

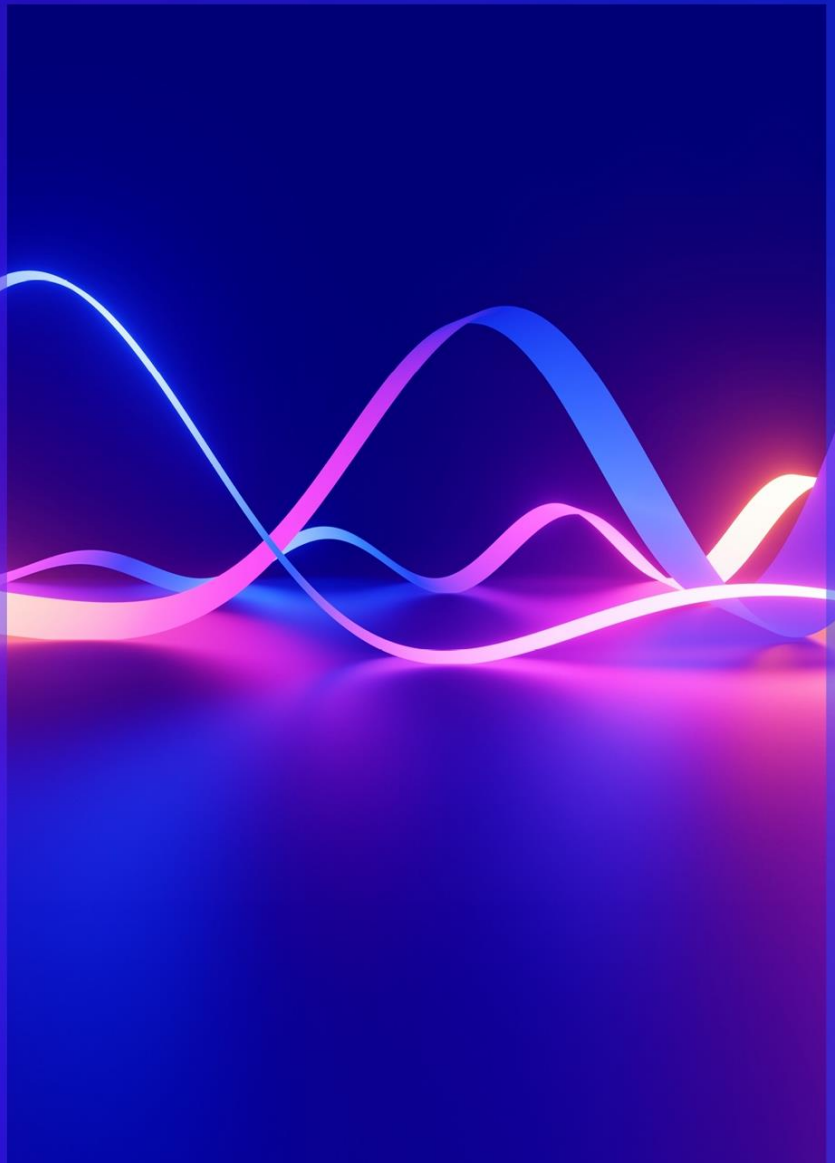


# Taking Charge of Financial Advice

Managing conduct risk  
by enabling insights and  
embedding resilience

February 2024

[kpmg.ie](https://www.kpmg.ie)



# Taking Charge of Financial Advice

## Introduction

In an era of unprecedented public and regulatory scrutiny, the need to address the very core of how financial services organisations take charge of how they provide Financial Advice is as pressing as ever and, in many ways, now faces a period of even more heightened challenge.

Globally, there is a recognition that more can be done within the wealth management industry in this regard, and this has been exacerbated by evolving regulation, tech-driven changes in how financial advice is sought and delivered, and heightened risks related to data, fraud and vulnerable customers.

Today, organisations are operating in a climate of volatility and uncertainty. Every day that goes by without an organisation properly addressing conduct failings or weaknesses, the risk of mis-selling increases.

Therefore, exposure to conduct risk has never been higher and the consequences of mis-selling and associated conduct breaches have never been more severe. In such an environment, cultivating a strong corporate culture and focus on good conduct from the top level all the way down through the organisation is key. However,

organisations don't always know how to tackle such a complex problem in a cost-effective way.

KPMG's solution will help organisations implement change, which will not only minimise their conduct risk and ensure they comply with evolving regulation and standards, but will also give them a competitive advantage and drive better and more sustainable outcomes for their customers.



# The Regulatory Imperative

At the forefront of this catalyst for change has been the perceived pursuit of short-term profit by organisations at the expense of basic standards of honesty and integrity. As a result, the increased focus on individual accountability and customer protection is seen as instrumental in rebuilding customer trust and confidence, in particular for those individuals responsible for safeguarding the future income and savings needs of customers.

In our experience, the organisations that succeed are those that have a proactive and coherent mindset to consumer protection with a sustained, consistent and focused effort deployed.

## Regulatory Spotlight



### Individual Accountability Framework (“IAF”)

- The IAF was enacted in March 2023 and has significantly enhanced the accountability and regulatory standards required for individuals performing pre-approval controlled functions (“PCFs”) and those that perform controlled function (“CF”) roles, such as Financial Advisors.
- The enhanced Fitness & Probity Regime also requires organisations to monitor and certify an advisors’ fitness & probity.
- In addition, amendments to the Central Bank’s Administrative Sanctions Procedure (ASP) removes the “participation link” between the conduct of an individual and an organisation’s wrongdoing to allow the Central Bank of Ireland (CBI) to pursue individuals directly for their misconduct.



### MiFID II

- Implemented in January 2018, MiFID II stipulates multiple requirements aimed at safeguarding potential clients, including Appropriateness Assessments which ensure clients have necessary knowledge and experience to understand the risks associated with specific products.
- In consideration of reasonable steps, organisations must have robust policies, procedures and controls in place (and be able to evidence these) to ensure MiFID regulations are adhered to when providing financial advice to customers.

## Investigations and Sanctions

Globally, there have been a large number of investigations and sanctions placed on individuals and organisations for failing to meet regulatory standards and expectations in respect of financial advice that has elevated the criticality of robust governance including tone from the top.

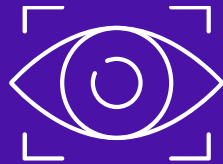
In Australia, the Banking Royal Commission highlighted that Financial Services organisations had failed to adequately review the work of their financial advisors and breaches went unnoticed. In addition, by 2022 six of Australia's largest financial services organisations had paid a total of \$4.7 billion in compensation to customers who suffered loss or detriment because of fees for no service misconduct or non-compliant financial advice.

On 15 February 2024, the Financial Conduct Authority (“FCA”) in the UK issued a request for information to a number of financial advisor organisations in respect of their delivery of ongoing services, for which their clients continue to be charged after advice has been given.

Historically, these investigations have identified a range of issues that have affected the level of stakeholder trust and confidence across our financial services market and have shed light on the importance of demonstrating and evidencing the reasonable steps taken to embed effective internal control systems that are complimented by championing culture and accountability throughout the organisation.



# Looking Ahead and Lessons Learned



At KPMG, we believe that the smartest businesses don't just manage conduct risk, they use Conduct Risk as a source of sustainable growth and market edge by differentiating themselves and gaining market share through integrating digitisation with client-centricity.

Legacy issues have directly called into question the integrity of our financial institutions with scandals still coming to light through multi-million euro remediation programmes continuing to compensate thousands of affected customers.

So how do you, as a organisation, rebuild trust and overcome reputational damage?

You show your customers that you have changed, that you have learned from your mistakes and that you are actively implementing measures to minimise the risk of conduct-related issues arising.

## Key considerations for firms

Recent scandals, along with increased regulatory scrutiny and the heightened risks related to data, fraud and vulnerable customers, means that the onus is on organisations now more than ever.

**They need to establish robust end-to-end processes and wide-ranging proactive & preventative measures within their organisation.**



**Data & Documentation** Does your organisation's data allow for robust processes around monitoring and identification of potential areas of concern? Is your legacy data and documentation archived adequately and is it easily accessible if lookback reviews are required?



**Monitoring and QA Process:** Can potential mis-selling be identified? What QA process is currently in place with regard to your product sales and provision of financial advice? Is it an ongoing and continuous QA process? Is it cost-effective, fit-for-purpose and does it account for updated legislation and increased consumer protection expectations?

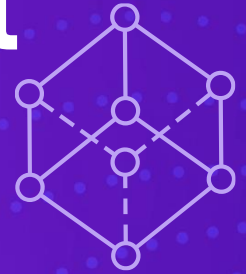


**Sales Process:** Does your current end-to-end sales process fully account for updated legislation and increased consumer protection expectations? Does it have steps in it that will prevent errors and prevent unsuitable products being mis-sold to a customer?



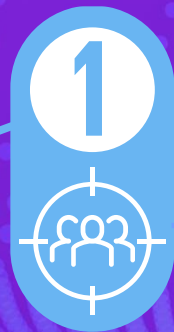
**Customer Vulnerability:** Does your organisation have sufficient processes in place to identify potentially vulnerable customers? What enhanced measures does your organisation and / or your sales process implement for customers identified as being vulnerable?

# Your Opportunity to Reset



## Our Financial Advice Framework

At KPMG, we have developed an innovative and multifaceted Financial Advice Framework that is underpinned by both quantitative and qualitative insights to empower organisations to achieve greater consistency and clarity when managing conduct risk, whilst enabling firms to adapt and respond to the complex and dynamic nature of consumer wealth, income and protection needs.



### Identify your current state

Why an organisation embarks on a transformation journey can be driven by many different factors, a desire to strengthen risk culture or to place an increased focus on innovation. Whatever the reason, the goal is to align good employee conduct and positive consumer outcomes with the organisation's strategy.

Transformational change must start with a deep understanding of the current state. In the Identify Phase, we will use a suite of qualitative and quantitative elements to uncover the current quality of financial advice provided through evidence-based review (i.e. a sample of suitability assessments and customer complaints) and employee engagement.

Here we will discover the drivers of both good and poor customer outcomes, and gain an understanding of the behavioural drivers underpinning advisor actions which need to be addressed in order to manage conduct risk.

### Navigate your "Hot Spots"

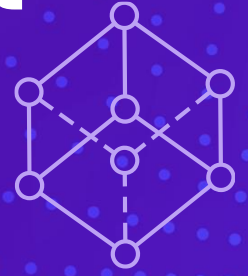
The Navigate Phase places an emphasis on understanding the context of "hot spots" that have resulted in poor customer outcomes after you have uncovered your current state.

This phase is a deep-dive into the activities of Financial Advisors and supporting processes and controls to understand if there is a systemic risk present across the behaviours and capability of your Financial Advisor base in addition to your control environment (e.g. fees for no service). It is also about determining if remediation is required and what action is needed to inform your future state.



# Your Opportunity to Reset

## Our Financial Advice Framework



### Instill and Transform

Instilling the change required is about closing the gaps and solving the “hot spots” where conduct and compliance are lagging when providing financial advice.

As transformation efforts can be broad and complex, mistakes can be made if we try to tackle everything at once. At KPMG, we recognise the critical importance of successful transformations.

Our solution equips you with the early warning signs using large-scale data models and AI methods and allows you to implement proactive and preventative measures; it encourages information sharing with purpose-built platforms and enables an enhanced understanding of the drivers of poor financial advice that increases the potential of operational and regulatory risks occurring.



### Embed and Sustain

Conduct risk and consumer needs require continuous effort in order to respond to emerging internal and external challenges.

When we know what is working well and your defined future state, we can work with you to embed a sustainable and preventative-focused assurance solution driven by both quantitative and qualitative input, using highly-automated data and AI methods.

Accelerated Change



# Our Powered Vision

Customer centricity is at the core of our digital solution. Our Financial Advice Framework is designed to help compliance teams and first line senior executives proactively assess and assure the effectiveness and suitability of financial advice provided to customers, including insights into both good and poor behavioural drivers across their Financial Advisor employee base.

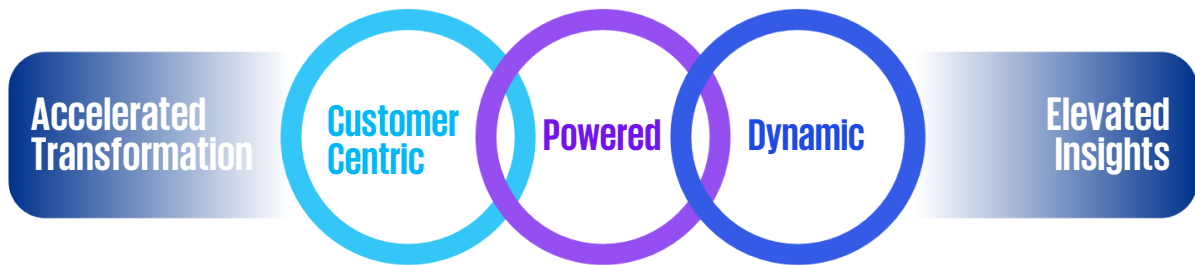
RegTech and the use of data and AI to investigate and proactively manage conduct risk has never been more critical for organisations; our solution will incorporate these elements to ensure the best possible outcome for our clients.

Our purpose-built tool works by ingesting various datasets held by an organisation in respect of their Advisor and customer base; this data will cover various customer-focused lenses, such as customer complaints, transaction / sales types (e.g., Execution Only, Advisory, Discretionary), customer demographics, commissions, and quality assurance records.

The data is analysed and interrogated using various methods and natural language processing

models, and output will be provided in the form of easy-to-use dashboards which will present any trends, anomalies and potential issues to organisations on an ongoing basis. This will allow for real-time and continuous assurance, enabling organisations to act fast with proactive resolutions to drastically minimise their conduct risk.

It will also arms organisations with a comprehensive understanding of their advisor and customer base. In turn, allowing them to take charge of their investment products, advisor base, and underlying control environment, to give them a competitive advantage and enabling them to drive sustainable consumer outcomes.



# Why KPMG

Our team is well-versed in the expectations of the CBI and has experience in leading large-scale regulatory change and remediation programmes.

We can help you identify where change is required, and to secure the greatest possible impact, ensuring that you are aligned to regulatory expectations.

In an ever-changing regulatory landscape, our deep expertise in risk, compliance and regulatory environments, coupled with our incorporation of RegTech, can deliver a unique and proactive solution to allow you to monitor compliance and identify trends or potential issues. In turn, providing faster and real-time insights to maximise efficiencies and consumer satisfaction, while minimising exposure to conduct risk.

## Contact us



**Shane Garahy**  
Partner,  
Risk Consulting  
KPMG in Ireland

t: +353 87 050 4848  
e: [shane.garahy@kpmg.ie](mailto:shane.garahy@kpmg.ie)



**Derek Hegarty**  
Partner,  
Law  
KPMG in Ireland

t: +353 87 111 5982  
e: [derek.hegarty@kpmglaw.ie](mailto:derek.hegarty@kpmglaw.ie)



**Rosalind Norton**  
Director,  
Risk Consulting  
KPMG in Ireland

t: +353 87 111 5982  
e: [rosalind.norton@kpmg.ie](mailto:rosalind.norton@kpmg.ie)



**Sean McAleer**  
Manager,  
Risk Consulting  
KPMG in Ireland

t: +353 86 127 4585  
e: [sean.mcaleer@kpmg.ie](mailto:sean.mcaleer@kpmg.ie)



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