Regulatory environment post-Brexit should spark reset in compliance approach

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With the UK's post-Brexit regulatory transition in full swing, now is the time for wealth management firms to reassess their approach to compliance. As well as focusing on how to comply with regulations, wealth firms and advisers should be fundamentally reassessing and retooling their compliance functions and activities, and embracing more efficient and adaptable structures that will continue to deliver in this complex environment.

The potential benefits of this strategic approach begin with improved compliance effectiveness and can extend to building a compliance culture that is driven from the top down. Boards and management teams should consider the following four steps as they take a detailed look at their compliance approach.

1. Prioritise operational resilience

In March 2021, the Financial Conduct Authority (FCA) published new rules on how firms should approach operational resilience (PS21/3). Operational resilience has shot up the priority list for financial services regulators worldwide, and their focus is no longer confined to business continuity risk. With this in mind, and to meet this new-found regulatory scrutiny, firms in scope should be reassessing their approach to operational resilience.

This includes putting in place systems that will support the mapping and testing requirements which will come into force next year under the FCA's guidance. Firms will expected to identify and document the necessary people, processes, technology facilities and information required to deliver each of their business services. Prioritising operational resilience does not mean reinventing the wheel, but it will require the financial sector to approach operational risk in a more focused way.

2. Assess the strength of technology frameworks

Evaluating a firm's approach to compliance requires business leads to reassess compliance risks, a process that can be streamlined with the use of technology. Conducting analysis and facilitating prioritisation should be part of the risk assessment process, and technology frameworks must be evaluated and future-proofed. The current climate of unprecedented business and regulatory disruption has put new pressures on digital infrastructure, requiring firms to know their technology ecosystems inside out. A significant proportion of wealth managers and advisers continue to work with multiple legacy systems, or even multiple systems, which often involve a high level of manual processes for data management. These are time-consuming and prone to error, and will restrict firms' ability to become more agile and dynamic in the face of regulatory change.

3. Unify regulatory controls and processes to work smarter

Regulatory compliance has often been treated as non-strategic. Quick-fix measures — implemented tactically using the path of least resistance — have tended to lead to a lack of harmonisation across compliance functions. In the light of this, and given the increasing fragmentation between UK and EU regulatory reforms, firms should be identifying and leveraging the synergies within existing regulatory infrastructures to minimise capacity constraints and streamline compliance controls and processes. Firms can also work smarter by introducing artificial intelligence-led digital tools to improve control over processes such as client onboarding, screening, anti-money laundering and trade surveillance activities.

The use of automated tools can significantly reduce the required internal capacity for testing controls, and improve the effectiveness, speed and quality of compliance control testing activities, if implemented correctly. In particular, hyper-automation — the progression of various automation initiatives — has helped to achieve efficiency goals in data management across organisations, rather than limiting the simplification of tasks to one or two business functions.

4. Do not underestimate the importance of horizon-scanning

Despite continuing uncertainty about post-Brexit regulatory change, horizon-scanning will remain a critical part of the compliance function. Allowing the c-suite to evaluate and future-proof business processes through the lens of potential regulatory upheaval will keep wealth managers and advisers ahead of the game, ensuring a smooth(er) transition when changes need to be implemented. This should involve monitoring and planning for a General Data Protection Regulation (GDPR) upheaval in the UK.

Oliver Dowden, the then secretary of state for digital, culture, media and sport, may have reassured businesses that any reforms to the data protection regime will be common sense and reduce box-ticking, but as firms well know, GDPR touches every corner of business operations, and will therefore still require advanced and considered forward planning. This must be taken into consideration when undertaking compliance transformation programmes.

The integration of technology, processes and people is more critical now than ever, to help mature the compliance function and realign activity to meet businesses' ever-changing internal and external risk profiles. For some financial services firms, this transformation process will involve continual evolution, while for others it will represent a step-change approach.

The starting point may differ, but all wealth managers and advisers must be able to initiate change, and will need to adapt internal processes and functions to stay ahead of risk and regulatory change at this time of upheaval.

Complaints Procedure

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