

The 3 C's: The increasing focus

on Conduct, Culture, and Competence

presented by

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The Senior Managers and Certification Regime has now been implemented, at some level at least, across the vast majority of PRA and FCA regulated firms. There are still some corners of the market that are on the roadmap, such as Index providers for example, who are slated to be added towards the end of 2020. However, already most firms are starting to see the impact of the regime on their day-to-day business operations.

One key impact of the regime has been in the closely intertwined areas of Conduct, Culture, and Competence. This is an area that the FCA specifically called out as needing work in its [2019 Stocktake Report](#) of SM&CR implementations in banking. In this review the FCA said that 'there was insufficient evidence to be confident that firms have clearly mapped the conduct rules to their values'. The conduct rules include words such as integrity, skill, care, diligence, and fairness. The challenge then is for firms to demonstrate to the FCA how they have tied these requirements to their own strategic values and how this is translated into people management and training processes.

It is clear from their activity this year that despite the broad successes of SM&CR in improving accountability, culture continues to be a concern for the FCA. A number of discussion papers have already been released this year with titles such as, '[Transforming culture in financial services - driving purposeful cultures](#)', or their recent [Culture Assessment](#) webinar series. With responsibility for overseeing the adoption of a firm's culture in the day-to-day management of the firm forming one of SM&CR's prescribed responsibilities this also sits squarely with at least one senior manager.

That firms are wrestling with the adage that 'culture eats strategy for breakfast' has been borne out across repeated scandals in financial sectors. Individual behaviours at the coal face have been in stark contrast to the slogans and phrases announced in corporate strategy decks and marketing campaigns. A barrier to this is that senior managers have no early warning signals of poor behaviour as Enterprise Risk Management dashboards have struggled to define, measure and report on culture.

The solution to this is starting to appear at more progressive firms where a holistic approach is being taken. Lessons can be learnt from the retail banking and insurance sectors where high profile mis-selling cases have cost the industry billions in fines. In these instances, firms have been forced to merge conduct, culture, and competence together resulting in high level corporate goals being tied tightly to well defined key performance indicators. These organisations have mined data from CRMs, customer feedback forms, and client communication channels to sit alongside the already well understood financial and productivity data sets.

On the surface this might seem simple, but many firms have told us that there are considerable

challenges. In some cases, it has taken a total rethink of what performance means to senior and middle management teams. Cascading performance indicators through an organisation is no simple task and requires a high degree of transparency and organisation, and most importantly a flexible solution that can systemise your cultural, conduct and competence framework. In addition, integrating the many sources of data required is also a challenge. The benefits though are clear. Having clearly defined goals that are directly linked to both company strategy and FCA conduct rules is the first step to having a near-time view of cultural performance.

What we at Trailight are hearing from our customers is that at least in the short term there are some specific regulatory tasks that have brought these challenges and Training & Competence into sharp focus.

- The first of these is the need to provide strong evidence on competence and behaviours to inform Fit & Proper assessments particularly around the capability requirement for all staff in scope. Enabling evidence and results that a firm needs to robustly assess competence and capability to be integrated into F&P will be critical to success.
- Closely linked to this is the risk assessments and appropriate supervision that is required now that large numbers of staff are in Covid enforced remote working environments. For those firms that do not have a system that was built from the ground up to facilitate different approaches to supervision and to ensure collaboration across teams, internal processes are starting to creak under the additional administrative workload. A recent speech from the FCA's Director of Oversight made it clear that the move to home working should not be detrimental to good conduct or a firm's culture.
- And finally, with the FCA placing a heavy emphasis on pension transfers, including raising the bar on pension transfer specialist competence in the form of increased and much more onerous CPD requirements, there is a clear need for firms to be able to record, track and monitor adherence.

Trailight's [PRM \(People Risk Management\)](#) platform helps to manage all elements of staff performance and provides a centralised solution for managing competence and people risk. As organisations look to drive fitness and propriety across their firm, PRM provides the tools to create competence and capability frameworks and measure staff against these frameworks. This includes defining key performance indicators, setting supervision policy, driving and recording 1-2-1's, recording professional training and ongoing development, and providing a full audit history of all actions taken.

To find out more about how Trailight is helping our customers to manage the challenges with Culture, Conduct, and Competence please visit us at www.trailight.co.uk

