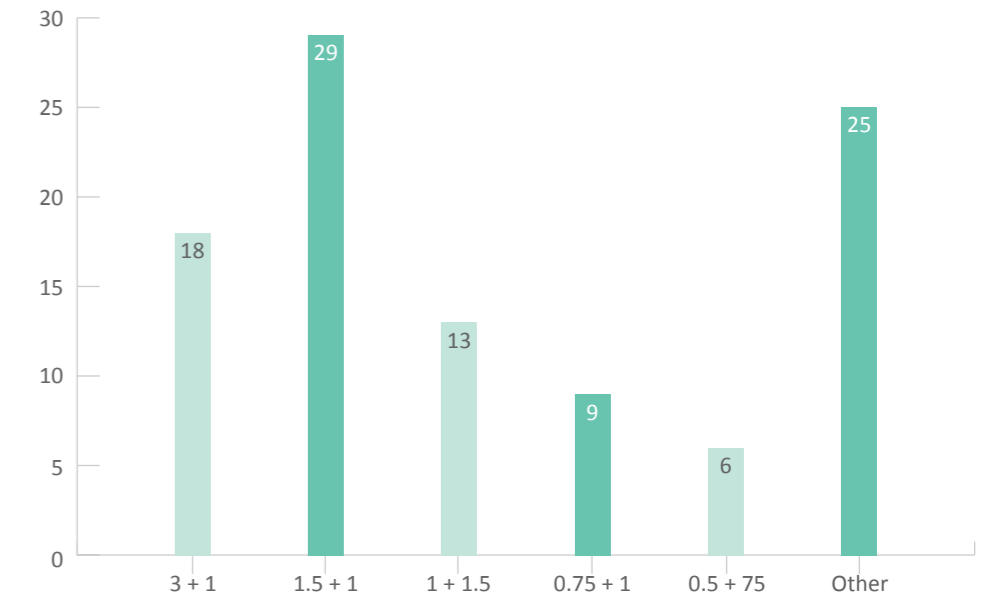


Fee charging

**Figure 3.12: Indicate how fees are charged**



**Figure 3.13: Preferred fee structure**





Key issue	Comment	Strategies
PROD and Service segmentation	Uncertainty over service value and matching client needs could lead to 'retro-fitting' and advice suitability compromises	With MiFID II, PROD 3.3 and suitability in mind, continually surveying clients, asking for feedback and factoring this into service segment design are crucial plus know the product manufacturers target market criteria. The indomitable lang cat consultancy have produced an innovative platform due diligence tool which will help with PROD governance and compliance <a href="https://platformanalyser.thelangcat.com/Account/Login">https://platformanalyser.thelangcat.com/Account/Login</a>
Centralised Investment Proposition	Suitability and appropriateness tests	Excellent confidence in R&DD with evidence-based practice using product data and client needs
Cash flow modelling	Increased by over 10% since last survey report	Good use for cash flow; this needs to be used selectively for the right clients and RIAs should be careful to project not predict future client cash flows
Risk profiling and capacity for loss	Align with MiFID II requirement for tool appropriateness for client needs	Ensure tools are fit for purpose and any limitations are identified while mitigating this through the advice process
Fee charging	Product-facilitated charging can skew bias, i.e. encourage status quo bias, plus wealth/percentage linked charging can prove expensive over time, depending on fee levels	Segmented services can help ensure that percentage fees reduce as wealth assets increase, but a move away from product-facilitated fees and fees based on percentage of investment can help bias management and fairer charging via introducing a mixture of flat annual retainer, task and/or time-based (avoid contingent charges) to ensure the business has a diversified and 'sticky' cash flow due to client-paid fees
Emotional insurance	Value and advice fees	If clients see the value in RIA soft skills and services that ensure they remain informed about all options and/or manage their emotions, they will pay for this

## KEY 4: YOUR SYSTEMS

### Introduction

Practice Management administration, tasks and Client Relationship Management (CRM) activities are interlinked and share high quality data information

#### Top 3 Planning Points

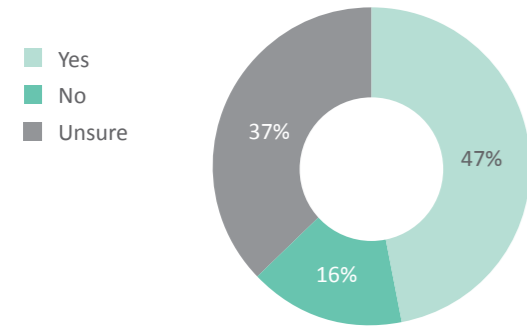
1. Data quality is a problem and needs to be addressed soonest
2. Practice management technology is widely adopted for business, client management and administration but more focus on value this delivers e.g. time saved running the business
3. Client Portal's usage on the up and firms would adopt RegTech



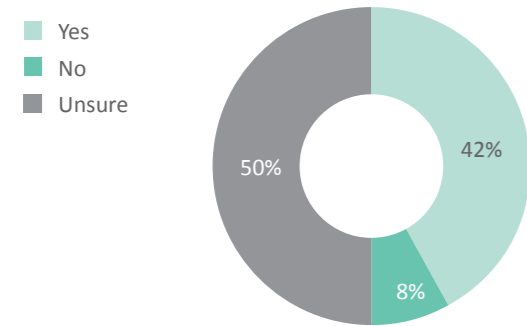
## 4.1 The Data

### Business administration and tasks

**Figure 4.1:** Business administration and tasks are streamlined

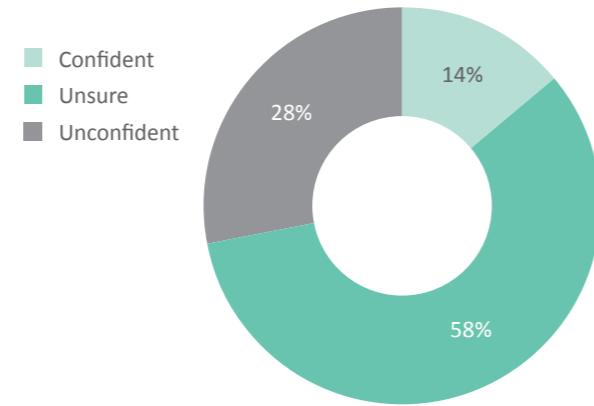


**Figure 4.2:** Do your administration and sales support provide uniform and comprehensive support for relevant client service and financial management (adviser charging, customer reporting, paperwork and panel management)?

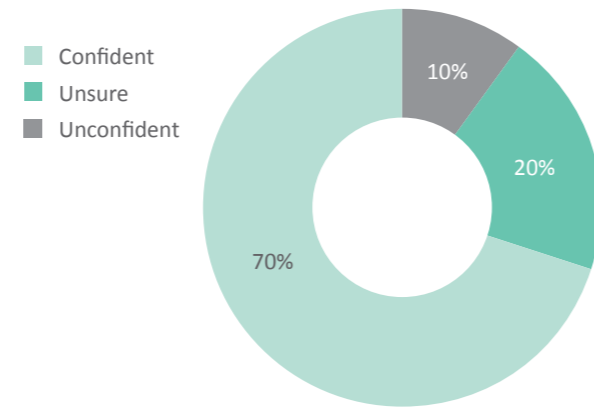


### Data and the General Data Protection Regime

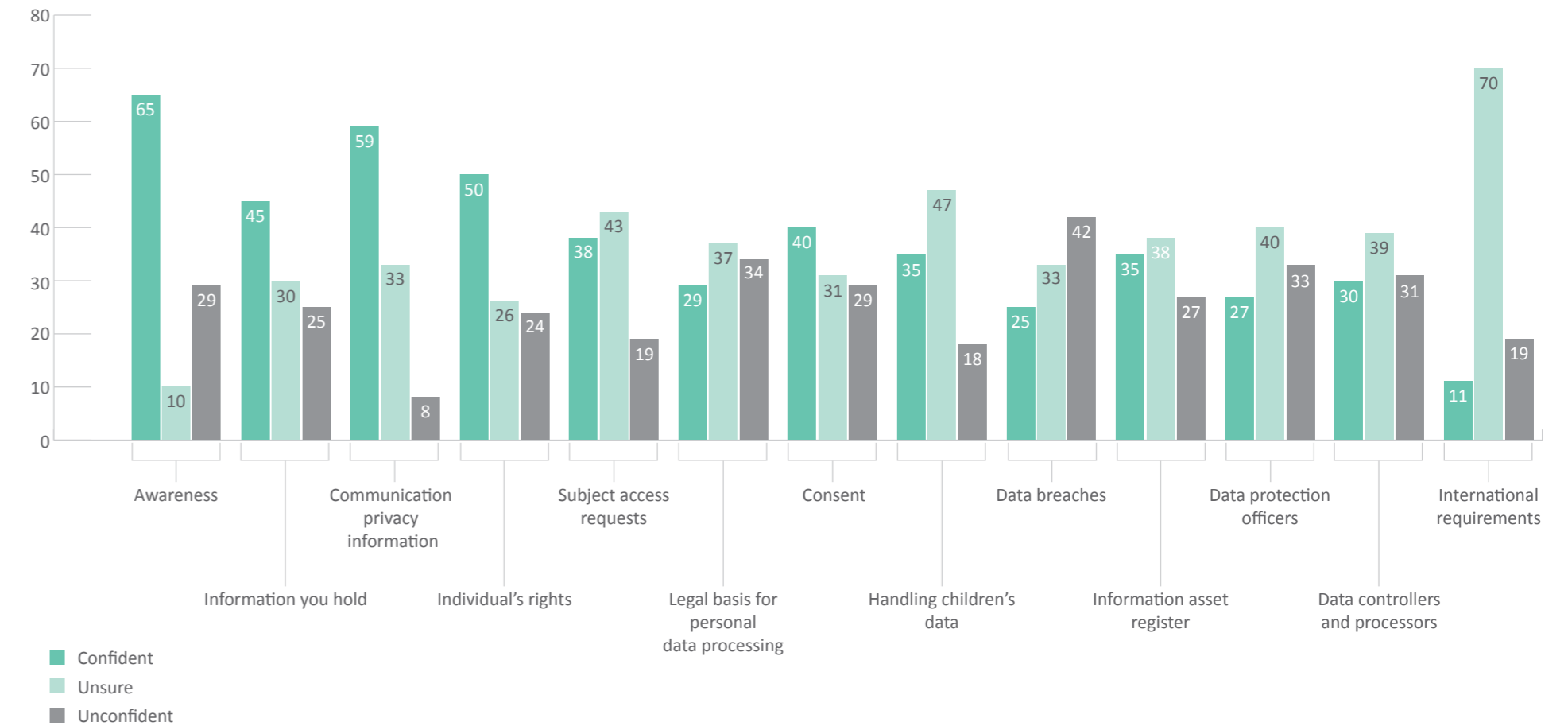
**Figure 4.3:** Confidence in quality and flow of data in business



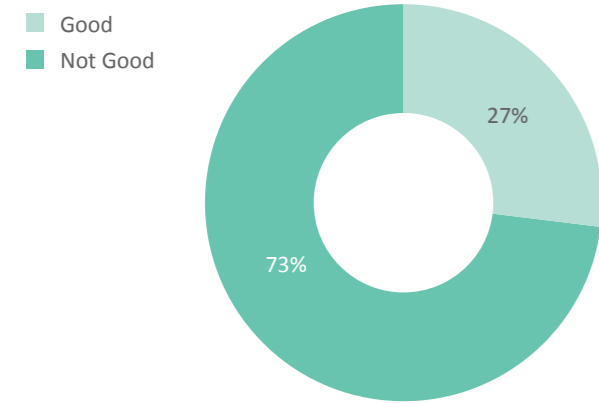
**Figure 4.4:** How confident are you in your GDPR compliance?



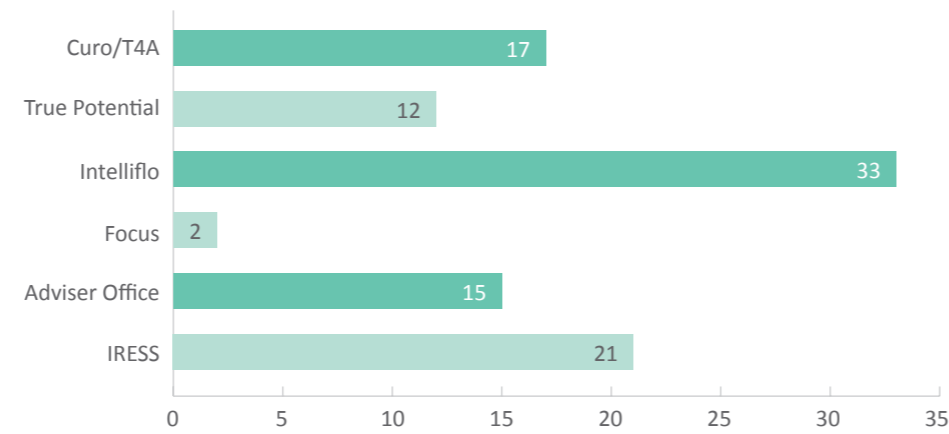
**Figure 4.5:** How confident are you that you have the ICO GDPR requirements in place?



**Figure 4.6:** How well do clients understand how your practice management technology adds value to your service proposition?

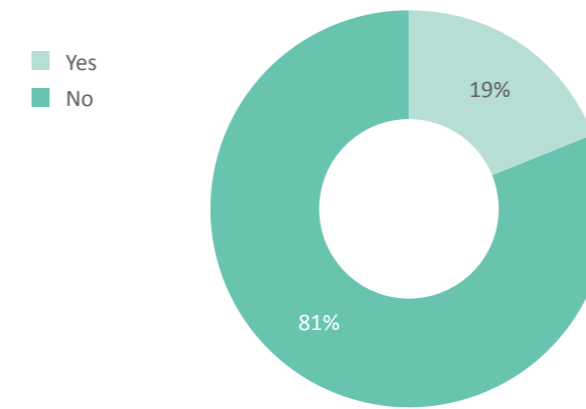


**Figure 4.7:** Which practice management solution do you use?

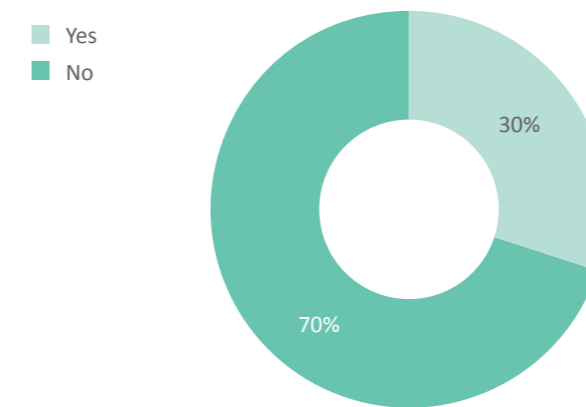


Client portal and auto-advice

**Figure 4.8:** Do you use a client portal in your practice management technology?

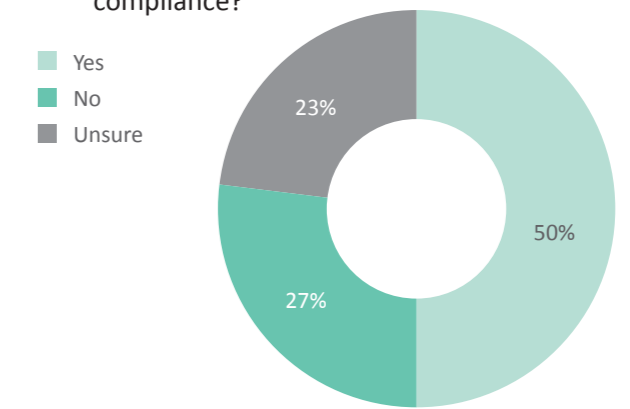


**Figure 4.9:** Would you consider auto-advice within the practice management system?



RegTech

**Figure 4.10:** Would you apply RegTech to your business to help manage compliance?





Key issue	Comment	Strategies
Client management	Technology used only for client detail management	CRM system needs to focus on relationship, i.e. opportunity tracking (birthdays, anniversaries, life events)
Administration	Lack of procedural efficiency	Task duplication and lack of understanding of technology capacity mean risk – a focus on roles and responsibilities is required
Business management	Duplication of technology	Data processing, regulatory reporting, document storage and workflows all need to be streamlined under one technology provider which can align with reporting technology through application programming interfaces (APIs)
Workflows	Increase business efficiency	Assigning tasks and actions to particular roles can streamline client and regulatory reporting activities while ensuring that documents and communications are kept up to date
Compliance	Ensuring that the MI and activities match the FCA requirements and that advisers can view their own cases	SFile checking, reporting and controls to ensure documents are easily referenced can avoid swivel chair compliance, i.e. employing disparate solutions which can confuse
Client portal	Increase client engagement	This can support secure messaging with clients and document storage, allow 24/7 access to portfolios, access to valuations and progress of goals
Auto-advice	Engages digital	This can expand the service proposition and attract next generation clients as well as offering additional services to existing clients
Formal data standards	Ensure clean data and understanding for the GDPR plus protect the business from Cyber-crime	Technology such as client portals and tailored activities such as workflows can support clean data and compliance with GDPR. Firm's need to get a grip on the lawful basis with which they process client's personal data
RegTech	Research the benefits of a Regulatory Audit Technology platform	Firms are becoming aware of the benefits for RegTech, they need to assess how this can fit into their governance, risk and compliance management, add value to existing compliance services and understand the cost benefits

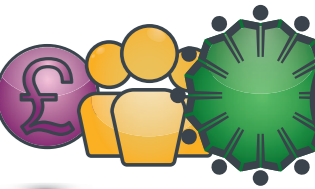
## KEY 5: YOUR PEOPLE

### Introduction

How well have you focused on the level of staff and employee engagement, and ensured you have the right people in the right place with the right skills, all of which are crucial to business success and building client loyalty and trust?

### Top 3 Planning Points

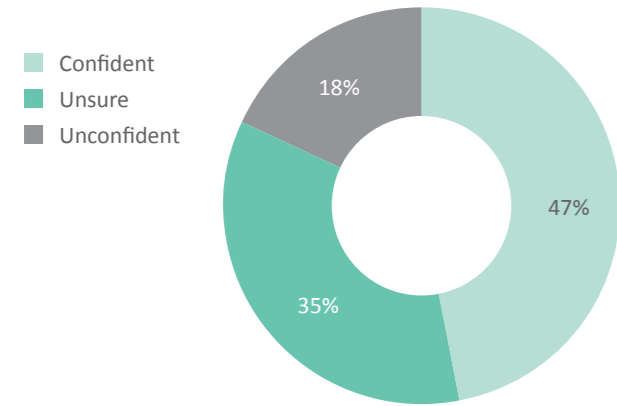
1. Human Resource development needs to be adopted and front and center for people development and compliance with SM&CR
2. Culture for accountability needs to be monitored and managed
3. Good focus on soft skills with advocacy training required to help with vulnerable clients



## 5.1 The Data

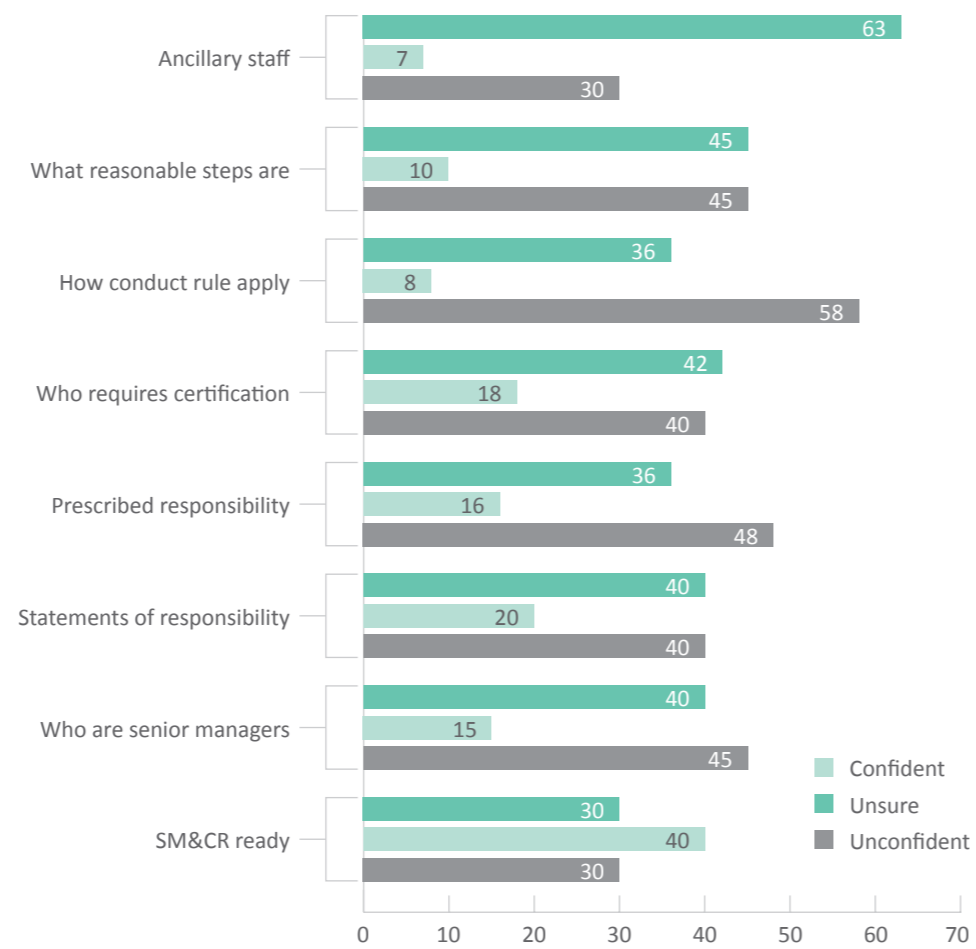
### Human resource development

**Figure 5.1:** Confidence in human resource strategies



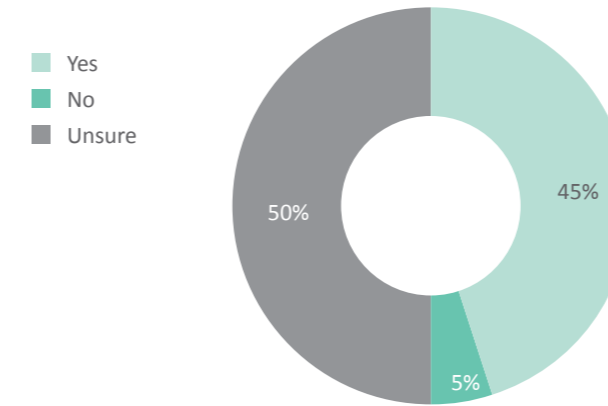
### Senior Managers and Certification Regime

**Figure 5.2:** SM&CR Readiness

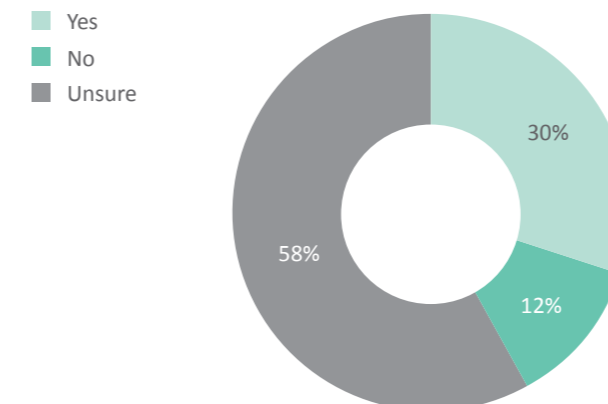


### Training, leadership and talent management

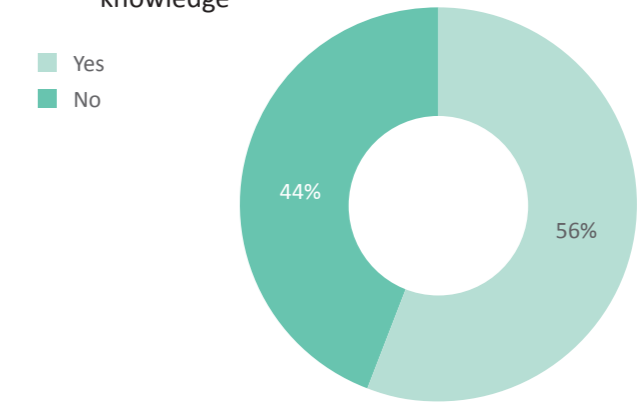
**Figure 5.3:** Matches FCA's high-level requirements for professional ethics



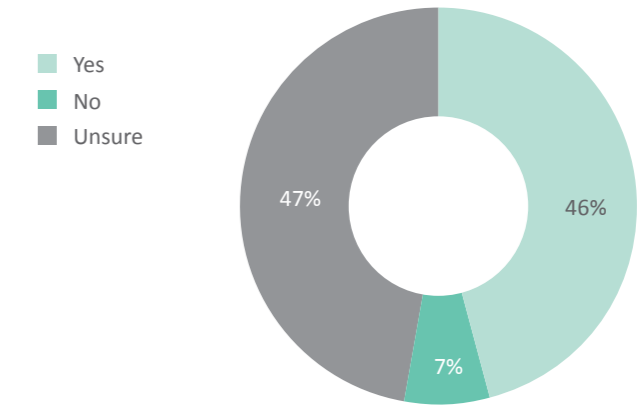
**Figure 5.4:** Personal Development Plans track skills, KPIs, market analysis and linked to the business plan



**Figure 5.5:** Training and Competence ensures staff have the right skills and knowledge



**Figure 5.6:** Interpersonal, coaching skills training is implemented annually





Key issue	Comment	Strategies
Human resource development Strategies	Focus on people development and performance management	Aligning HR practice with business strategy is crucial if the firm is to be perceived as a professional practice
Performance management	Personnel development	Personal Development Plans need to be implemented across talent management programmes and behavioural competencies should be aligned with the business plan
Senior Management and Certification Regime	Understand how certification regime and conduct rules apply annually	Firms need to understand that the certification regime will apply to their business on an on-going basis. Thus, roles, responsibilities and accountabilities need to be mapped annually, Senior Manager Functions allocated, Certification process is clear and mapped annually, conduct rule training and competence needs to be watertight and include all relevant staff and Senior Managers have 'reasonable steps' process and a conduct rule breach log. Evidence based practice is king here.
Training and Competence	Crucial to ensure relevant staff are continually trained on the conduct rules	Not quite 50/50 but more work and focus needs to go into firms' training and competence programmes ensuring relevant staff can prove then have the right knowledge and skills plus Senior Managers know reasonable steps in case of conduct breaches
Soft/interpersonal skills	Good improvements made	Salesmanship is still very much alive and clients value emotional intelligence and soft skills that place their needs at the centre

## SUMMARY

The new accountability regime the SM&CR brings means firms now need to ensure evidence-based practice is at the heart of all they do. They need to apply the 'do we know this is true' rule and ensure that appropriate documentation for all practices are kept in a clear concise manner. Let's face it of it's not written down it didn't happen!

With the FCA's focus on advice suitability we would argue that RIAs should now record client meetings and calls. This is the only way a true and accurate record can be evidenced in event of complaints and breaches under the SM&CR conduct rules.

There is much to celebrate, firms are showing higher sense of responsibility in managing advice risks and applying diagnostics and technologies to help them in this area, plus they are confident (in the main) that they have a professional practice that shows value for their clients and regulator alike.

Firms need to be wary for Advice Suitability Review II in that In 2017, the regulator published findings from its Assessing Suitability Review. The review showed that 93% of advice complied with the rules on suitability (split 07% networks and 93% Directly

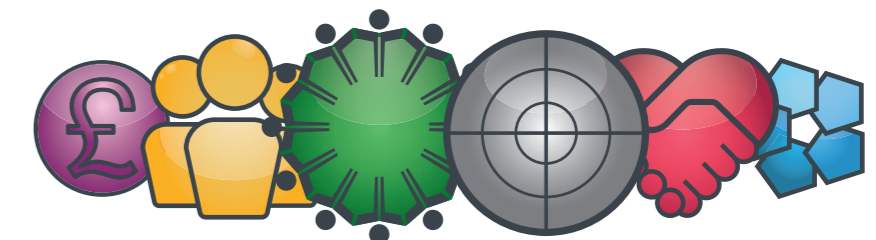
Authorised) But this figure was weighted towards simpler areas of advice.

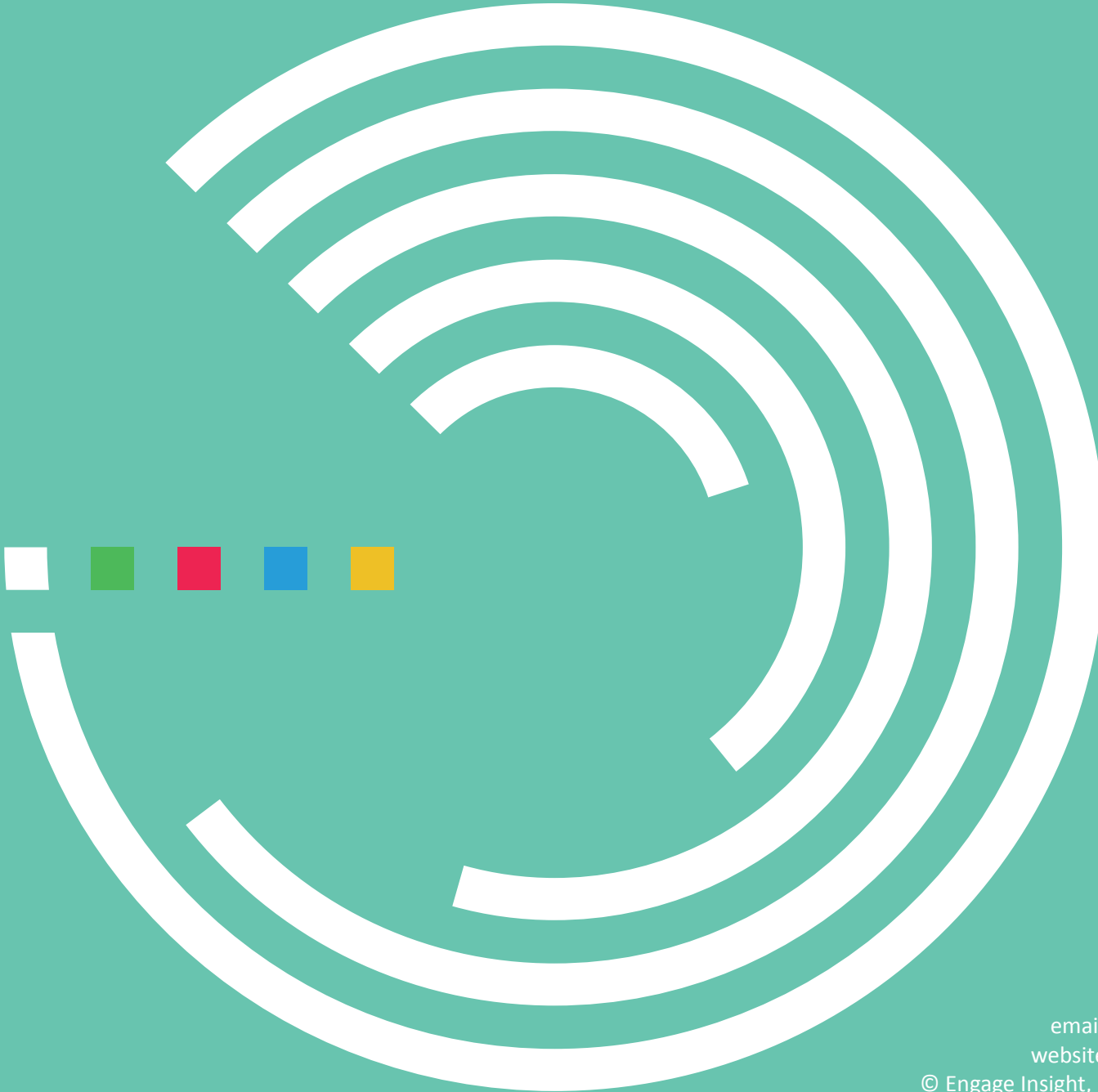
When the FCA looked at more complex issues – non-workplace pensions, for instance, and both pension- and non-pension-related investment products – the figures were not so positive. Only around 50% of the advice given on defined benefits pension transfers, for instance, was deemed suitable. Here, the potential for consumer harm is high.

The main themes for improvement focus on, applying a true Human Resources Development function and diagnostic to monitor and manage SM&CR on-going compliance, focusing on the soft along with technical (hard) skills when recruitment is concerned and ensuring they build a

balanced well diversified team utilising the art of delegation to ensure they are able to spend quality time with their clients and avoid running the risk of spinning too many plates in the practice management arena. Also firm's need to show they are complying by applying evidence based practice, accessing high quality management information and identifying, managing and monitoring risks. We would off course argue RegTech is under-deployed but can certainly help here.

Overall 2020 should see more improvements particularly with those firms who are confident they are monitoring and managing regulatory and businesses risk.





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