

Model Office – MO®

RegTech, Risk Management and The Future of Regulation

CII Regional Leads Q2 2021

Learning Objectives

1. Understand how regulators are applying technology
2. Know what Reg Tech is and its presence / role in the current FS / GI markets
3. Know how RegTech applies to businesses and can assist in streamlining regulatory reports as well as reducing your carbon footprint.
4. Enabling the two key areas for professionalism
 - ❖ Competence
 - ❖ Conduct
5. How to ensure that risk and compliance is managed by embracing the principles of Reg Tech
6. Asking the right questions

We operate in a different era: The Relationship Economy



TRUST



**Firm and staff
professionalism**



**Regulatory
Directives**

Planning Point: Tech can enable TRUST

INDUSTRY SECTORS OVER TIME

Percent trust in each sector



Industry	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	10yr. Trend
Technology	77	74	77	74	76	76	75	78	75	68	-9
Healthcare	-	-	-	-	64	67	65	68	67	66	n/a
Food and beverage	64	64	65	64	65	68	64	69	67	65	+1
Telecommunications	59	61	62	60	61	64	64	67	65	61	+2
Automotive	63	66	70	67	62	66	63	69	67	60	-3
Consumer packaged goods	58	61	62	61	62	64	61	65	62	60	+2
Energy	54	58	57	57	59	62	63	65	63	59	+5
Entertainment	-	63	66	64	66	65	63	68	65	59	n/a
Financial services	44	47	49	48	52	55	55	57	56	52	+8

2021 Edelman Trust Barometer. TRU_IND. Please indicate how much you trust businesses in each of the following industries to do what is right. 9-point scale; top 4 box, trust. Industries shown to half of the sample. General population, 22-mkt avg.

Technology Progress Is Rapid



IBM's ASCI White Supercomputer

\$110M

106 tons / 96,000kg

2 basketball courts

3 trillion operations p/sec

XBOX ONE X

\$500 (300,000 times cheaper)

Smaller than a basketball court

6 trillion operations p/sec (2x faster)

But wait, why is sport ahead of business when it comes to tech and data science?





Why and How has RegTech Developed?

Consumer protection

- ▶ Suitability requirements, TCF and KYC
- ▶ MiFID II Cost & Disclosure
- ▶ Self harm – pension transfers, ATR-Investment risks
- ▶ Money Laundering

Innovation brings risks

- ▶ Conduct and cultural risks
- ▶ Panacea affect and algorithms (Flash crash) Suitability
- ▶ Halo-status quo biases
- ▶ Cyber Crime

The technology Integration

- ▶ Data quality
- ▶ Designed around business or client needs?
- ▶ Costs and ROI
- ▶ FCA's Digital Regulatory Reporting

Regulation Technology Benefits

- ▶ Calibrates risks, improves reg reporting
- ▶ Aligns business model with regulations
- ▶ Streamlines business to ensure efficiencies/client-centricity
- ▶ MI & Cuts costs/time e.g. PII/FSCS

Regulatory and Business Challenges

- Regulatory agencies are risk adverse and slow to adapt
- Products and services evolve they can shift from one regulatory category to another
- Who owns the client data; the user or the service provider
 - If service provider, what is the obligation to store and protect data
 - What extent can data be shared with third parties
- AI and algorithms bias

The FCA 2020/21 Business Plan

1st Priority

- Market functions well
- Vulnerable are protected
- Impact on firm failure is minimised
- Scam smart
- Treating Customers Fairly

2nd Priority

- Enabling effective consumer investment decisions
- Ensuring the consumer credit market functions well
- Making payments safe and accessible
- Delivering fair value in a digital age

3rd Priority

- Transforming how FCA regulates

The FCA

Tech that may facilitate the delivery of regulatory requirements

- Digital Regulatory Reporting to deliver **Model driven, machine readable and executable regulatory reporting**
- **TechSprints** Hackathons designed for collaboration to solve specific problems e.g. reporting, mental health, Consumer access
- **TechTalks** Cross industry dialogue C – Suite level
- **Accelerators** Incubators target investment and mentoring
- **Trials, Research and Modernisation** Natural Language Processing, Chatbots, Analytics, Machine-Learning/AI
- **TechKnow** Tech thought leaders educate FCA
- **International** Multiple international regulators engaged

The FCA Sandbox

- Space for innovators to **test new ideas** with **real customers**
- Open to **authorised** and **unauthorised** businesses and technology providers – as long as they pass our **‘Eligibility Criteria’**
- FCA closely **oversees trials** using a customised regulatory environment for each pilot – including **safeguards for consumers**
- Provides **intelligence** on developments, trends and emerging risks
- **Global Sandbox** Global Financial Innovation Network (GFIN) 11 regulators, objectives – Cross-border & speed to market

Statistics

- 150+ applications, Mainly SMEs
- 5 Cohorts - 89 firms



Regulatory Principles

Adaptive

Shift from regulation and forget to Iterative, responsive approach

Outcomes based

Results and performance based rather than defining a way thus freedom to choose strategy

Risk Weighted

Shift from one size fits all to data-driven, Segmented approach i.e. risk evaluation

Collaborative

Align regulation nationally and internationally
By engaging broader set of players

The FCA 5 Conduct Risk Questions

1. Identification of risks e.g. Roles and Responsibilities, Internal communications, Informed consent, Breach policy

2. Empower individuals accountability to manage business risk and conduct e.g. Accountabilities

3. Mechanisms to improve risk management and conduct e.g. Digital Tools, Training and Development

4. Strategic oversight e.g. Investment committee/Board meets

5. Assess activities that could undermine good risk management and conduct e.g. Remuneration, Complaints procedures

COVID19 and Business Disruption

- Set capital and liquidity buffers
- Plan strategically ahead
- Business continuity, exit and wind down plan
- SM&CR: SMF24 & SMF1
- Staff, key workers & clients
- Flexibility over client ID
- Flexibility over MiFID II 10% depreciation notification

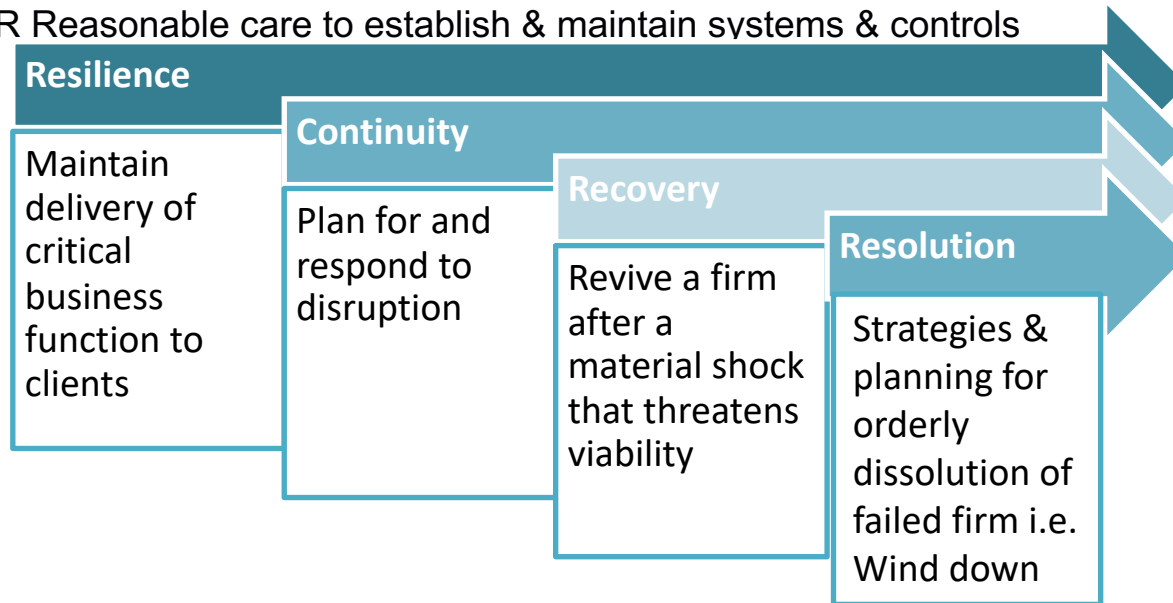
We welcome firms reviewing their current arrangements to address the **evolving situation while managing the risks to their employees, customers** and the impact on the market.



© Financial Conduct Authority 2020

Resilience Testing

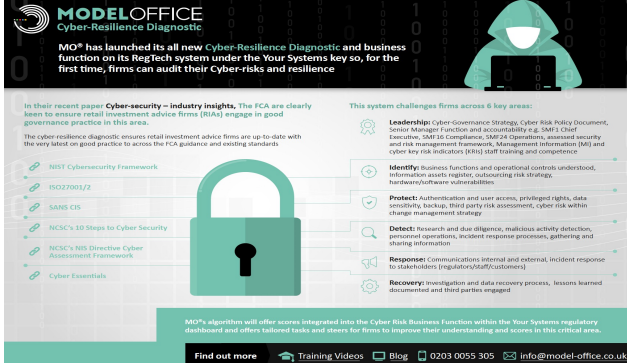
- Functions and Resources
- Services, products and dependencies
- PRIN 2.1.1.3 R Management & control : Responsibility, effectiveness & risk management
- SYSC 3.1.1 R Reasonable care to establish & maintain systems & controls



All the above require different tool kits, Firms need to understand the difference and links between them

Cyber-crime

- Cyber risk is a Board responsibility
 - Companies act
 - Senior Conduct Rules 1 & 2
 - ICO & GDPR
- Reputation
- Prescribed Responsibility? Facilitates financial crime so **SMF1, 17, 24**



MODEL OFFICE
Cyber-Resilience Diagnostic

MO[®] has launched its all new Cyber-Resilience Diagnostic and business function on its RegTech system under the Your Systems key so, for the first time, firms can audit their Cyber-risks and resilience.

In their recent paper **Cyber-security – Industry Insights**, the FCA are clearly keen to ensure retail investment advice firms (RIAs) engage in good governance practice in this area.

The cyber resilience diagnostic ensures retail investment advice firms are up-to-date with the very latest on good practice to access the FCA guidance and meeting standards.

This system challenges firms across 6 key areas:

- Leadership:** Cyber-Governance Strategy, Cyber Risk Policy Document, Senior Manager Function and accountability (e.g. SMF Chief Executive, SMF IS Compliance, SMF 24 Operations, assessed security and risk management framework, Management Information (MI) and cyber key risk indicators (KRI)) staff training and competence
- Identify:** Business functions and operational controls understood, information assets register, outsourcing risk strategy, hardware/software vulnerabilities
- Protect:** Authentication and user access, privileged (GPOs, data sensitivity, backup, third party risk assessment), cyber risk within change management storage
- Detect:** Research and due diligence, malicious activity detection, personnel operations, incident response processes, gathering and sharing information
- Response:** Communications (internal and external, incident response to stakeholders (regulator/SMP/customer))
- Recovery:** Investigation and data recovery process, lessons learned documented and third parties engaged

MO's algorithm will offer scores integrated into the Cyber Risk Business Function within the Your Systems regulatory dashboard and offers tailored tasks and steers for firms to improve their understanding and scores in this critical area.

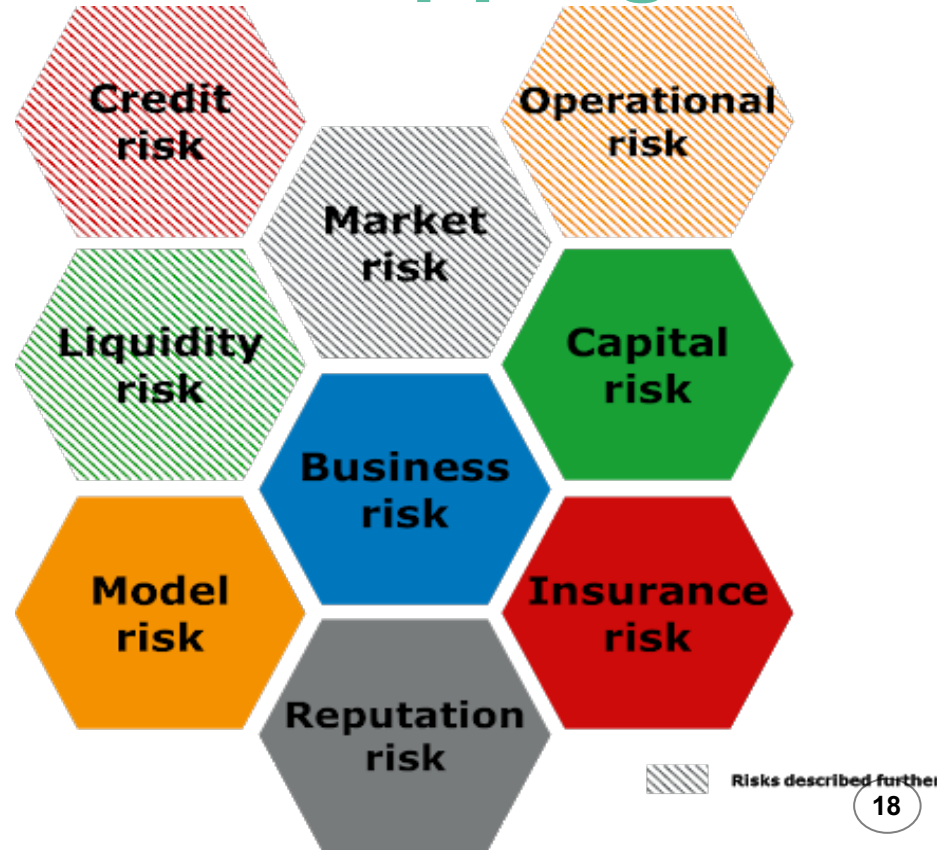
Find out more [Training Videos](#) [Blog](#) 0203 0055 305 info@model-office.co.uk

Risks

- Evidence based practice – board packs, meeting minutes
- Handover and delegation – Competence and Conduct
- Outsourcing – Research and due diligence; **Principle 3** and **SYSC 1.2.1**

Business Operations Mapping

- Systems and Controls
- Mapping systems and processes
- Board and Committees
- Internal Communications
- SM&CR Roles & Responsibilities
- Working smart & Remote working
- Outsourcing:
 - Para-planners
 - CIP resources
 - NEDs
 - Technology



 Risks described further



COMPLIANCE MANAGEMENT

REGULATORY RULES MAPPING

REGULATORY CHANGE MANAGEMENT

ADVOCACY & POLICY ENGAGEMENT

GRC PLATFORMS

REGULATORY INTELLIGENCE

RISK ASSESSMENT

Is your company missing?
Sign up at: www.rtdirectory.co



Key RegTech Benefits

Challenges

- Awareness
- Regulator stance
- Scalability

Opportunities

- Reduction in risk
- Efficiency and effectiveness
- Streamlined reporting
- Cost savings
- Greater insights for decision making



How can RegTech Deliver?



BioMetrics



Artificial Intelligence



Predictive and Advanced Analysis



Robo's



Block Chain and Distributed ledgers



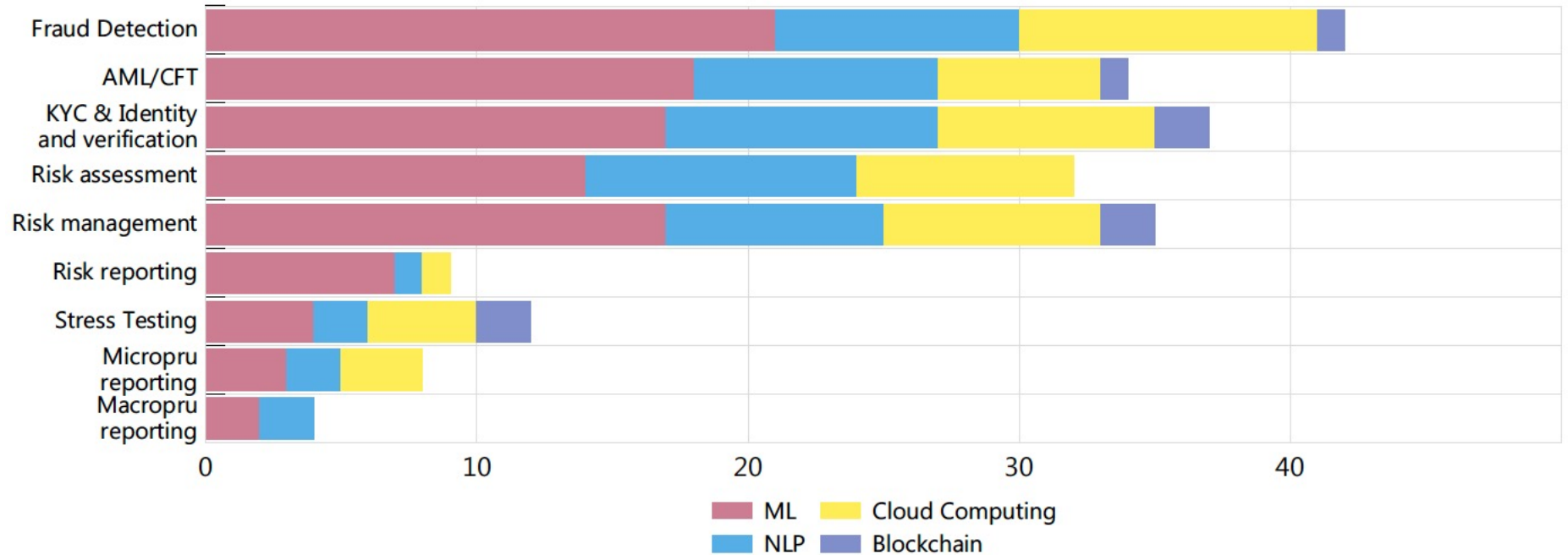
The Cloud



Applications Programming Interface

Financial Stability Board Survey: Authorities

Deployment of RegTech



Source: FSB survey

RegTech the Benefits

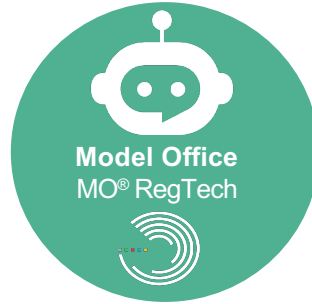


The MO[®] Magic

#RegTech Benchmarking against regulations and peers
Digital Audit



Regulation
pull



Regulation
push

Firms



Digital Audit

Heat mapped dashboards,
action tracker, chat bot delta
between **ACTUAL**
and **EXPECTED**
COMPLIANCE
PERFORMANCE

**Benchmark firms policies,
processes and procedures**
EXPECTED
Algorithm delivers results
against regulatory
performance and standards
ACTUAL

Business Model

Business Strategy

Specification

Be the change

- Customers now expect subscription models, a digital experience and need instant (real time) information and data
- Ongoing value, memorable experiences, immediate fulfilment, available anywhere, personalised moments and quality MI
- Regulators require streamlined real time reports and accurate data

Applications

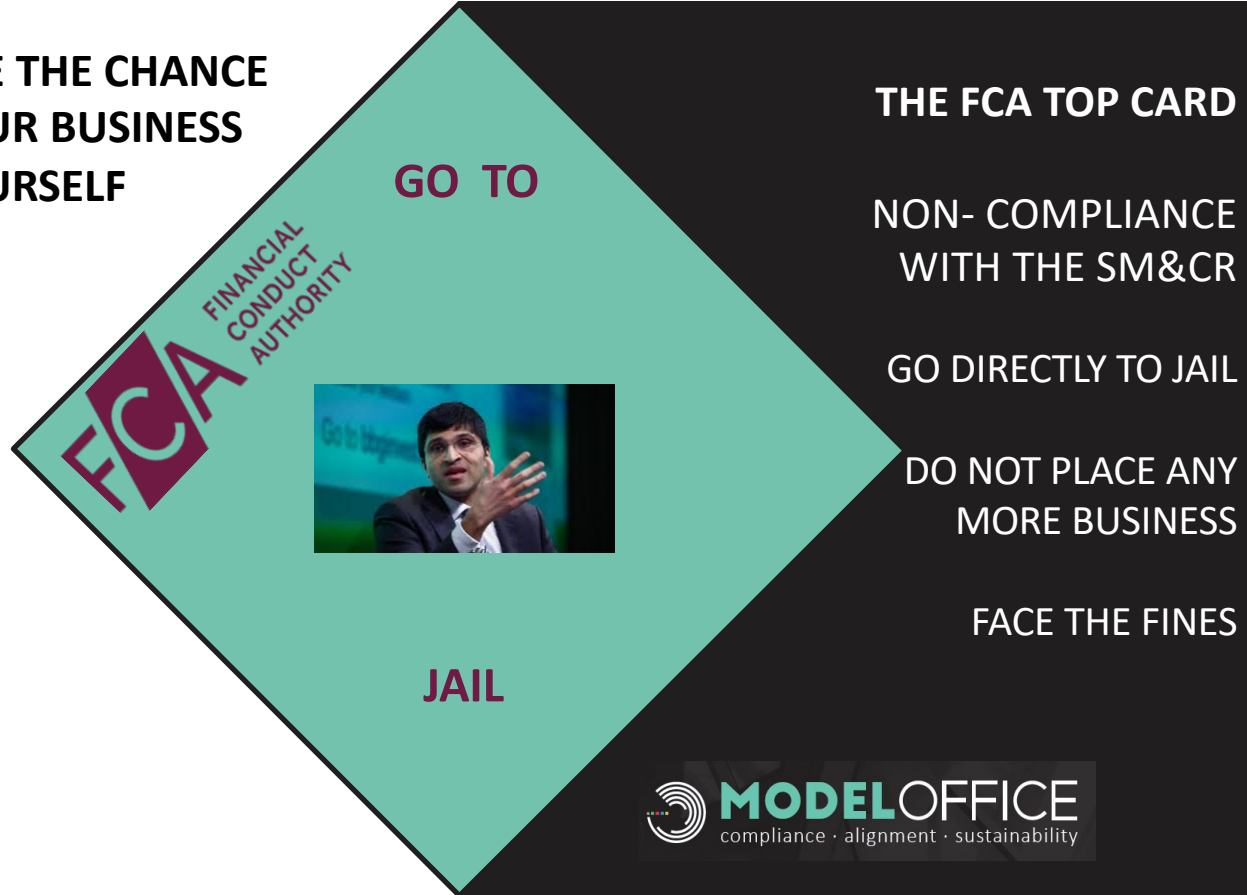
- SaaS and Cloud based
- Free 'fettered' version
- Enterprise and Institutional platforms

Opportunities

- Platform market intelligence
- White labelling
- Advertising resources to stakeholders
- Professional Indemnity Insurance underwriting

The FCA: Playing games with the SM&CR?

**DO NOT TAKE THE CHANCE
PROTECT YOUR BUSINESS
PROTECT YOURSELF**



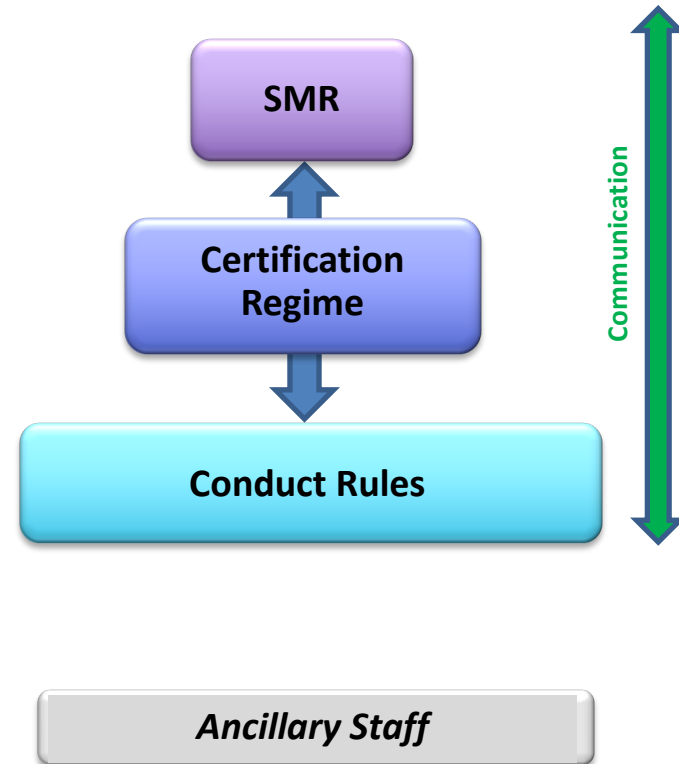
It's a cultural shift

Four factors

1. Tone at the top
2. Tangible goals
3. Firm's documented strategy
4. Mindset of Individuals – Values, Behaviours, Habits, Beliefs & Preferences

FCA

- 'Encourage staff to personal responsibility for their actions
- Improve conduct at all levels
- Make sure firms and staff clearly understand and can demonstrate who does what'



Competency

“There were four people named Everybody, Somebody, Anybody and Nobody. There was an important job to be done and Everybody was sure that Somebody would do it. Anybody could have done it, but Nobody did it. Somebody got angry because it was Everybody’s job.

Everybody thought that Anybody could do it, but Nobody realised that Everybody wouldn’t do it.

It ended up that Everybody blamed Somebody when Nobody did what Anybody could have done.”

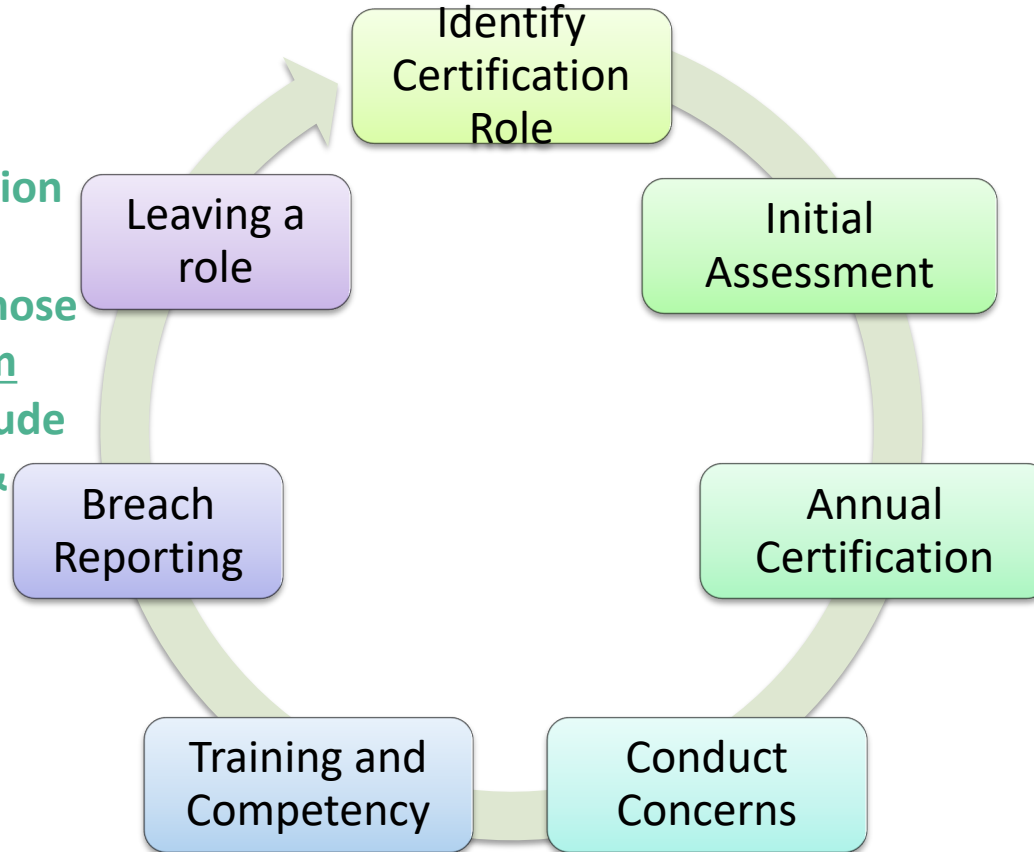


SM&CR Lifecycles

Certification

Practical Planning Point

- Watch out for Information Givers
- ID those to Certify & those Can cause significant harm
- Redesign T&C plan include Fit and propriety checks & Annual review

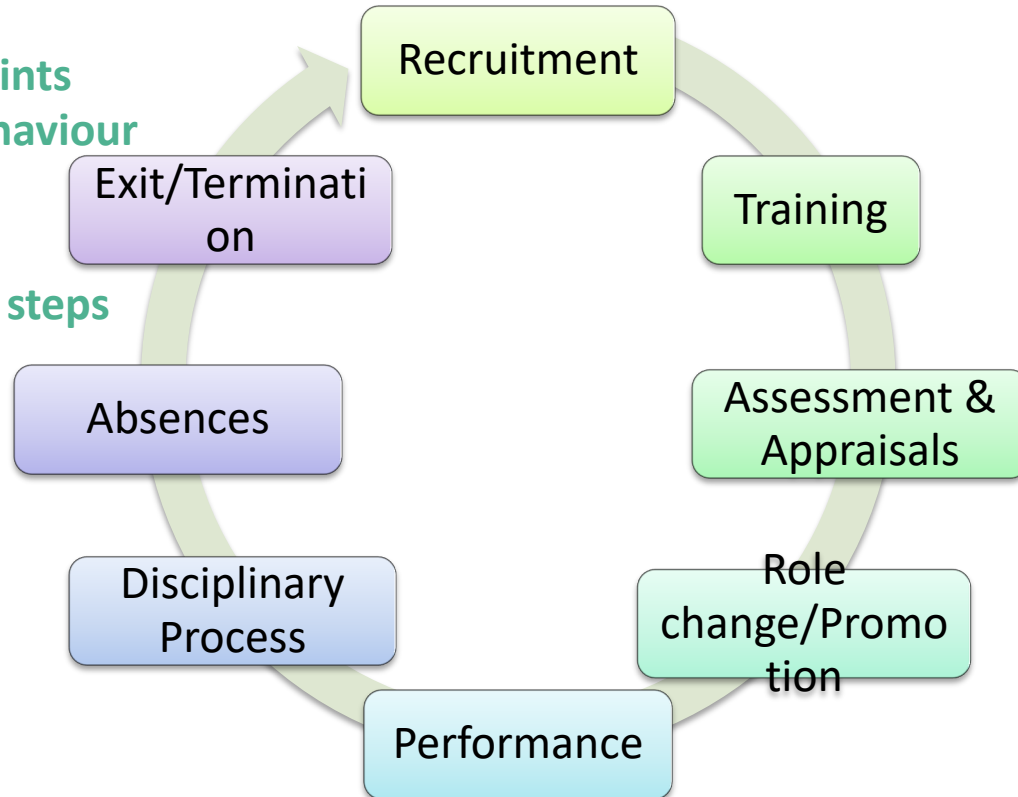


SM&CR Lifecycles

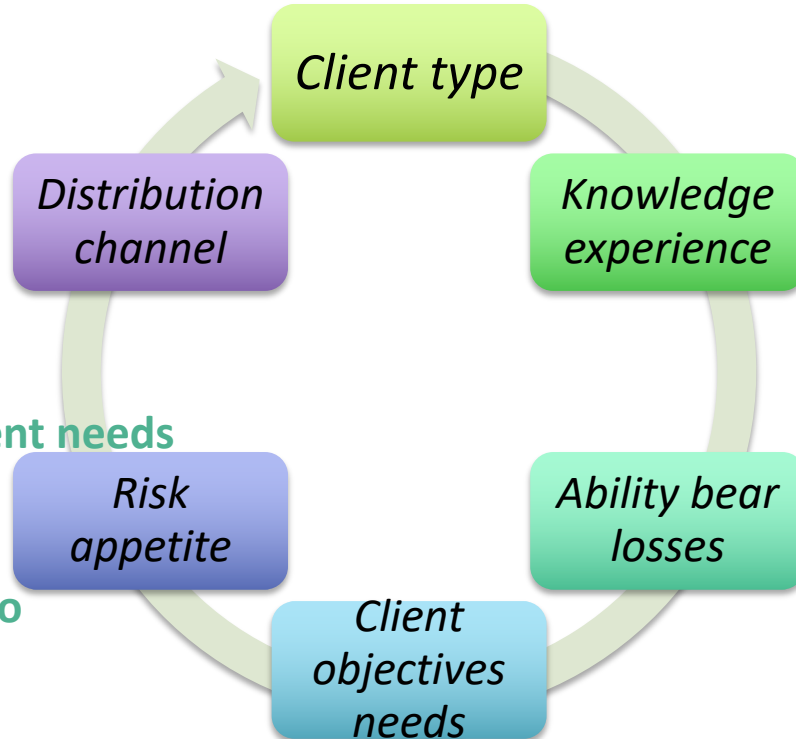
Conduct Rules

Practical Planning Points

- Foundation for behaviour & how rules apply to jobs
- Ensure reasonable steps are understood
- Breach log
- Follow up actions and MI reviews



Target Market, Segmentation and PROD 3.3



Practical Planning Points:

- Ensure product meets client needs
- Product and segments match
- Products are distributed to the right clients



Disclosure & Segmentation

“Relatively few advisers are transparent about their pricing before they sell advice” FCA

Segment	Sub-Segment	Investment Solution	Platform Selection	Advisory Service	Cost £	
					Initial	PA
Young Accumulators	Job starters	Savings acc, LISA	Simple low cost	Light Touch		
	Young Execs	ISA	DFM	Standard		
Runway to Retirement	Employed	DC, Auto Enrolment	CIP/Model Portfolio Discretionary	Standard, Advanced		
	Self-Employed	PPP	CIP	Light/Standard		
Retirement Income	Low/No Income	CRP	Invest/Annuity	Standard		
	High Income	Growth	Invest/Withdrawal	Cashflow/Bespoke		
Outliers						



Cyber-Resilience



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The cyber-resilience diagnostic ensures retail investment advice firms are up-to-date with the very latest on good practice to across the FCA guidance and existing standards

- NIST Cybersecurity Framework
- ISO27001/2
- SANS CIS
- NCSC's 10 Steps to Cyber Security
- NCSC's NIS Directive Cyber Assessment Framework
- Cyber Essentials



This system challenges firms across 6 key areas:



Leadership: Cyber-Governance Strategy, Cyber Risk Policy Document, Senior Manager Function and accountability e.g. SMF1 Chief Executive, SMF16 Compliance, SMF24 Operations, assessed security and risk management framework, Management Information (MI) and cyber key risk indicators (KRIs) staff training and competence



Identify: Business functions and operational controls understood, Information assets register, outsourcing risk strategy, hardware/software vulnerabilities



Protect: Authentication and user access, privileged rights, data sensitivity, backup, third party risk assessment, cyber risk within change management strategy



Detect: Research and due diligence, malicious activity detection, personnel operations, incident response processes, gathering and sharing information



Response: Communications internal and external, incident response to stakeholders (regulators/staff/customers)



Recovery: Investigation and data recovery process, lessons learned documented and third parties engaged

MO®'s algorithm will offer scores integrated into the **Cyber Risk Business Function** within the **Your Systems** regulatory dashboard and offers tailored tasks and steers for firms to improve their understanding and scores in this critical area.

[Find out more](#)



[Training Videos](#)



[Blog](#)



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info@model-office.co.uk

Streamlined Regulatory Reports

- Heat mapped dashboard & tailored tasks
- AML/KYC/MiFIDII & PEP Sanctions checks
- Data Quality Health checks
- Advice Suitability Health checks
- Pension Transfer Health checks
- Financial Strength Health checks
- RegData – RMAR Returns
- AI text analysis to offer compliance policy document audits



All can result in lower PII costs and save compliance time + **CPD!**

The Optimum Wealth Management Model?



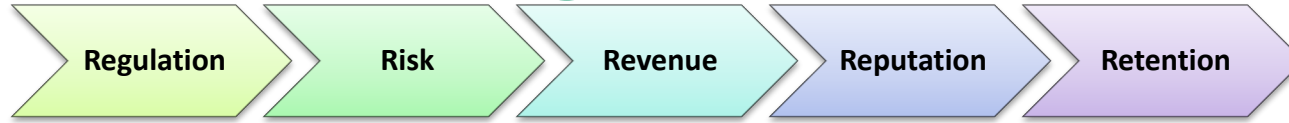
Financial Planning,
Coaching, Guidance
Auto Advice, Streamlined
Advice
Investment Management
Banking, Tax, Legal –
Professional services
RegTech and Support
Services

Practical Planning Point: Cost-Benefits

Type of Service	Costs	Benefits
<p>Cost of compliance is 11% of all revenues = £500,000,000</p>		
Compliance Officer	£60-100K pa	Available 35 hours per week, Hands on analysis
Compliance support service	£15-30K pa	Available 35 hours per week, Analysis via the Internet or Phone, Resource centre, Audits
RegTech	£2-15K pa	Available 24/7, Self audit, Dissemination of information across staff and departments, Identifies blind spots and learning needs, Integration with back office technology, streamlined regulatory reports, PII



Ask the Right Questions



What if we stay as we are?

Is it worth the investment?

How does it affect client relationships?

Will this affect suitability & appropriateness tests?

Will we use a different brand for the technology?

How can technology aid regulator/ staff/client engagement?

How will MiFID II play out?

How can we ensure financial, operational & cyber resilience?

Will we alienate staff & clients if we don't employ it?

Have we got existing resource to call upon?

Why change?

COVID19/BREXIT?



Summary

- Technology is an important enabler platform in supporting professional development
- The FCA and other authorities see RegTech as a key component to enhance its own watchdog capabilities
- RegTech delivers in the 2 key areas for professionalism: Competency & Conduct
- RegTech can benefit via streamlining activities and reporting requirements, savings costs and time, free staff and is one piece of the professional development jigsaw
- R&DD is required: Test KPIs, Integration works, Governance

Learning Objectives

1. Understand how regulators are applying technology
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 - ❖ Competence
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5. How to ensure that risk and compliance is managed by embracing the principles of Reg Tech
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Thank you

Dashboard My Account Logout

Empowered by **ENGAGEINSIGHT**
creative thinking



Home

Your Focus

Your Engagement

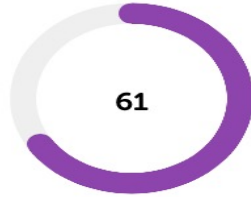
Your Promise

Your Systems

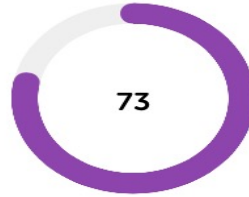
Your People

History

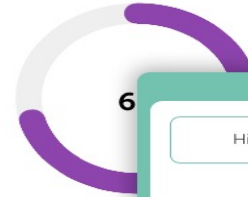
means you need to stay on your toes and ensure people are happy and in the right roles so that the business performs well, efficiently and effectively.



Your Score



Industry Benchmark



One Year

IMPROVING YOUR SCORE

Click on each business function below to provide more resource and context on each area MO assesses your compliance people development against and receive MO's guidance and dynamic steers to support your score improvement

Organisational structure ●	Induction programme ●	Competencies ●
Professionalism ●	Reward and recognition ●	Performance management ●
The Senior Managers and Certification Regime ●	Recruitment ●	Staff learning and development programme ●
Compensation and benefits ●	Staff engagement and feedback ●	Position descriptions ●

Compliance Chat ▼

Hi Chris, how can I help?

The SM&CR is a new framework to assess fitness, propriety, conduct and accountability standards for individuals holding responsible positions within financial service firms. The rules currently apply to PRA investment firms (banks and some insurers), but they will soon apply to all regulated firms. There are three main pillars: 1. Senior Managers Regime: Senior management functions apply to certain firms. Check out [SYSC](#)

Send a message...

