The Management information – What ‘good’ looks like!

Enabling best practice through effective MI, and a modern ‘Joined Up’ approach to Governance, Systems and Controls. By **John Harrison** Business Development Director from Redland Business Solutions

With the advent of the new financial year the industry now has two new regulators, the FCA and the PRA. The FCA specifically is promising to protect consumer’s interests, and be more vigilant and pro-active in its governance of financial advice firms. There have already been major six figure fines and at the time of writing the FCA are investigating 29 firms in relation to financial crime, mis-selling allegations and failures in systems and controls. There is also an underlying move by the FCA towards proactive root cause analysis of problems, as opposed to simply addressing the resultant symptoms. In addition there is an increasing insistence for firms to evidence improved customer outcomes, and to promote a culture of professionalism.

Now that we have overcome the hurdle of RDR and its associated demands on gaining qualifications and the cultural shift in outlook towards CPD and professionalism, each and every financial advice firm now faces a longer term, ever present and much more complex challenge.

In a radically different, fee based commercial landscape, each firm must seek to provide clear governance, appropriate culture and robust systems and controls to satisfy the regulator.

Hardly a surprising statement, however, given the increasing rigour of supervision and consumer protection promised by the FCA, and the sea change in many firms revenue models, failure to meet these requirements cost effectively presents considerable reputational, and financial risk to any business.

The FCA is encouraging businesses to harness management information to help ensure each firm is managing risk, monitoring trends, identifying issues and producing improved customer outcomes across its business operations. There are some excellent guides on the FCA website giving practical guidance on the nature and use of MI and existing possible sources of data from which to generate MI.

Their suggested approach to gathering possible data, collating it into reports and graphs, circulating it to relevant people, and most importantly acting on it through 1-1s and action plans is very useful. Also, measuring the effect of remedial actions is critical, and sound advice for businesses waking up to the need to get better visibility of their supervisory and wider T&C and compliance operations.

In addition, the guidance stresses the importance of clear organisational structure and apportionment of responsibilities, accountability and suitable record keeping.

The regulator also reminds us that a ‘tick box’ approach to compliance in general and especially in the areas of business quality monitoring is not sufficient. Firms should be checking that customer outcomes are as intended, and that systems and controls and MI should be regularly reviewed.

The outgoing FSA also published its ‘Guidance on the risk of Financial Incentives’ in January 2013 again recommending “robust risk-based business quality monitoring and adequate controls to mitigate the risk of inappropriate behaviour during sales conversations” and “MI to identify, and act upon, trends or patterns in individual sales staff activity that could indicate an increased risk of mis-selling as a result of features in the incentive scheme”.

The challenge in meeting this type of guidance starts immediately due to the principles based nature of these requirements, as each firm must determine its own appropriate governance model, and supporting system and controls. In medium sized businesses and upwards, these systems and controls are often across a multitude of business functions which have grown up with separate people, processes and systems. These can be paper based, supported by spreadsheets, proprietary databases or software systems that are not integrated technically, or from a business governance perspective.

The recommendations regarding harnessing of data and information into MI which we can easily collate and circulate, act upon and measure, become more difficult and expensive when we consider these separate business functions and units. Clear supervisory responsibility and accountability within the business is not as simple in larger organisations, or those undertaking acquisition and expansion. Neither is the ready availability of useful business quality monitoring information, nor meaningful data from client file reviews. Resources such as this can be a vital source of information as to adviser behaviour or overarching trends and issues which need addressing.

Clearly then, the implementation of sound guidance like this represents a practical challenge.

In an ideal world each firm would be able to establish, implement and monitor timely, accurate MI covering all of its key business processes. It should also be able to efficiently communicate and evidence the resulting conclusions to its own staff and to the regulator. Some examples of these key processes could include:

- ❏ Recruitment and approval processes
- ❏ Induction and training programs

- ❑ Training and competence requirements. Regularly assessing advisers technical and soft skills, ongoing competence assessment, and review of their CPD, and personal development plans
- ❑ Risk management and mitigation through the use of relevant KPIs
- ❑ Span of control management
- ❑ Business quality monitoring. Evidencing adherence to compliance processes, suitable advice and good customer outcomes. Also identifying risks related to levels of products sold across the business, or individual trends in sales of products.
- ❑ Robust complaint handling processes supplying the risk model with relevant KPIs

It would be ideal to be able to generate timely MI on the effectiveness of these functions, helping to evidence advisers are competent and regularly and appropriately supervised, and be able to report on core KPIs to manage risk and ensure customers were being treated fairly.

A panacea?

Well, many firms are currently wrestling with trying to bring these different business functions together under one homogenous and well designed T&C scheme.

Their business aspiration is that, where relevant, information and outputs from some processes can feed other parts of the T&C model, for example complaints management and business quality monitoring providing useful KPIs to help determine the risk of an adviser, which in turn impacts on the supervisory regime they are managed by.

Learning and induction processes are clearly defined for each relevant role, and once advisers are signed-off, clearly defined ongoing technical competence assessments, role plays, observations and PDPs are all consistently planned ahead. Training needs analysis are scheduled and recorded, with associated fully RDR compliant CPD plans forming part of the learning and development programme.

By logically redesigning their T&C schemes in this way firms achieve integrated governance, reduced risk and time and cost efficiencies, with previously silo-ed functions becoming part of an integrated operating model.

Overlay a clear organisational structure and accountability and these firms begin to have the foundations for achieving best practice, or identifying where good practice is not evident.

Management information on the risks faced by the business, and the effectiveness of its governance is necessary for the business to be able to continue to ensure its actual operations fit within its overall strategy. The firm can also help ensure that at an individual adviser level, its values and culture are accurately represented with commensurate good customer outcomes and low risk.

Software systems that can provide a platform for both the governance rules, process control and record keeping implicit in these requirements are available, and here at Redland we have seen a noticeable stimulus in the market demand for our Insight solution now that the ‘RDR dust’ has settled.

Insight is a fully mature governance platform incorporating a full suite of T&C, On Line Testing, CPD, Risk, Complaints management and Business Quality monitoring capability. Each module can be used individually or linked together as the business requires, providing a scaling up of both capability and business benefit across the enterprise.

Previously, within our market, ‘stand alone’ solutions for testing and CPD were commonplace. However now, as businesses seek to converge and rationalise their infrastructure and learning collateral, integrated testing and automated CPD, joined up with the wider activities of the T&C scheme have become a ‘hygiene factor’. This convergence onto one platform helps to

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cut cost base, reduce risk and achieve efficiency and rigour of process. Such an approach also provides a centralised record keeping and learning framework, and an evolving future proof business platform which can extend dependent on individual client requirements.

As we move forward from the somewhat ‘single focus’ of the Level 4 and CPD & SPS requirements, the more astute businesses are looking longer term at how they can achieve robust and efficient operating practices, and be able to evidence appropriate governance, systems and controls, supported by proper record keeping and accurate evidential management information.

Often legacy T&C schemes that are in operation today are constrained by the ‘silo type’ nature of supporting systems or ‘work arounds’, and were designed to support a pre RDR business model.

Agile businesses will recognise that their current T&C scheme design and associated control systems should be shaped by today’s business strategy and it’s identified risks, it should fully meet the increasing demand for immediacy of relevant information that our modern culture propagates, and consider what is now the art of the possible from T&C technology providers.

Businesses who can yield this MI cost effectively whilst also achieving the efficient governance described, will be well placed to meet today’s commercial challenges, implement the best practice guidelines and confidentially face the increasing scrutiny of the new regulator.