
Stand out for the right reasons

The Senior Managers Regime: What it really takes to sleep soundly at night

The Senior Managers Regime has ushered in an era of very personal accountability. What can you do to ensure you're taking the 'reasonable steps' needed to do the right thing and safeguard your career and professional reputation?

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This is where the Senior Managers Regime really starts

The Senior Managers Regime has left many organisations with a concern that they could drown in paperwork. But paperwork alone won't ensure compliance as you'll be judged on the outcomes not the processes.

After years of planning and preparation, the Senior Managers Regime (SMR) has finally gone live in the banking and insurance industries and will soon be rolled out to the wider financial services sector.

As an organisation, you'll have prepared your 'responsibilities map' setting out who fulfils key roles and responsibilities. We've seen organisations going further by picking through the rules with a fine tooth comb to make sure they can tick all the boxes on a very lengthy checklist. But an overly legalistic and process-heavy approach only scratches the surface, and could actually be counterproductive. A number of recent events have provided clear examples of how senior executives didn't know what was really going on under the bonnet because they were putting too much faith in their 'green light' reports and not asking searching enough questions.

Where are we now? A banking perspective



- Banks have been approaching their planning and implementation strategies in **very different ways**
- Transformational activities for some have been significant

- Banks have now identified their list of senior managers and **made some operational preparations**
- Well prepared firms have recognised that roles and responsibilities need to be **clear and reflect how the bank operates in practice**
- Many banks are **setting up a small team, often under the CEO**, to ensure requirements are properly embedded and remain fit for purpose

- Senior managers must now consider if, and how, they will be comfortable with the relevant **governance, people, policies, processes and information aspects**
- Identified issues need to be addressed

For your business, the best way to look beyond process is to think about how you would operationalise the SMR (build doing the right thing into day-to-day decisions) and socialise the SMR (ensure people really understand expectations and have the organisational mandate, support and alignment to meet them). A lot of businesses and people within them find this approach empowering. But it does raise key questions including how can you be sure that the people assigned to the various roles are the right ones, understand their responsibilities and are doing what they're supposed to? Similarly, if an issue arises, what are the steps you would take to assess the seriousness and judge whether it should be escalated?

Reasonable steps

Clearly you can't provide a 100% guarantee against failures. Regulators recognise this by requiring you to take 'reasonable steps'. What that means in practice is that you'll have to think through and justify the rationale for your judgements, including who is assigned to a defined role, how they carry out their responsibilities and how they direct and oversee the people who can influence the key outcomes.

When you face an issue, the SMR expects you to take action and, where necessary, to challenge and to escalate concerns. That way, you can be confident that you're doing the right thing. For example, if you're the head of internal audit and you believe you need more people to oversee an emerging risk or compliance demand, but the CFO says no and then something does go wrong, you need to be able to demonstrate that you escalated your concerns to the audit committee as part of a thoroughly-evaluated risk-based internal audit plan. In turn, the audit committee should have reviewed the priorities and come up with a clear rationale for why one area is given precedence over another. The reasonableness of these steps is based on an appropriately assessed, endorsed and articulated rationale.

Common hurdles

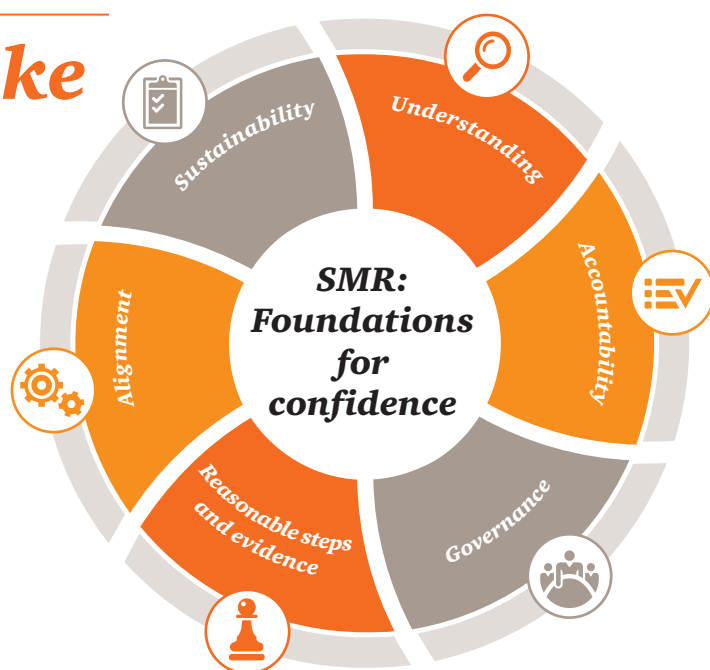
Our experience has shown that the SMR is highly personal. It's not always easy to determine where that personal authority and accountability reside or how they're executed within the matrix structures common within banks. How can you bring the necessary clarity and organisational alignment within this structure?

Implementation also requires careful management of the politics of each organisation. People typically don't like having the status quo or their authority challenged. Executives outside the UK may be reluctant to be brought into the net and entrenched siloes can make it hard to manage responsibilities that cut across functions, leading to gaps and overlaps in responsibility. These challenges highlight the extent to which the SMR impacts upon your operating model, and the importance of both top-down and bottom-up engagement across the organisation to resolve complex issues.

Ultimately, the SMR has a significant cultural dimension. Cultures that are focused on customer outcomes and welcome challenge are going to find the SMR much easier to implement and sustain. As a result, it's becoming increasingly evident that the regime should become part of a 'new way of working', rather than being seen as a regulatory tick box exercise.

What good looks like

How can you develop a framework capable of delivering the right outcomes and hence reducing the potential for nasty surprises? Drawing on our experience of working with a wide range of organisations, we believe that there are six key foundations for real confidence:



Understanding

It's important to get below the surface (the rules) to appreciate what regulators expect, the thinking behind the regime and what would need to change as a result (the spirit). Building the SMR into business as usual is a lot easier when people take the time to understand and engage with the spirit rather than just the letter of the SMR. This includes thinking about what the SMR means for their day-to-day work and its impact on the culture.

The allocation of responsibilities is often initiated by the Chairman and CEO and cascades down from there. Scenario analysis can be helpful in examining how responsibilities mesh together, validating who should take ultimate ownership, and identifying any gaps or issues. Training and communication are also valuable in developing the necessary understanding across the organisation, from top to bottom.

In thinking about outcomes rather than process, it's important to fit the changes into a new way of working, rather than this is what you need to do to comply with the SMR. By simply focusing communication and roll out on the term 'SMR', there is a danger of this becoming just another compliance exercise. Firms that are well prepared will be confident that individuals throughout the organisation can articulate what this regime means for them.

Accountability

You can delegate tasks but not responsibility. It's important to ensure that the people who input into the tasks for which you're responsible have the necessary time and competence to discharge their responsibilities. It's also important to make it clear who is responsible for what and how roles and responsibilities knit together.

Clear and actionable performance management will need to be in place to support this. Given the dependencies involved in execution, it's important to look at how to break down siloes and foster greater cross-functional collaboration and accountability. Organisations should be confident that personnel know who is accountable for what in a range of scenarios and that this accords with what is set out in the responsibility map.

Governance

The assignment of responsibilities is only part of the job. It's also key to ensure that decisions are made at the right level and that if an issue arises, the right steps are taken to assess the seriousness and take appropriate action. The development of an effective governance framework would look at whether your operating model and committee structures are set up to support the proper discharge of responsibilities and whether it's clear who does what across the three lines of defence. It would also help to avoid the need for multiple extra controls by developing a solid basis of organisation-wide understanding, management information and trust.

Non-executive directors play a crucial role. They are ideally placed to test whether the response to the SMR is fit for purpose by gauging engagement across the organisation and ensuring the key questions about the reasonableness of the steps and the underlying rationale are being addressed. Many firms have made both subtle and significant changes to their governing arrangements as part of their drive to enhance accountability.

Reasonable steps and evidence

In our experience, evidential adequacy is proving a difficult challenge. In order to have confidence, you need to show how you came to a decision, when and where it was discussed and what the rationale for your judgement was. This may require more note taking and recording of decisions, which might sound needlessly onerous. But if you're not confident, you can't expect anyone else to be. There are some excellent debates taking place on this topic, including consideration of proportionality, such that individuals are steadily becoming more comfortable in how they are choosing to evidence the moments that matter.

Well prepared firms have been looking at the scenarios for regulatory review and investigation. If an external party walked in, how would you demonstrate the role of HR and IT in action, for example? Similarly, how would you demonstrate organisational buy-in or the influence of the SMR on behaviour?

Effective and demonstrable ways to personalise the regime include 'Senior Manager Packs', which enable each individual to set out their personal view of how they manage their responsibilities and what are their reasonable steps.

Alignment

Regulators want the SMR to line up with business objectives and strategic execution – and a key test is whether ‘the words and music are aligned’. Practical examples would include ensuring that job descriptions, objectives and committee terms of reference align to relevant SMR responsibilities. SMR should fit with your organisation’s wider operating model. Senior Managers should also be on the same page in their understanding of how the SMR operates within your business and any activities that need to be undertaken to enhance it. Arguably the key test is whether the narrative and explanation of staff aligns with what the documentation indicates should happen in practice.

Sustainability

SMR is the new reality. You need to ensure that new people coming into your organisation understand the implications and that any changes in operating model take account of SMR requirements. If people coming in aren’t comfortable, they may be reluctant to take on defined roles, which could lead to organisational paralysis. In response, many banks are setting up a small team, often under the CEO, to ensure requirements are properly embedded and remain fit for purpose. Being confident that you have the appropriate technology in place to support you and ensure lessons are being learnt on an ongoing basis is important.

Bringing it to life

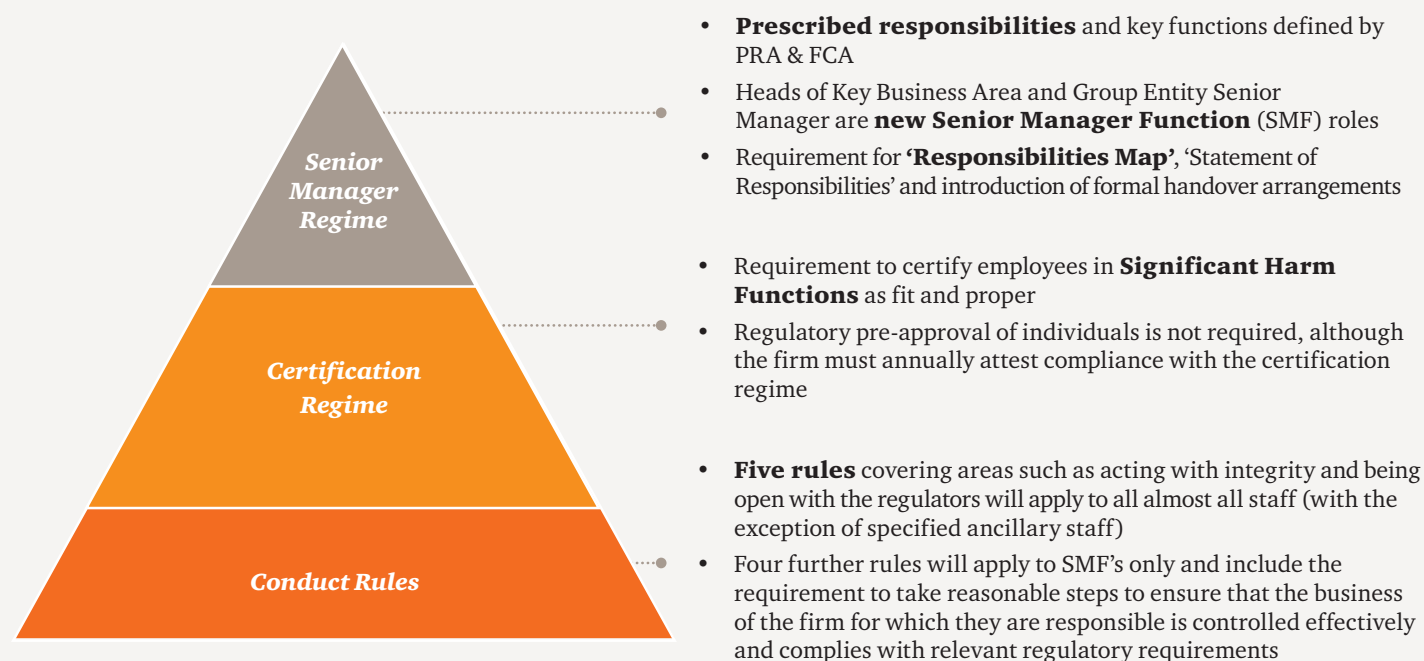
We understand the nervousness that exists in the marketplace – clearly you can’t do everything overnight. So how can you bring these components together to develop a joined up and assured approach?

We believe the starting point is to define the outcomes you want, which are most important and the steps to achieving them. By creating a hierarchy of priorities and setting out the reasoning behind the order in which you’re taking action, you can gain confidence that your overall response to the SMR is individually and collectively reasonable.

Functions need to work together. HR, Risk, Compliance and Audit all have a key part to play in building SMR into day-to-day working in areas ranging from job descriptions and performance management to the development of clear and effective management reporting, and many firms are clarifying or changing relationships across the three lines of defence as a consequence.



The new regime impacts almost all staff at deposit taking institutions, not just senior managers.
Key aspects of the new regime include:



Conclusion: Embedding the regime with confidence

The SMR seeks to boost personal accountability by putting the onus on you as an individual to demonstrate that you're taking reasonable steps to do the right thing.

The regime requires a high level of clarity and is already empowering individuals to challenge the status quo and debate issues that had previously remained untouched. Each senior manager needs to be confident with their personal narrative. The challenges come down to four very fundamental and personal questions:

What are your responsibilities?

How do you discharge them?

How can you be confident in your judgements?

How do you trust people to do the things that are done in your name and flow through to your area of responsibility?

The use of phrases like 'nowhere to hide' and the sanctions attached to the SMR, including the possibility of criminal

proceedings, have often elicited a highly legalistic and defensive response to the new regime. There is a risk that this results in an approach that is overly focused on process and controls, without any real confidence that nasty surprises aren't lurking below the surface.

We believe that embedding the regime will take time – it really is the start of a journey. By putting an objective and informed spotlight on these foundations everyone can be confident that they are playing their part in managing the risk of surprises and helping re-establish trust in the sector, as well as complying with the fundamental principles of the SMR. In fact, like any good culture of accountability, this is an opportunity to make sure that people across the organisation are mindful of their responsibilities and empowered to do the right thing. By concentrating on the

outcomes not the process, the rationale for what you do rather than just the controls that surround it, you can help to create a more informed and empowered organisation.

The resulting benefits go beyond simply satisfying regulators. You can create a more assured basis for decision making and enhance transparency, collaboration and customer-centricity within your organisation. You can also give employees more licence to capitalise on opportunities and embrace innovation, confident in the knowledge that they're taking proper account of the risks and customer impact.

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