



Financial Crime Competence

INSIGHT GUIDE

The First Line of Defence and the
critical role of employee competence
within the force multiplier effect



The Financial Conduct Authority (FCA) expect firms to be actively engaged in assessing and addressing competency-based risk associated with financial crime. Poor practice – as defined by financial crime risk guidance from the regulator – is often directly manifested by employees not being able to follow, understand or access relevant policies and procedures, financial crime competence not being regularly reviewed, reparative action not being undertaken, and risk identification processes being reactive, not proactive.



About this guide

With the FCA continuing to emphasise that fighting financial crime remains central to their priorities, we review the key takeaways from Sarah Pritchard's recent speech at The Financial Crime Summit – 1LOD in September 2022.

As one of the central themes of the speech was centred on the critical reliance of people and knowledge within the First Line of Defence to help counter the risks of developing financial crime threats, we examine recent feedback from compliance and risk professionals on where they feel they are failing to meet FCA expectations.

We also assess how effective current approaches to employee Training & Competency (T&C) are, evaluate the problems associated with the current 'default' model, and consider if firms are prioritising competence enough within their defence lines to make a meaningful contribution to the force multiplier effect.











About Elephants Don't Forget

We are world leaders in the use of Artificial Intelligence to optimise employee and business performance. We financially guarantee that regulatory training is learned and retained.

Organisations deploying our AI see sustained improvements in operational performance metrics including:

65% Average increase in employee competence	13% Improvement in First Contact Resolution	30% Reduction in people- based errors
20% Reduction in reportable complaints	40% Increase in speed-to-competency	7% Improvement in Customer Satisfaction

Resulting in overall improvements in key business areas pertaining to:

 Reduced operating and training costs	 Reduction in customers at risk	 Improved Net Promoter Score
 Improved customer retention	 Reduced information asymmetry	 Improved customer outcomes

Organisations we work with include:





The force multiplier effect

On 7 September 2022, Sarah Pritchard – Executive Director, Markets, at the FCA – gave a speech at the Financial Crime Summit – 1LOD at County Hall, London.¹

Ms Pritchard emphasised that fighting financial crime ‘underpins the FCA’s priorities’. One of the key tropes from her speech was the critical reliance on people and knowledge.

In Ms Pritchard’s words, ‘[the First Line of Defence] are the first responders and front line in the fight against financial criminals’.

Drawing an analogy between financial crime and Covid-19, Ms Prichard expressed that – like the virus – ‘[financial crime] mutates to evade destruction, criminals seeking to cash out and carry out financial crime are ever-changing – they will adapt to exploit new weaknesses in the financial system and will constantly vary their tactics when targeting the vulnerable for fraud.’

Curtailling Covid-19 was reliant on a number of actions and efforts. The response to the pandemic was – and remains – agile, relying upon the continued expertise of a diverse group of skilled, knowledgeable and vigilant individuals.

What parallels did Ms Pritchard want firms to draw from this analogy? Fundamentally, firms were reminded of the necessity to ensure they remain responsive and collaborative in their approach to tackling a complex and ever-evolving enemy.



1: <https://www.fca.org.uk/news/speeches/fighting-financial-crime-force-multiplier-effect>



The FCA expect financial crime to become even more prolific during the cost-of-living crisis, with some reports suggesting that ‘seven in ten people have been targeted by scams in the past three months’² as con artists try to exploit this period.

In the FCA’s opinion, the most effective way to get ahead of this new wave of financial crime is the force multiplier effect; characterised by the approach of ‘being alert through joined up action and joined up intelligence.’

For the FCA, one of the key components within the force multiplier effect is the critical reliance on professionals within the First Line of Defence being ‘alert to red flags and using their human knowledge and instinct to interpret the clues from conversations and customer behaviour’ to combat threats.

The FCA’s own approach to contributing to a collectively healthy system of fighting financial crime also illustrates the growing pressure on firms to evolve ineffective controls and be amenable to exploring the role that technology can play. The regulator itself is becoming more data-driven in its approach in order to respond to the growing and evolving challenge of fighting financial crime.

The key message for the expectation of firms was directive: ‘embed your financial crime checks in your systems from day one, but keep evolving as the threats evolve. Use the power of data and tech, and stay alert for situations in which you may need to recalibrate your defences and alerts.’

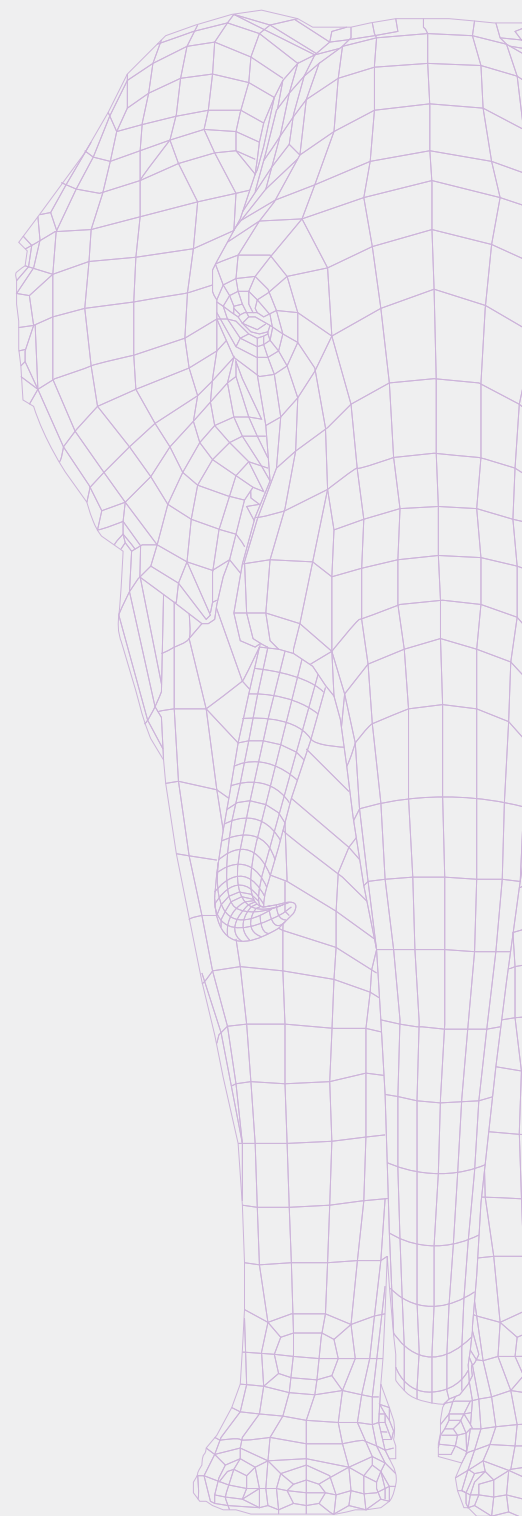
‘Thinking ahead and acting at pace’ is positioned as the key to foiling crime and threats before they exponentially increase. Indeed, Ms Pritchard asked those gathered at the summit: “[a]s you all sit here today, have you asked what your firm is doing to calibrate your financial crime controls to changing risks in the cost-of-living crisis? How are your firm’s customers likely to be impacted, and is your firm doing enough to raise their awareness of crimes such as APP fraud, pension scams and ghost broking so they are not easily exploited?”

It was acknowledged by Ms Pritchard that ‘we need a whole new system to effectively limit the threat’ of financial crime. Subsequently, there is now more of a significant focus towards helping firms understand and harvest the value of using real-time data to help mitigate threats.

At the time of writing, it was noted that the FCA are currently in the process of evaluating technology solutions that could help prevent APP fraud in real-time, as well as exploring ways that the sector can share insights to spot fraud at source, for example.

As Ms Pritchard concluded: ‘...we cannot leave crime spotting to legal, compliance or other experts. Fighting crime should never be left to one body or one team within an organisation. It takes action and vigilance.’

Yet, just how far are firms prioritising real-time financial crime competence of their First Line of Defence to contribute to the force multiplier effect, and can the ‘default’ approach to Training & Competence (T&C) provide the metrics that firms really need?



2: <https://www.independent.co.uk/life-style/scams-cost-of-living-crisis-warning-b2157587.html>



Feedback from the frontline

Where do firms feel that they are not meeting FCA expectations?

In May 2022, we polled 299 compliance and risk professionals who attended our webinar: [In Controls We Trust: Lessons from Recent Financial Crime s166 reviews](#).

The top three areas where firms stated they were currently not confident they were meeting FCA expectations were associated with articulation of financial crime risks and controls, lack of real-time data to manage risks, and delivering training to help identify and manage future threats.

Firms are aware that the FCA expect them to be actively engaged in assessing and addressing competency-based risk associated with financial crime. Poor practice – as defined by financial crime risk guidance from the regulator – is often directly manifested by employees not being able to follow, understand or access relevant policies and procedures, financial crime competence not being regularly reviewed, reparative action not being undertaken, and risk identification processes being reactive, not proactive.

Top three areas where firms feel they are not meeting rising FCA expectations to meet the demands of combatting financial crime threats:*

Ensuring senior managers can articulate the risks and controls in a consistent manner.

68%

Putting in real-time compliance monitoring to validate employee competence levels.

66%

Designing and delivering training to manage risks, issues and identify future threats.

38%

*Poll results based on 299 responses. Multiple selection allowed.



Firms must employ staff who possess the skills, knowledge and expertise to carry out their functions effectively. They should **review employees' competence and take appropriate action to ensure they remain competent for their role**. Vetting and training should be appropriate to employees' roles.

- FCA, Financial Crime Guide: A firm's guide to countering financial crime risks (FCG)



The role of competence in the force multiplier effect

Is your approach to employee Training & Competence (T&C) increasing your risk?

Research shows that 45% of final notices issued by the FCA in 2021 identified deficiencies in firms' training programmes, highlighting a reliance on inadequate or a 'one-size-fits-all' approach to training employees, or a culture where employees did not complete mandatory training.

In addition, 100% of final notices issued involved criticisms of their policies and procedures, specifically highlighting how firms' employees failed to comply with internal policies and procedures, how firms failed to monitor compliance with these, and/or failed to take adequate action to address known instances of non-compliance.³

With the FCA's continued focus on ensuring that firms adequately support their First Line of Defence to stay alert to the challenges and risks posed by financial crime in order to protect markets and consumers, firms

now also have the additional challenges of the Consumer Duty to factor in. There has never been a greater reliance on individual employees to know and understand how complex legislation impacts them in their specific role and the duty of care they have to customers in discharging those duties. They – perhaps your most junior employees – represent the First Line of Defence for your business and, in most cases right now, this “defence” is an illusion, not a reality.

We know this because, last year, our AI managed more than 100 million individual competency interventions, many in firms just like yours, where initial levels of individual in-role competence and knowledge was just 54%. Meaning, on average, employees knew about half of what their employer needed them to know. The reality is that the 'default' approach to employee training is delivered, often via e-learning, in a single-point-in-time,

one-size-fits-all method, concluding with a 'test' which often allows the employee multiple chances to re-take until they achieve the desired pass mark. Although training has taken place, this 'pass mark' is only representative of a single-point-in-time competence level.

Using this approach also makes it difficult to embed training, as content is generally based on theory with little or no focus on how it translates into competence and retained in-role capability.

So, whilst it may provide a level of comfort to firms to know that the 'training box has been ticked', it does not enable them to assess ongoing competence of critical regulatory subjects for individual employees within a realistic timeframe to capture oversight of all threats and mitigate unnecessary exposure to regulatory risks.



The “tick box approach” is a sub-optimal model to meet the FCA requirement of maintaining in-role employee competence.



There is no meaningful management information or risk indicators to provide to the board and SMFs.



It is difficult to embed training, content is generally based on theory with little or no focus on competence & in-role capability.



Compliance is not front of mind for all employees, exposing firms to unnecessary regulatory risk.



Employee compliance is not standardised, which is difficult to future proof and accommodate growth.



Compliance fatigue, which makes creating a culture of compliance even more difficult for firms.

3: <https://www.allenoverly.com/en-gb/global/news-and-insights/publications/fca-and-pra-enforcement-action-trends-from-2021-and-predictions-for-2022>



Introducing our continual assessment approach

How our Artificial Intelligence solves these challenges

Our award-winning AI – Clever Nelly – shows firms the unique and accurate competency profile for each employee in real-time.

Using your existing training content, Clever Nelly continually assesses and automatically repairs employee competence relating to key areas of financial crime through the deployment of individual, scenario-based, daily micro-assessments that take less than two minutes per day to complete. These are deployed via email, smartphone app and Microsoft Teams, ensuring employees can engage with their regulatory training from anywhere in the world with minimal effort and disruption to BAU.

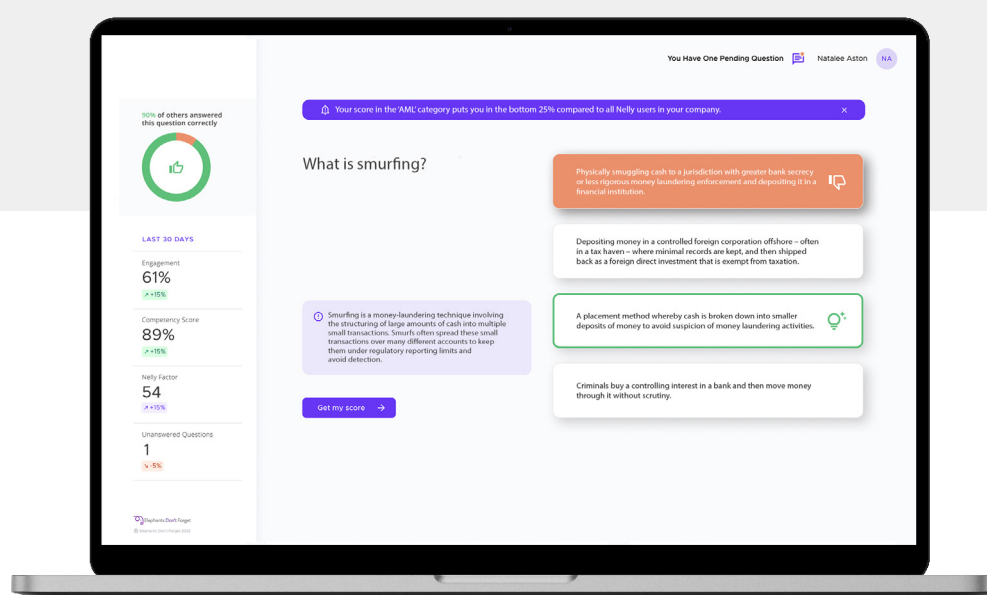
Our MI dashboard provides firms with an on-demand way to proactively and continually

assess the people-based competency risks within their enterprise, provide best-in-class evidence of this to the regulator if required, and make data-driven targeted interventions to significantly reduce people-based risk within their organisation. Through our continual assessment methodology, firms are able to continually ensure that their employees are competent in relation to evolving financial crime risks.

Firms using Clever Nelly – which includes five of the top ten UK General Insurers – are also able to proactively demonstrate to the regulator that financial crime competence is a key operational priority driving customer outcomes. Clever Nelly treats every employee as an individual – automatically repairing role-specific knowledge gaps

in the flow of work with no disruption to business as usual – whilst highlighting where immediate reparative action is required to mitigate people risk when an employee's knowledge is found to be below expectations of the firm. Our approach is preferred by 90% of employees when compared to the traditional 'default' approach to workplace training.

Assessment questions can also be seamlessly linked to a firm's existing knowledge base, making it simple for employees to quickly locate specific subject, policies and procedural training documentation to refresh their understanding of required regulatory topics, ensuring firms continually maximise ROI from their regulatory training programmes.





The benefits for compliance, risk and senior management

Access the MI you need to develop the behaviours you want

In order to effectively detect, assess, prevent, and respond to financial crime, firms should consider a more strategic and holistic risk management approach.

Failure to prevent or detect issues arising from the workforce is often not because the training content or controls themselves are lacking. More often, it is a failure of culture, engagement and effective oversight. For example, senior management may not be setting a strong or consistent “tone from the top” about acceptable and unacceptable behaviours, firms may not pay enough attention to gaining buy-in and engagement from the First Line of Defence for new policies or processes, or staff training and awareness efforts may be failing to land due to compliance fatigue.

To develop a robust infrastructure to prevent financial crime, its effectiveness is dependent on execution; on individuals putting their training into practice and following prescriptive processes and procedures at the right time. Clever Nelly enables firms to gently and continually nurture and improve those appropriate competencies and behaviours.



Our continual assessment approach supports a proactive, top-down and evidential culture of improving competence to mitigate the threat and risk of financial crime, ensuring that your employees retain what you require them to know.



We provide real-time, meaningful and objective people-risk MI, with best-in-class reporting available on-demand.



We significantly reduce regulatory training costs and the need for annual refresher training by up to 50%.



We ensure people-based risk identification processes are proactive, not reactive.



We accelerate the speed-to-competency of new recruits in customer-facing positions, enabling firms to generate maximum ROI from training new employees and mitigate the risks associated with people-based errors.



Nelly guarantees that **all our people have learned what they've been trained**. From a compliance perspective, I would find it very difficult to evidence where our knowledge and competency was without it.

Claire Moore
BNP Paribas Personal Finance



FCA guidance on best practice: checklist

Using the FCA's examples of poor practice from their Financial Crime Guide, how does Clever Nelly support firms to meet the regulator's expectations and requirements?

FCA poor practice guidance

- "There is little evidence of senior staff involvement and challenge and practice."
- "A firm concentrates on narrow compliance with minimum regulatory standards and has little engagement with the issues."

- "There is no meaningful record or evidence of senior management considering financial crime risks."

Benefits of our approach

Deploying Clever Nelly provides senior management with the ability to set the right tone and demonstrate leadership on financial crime issues to their employee base. It supports the good practice recommendation from the FCA on ensuring that a firm has a strategy in place for self-improvement on financial crime, something which the regulator notes would help them to "draw comfort from seeing evidence that these practices take place." It raises focus on ensuring employees are continually aware, engaged and tested on required regulatory topics, demonstrating a move away from narrow compliance.

Clever Nelly provides continual, real-time evidence of people-based competency risk for senior managers, giving them comfort in the knowledge that they can proactively see where risks could/are developing in real-time and can take immediate reparative action.



FCA poor practice guidance

- “A firm has no strategy for self-improvement on financial crime and issues are dealt with on a purely reactive basis.”

- “The firm makes no effort to understand or address gaps in its financial crime defences.”

- “MI does not help senior management to understand the financial crime risks in which their firm is exposed.”

Benefits of our approach

Whilst highlighting people-based risk for immediate human intervention, Clever Nelly proactively and continually repairs individual knowledge gaps in the flow of work on your behalf, consistently supporting a strategy of proactive self-improvement.

Clever Nelly provides a holistic way to see all competency related financial crime issues in your enterprise at a granular level at the touch of a button and ensures you can continually mitigate people-based risk across your defence lines.

As the regulatory landscape shifts and your products and services develop, Clever Nelly enables compliance and senior management to quantify new competency-based risks in real-time, support buy-in and engagement with new policies and procedures, and continually reduce risk of exposure from recurring people errors.



FCA poor practice guidance

- “The firm fails to check whether policies and procedures are applied consistently and effectively.”

- “The firm fails to identify training needs.”

- “New staff in customer-facing positions do not receive financial crime training tailored to their role before being able to interact with customers.”

Benefits of our approach

Clever Nelly gives firms the unique ability to raise awareness – and employee engagement – of multiple compliance programmes, enabling them to assess policy and procedural knowledge at macro employee level to mitigate risk and error.

By applying the principles of spaced learning, repetition and self-testing, Clever Nelly enhances memory recall and embeds behavioural competencies.

Clever Nelly shows you where immediate training interventions are needed in real-time whilst gently and permanently repairing role-specific knowledge gaps on your behalf.

Clever Nelly enables firms to reinforce, assess and automatically improve the knowledge of new recruits, reducing the time it takes for new starters to achieve the required level of in-role proficiency, further mitigating risk whilst generating maximum ROI from regulatory training.



We **financially guarantee** that workplace training is learned and retained

From analysing over 100 million individual employee knowledge interactions in some of the world's leading brands, we know that the average pre-intervention level of employee knowledge and competence is just 54%.

This means that, on average, employees only know half of what their organisation needs them to know to optimally perform their job function. Over the last decade, we have established ourselves as world leaders in supporting organisations around the world to combat the detrimental impacts of employee knowledge fade, optimise and evidence competency, and improve organisational performance.



Validate competence

Baseline and quantify the knowledge profile of every employee. See, in real-time, what your people are retaining from their workplace training.



Optimise & evidence competence

Automatically and permanently repair individual knowledge gaps in the flow of work in less than two minutes per day. Continually ensure your employees are evidently competent in their role.



Mitigate people risk

Proactively manage your employee-based risk. Ensure that your employees are working to your current operational processes and priorities, and significantly reduce people-based risk and repeat errors in your enterprise.



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