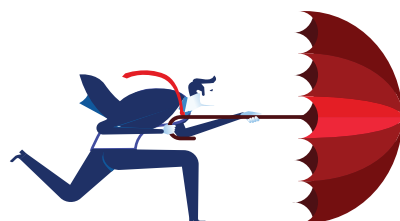


# Strategic Risk Committee Report 2018





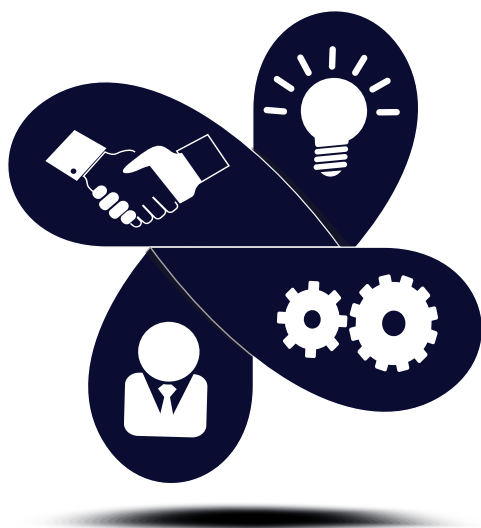
# Strategic Risk Committee Report 2018

## Chair's Foreword: Judith Worthington



*"In 2018, the Committee has been pleased to support the team in moving forward with several key areas, helping shape the approach to risk. We have helped set standards on risk for licensing, regulatory switching, anti-money laundering and education standards in 2018. I was delighted to welcome Sam Younger, chair of the CILEx Regulation Board, to one of our meetings, and then to meet the other CILEx Regulation Board members later in the year. This continues to be an exciting time for CILEx Regulation and we look forward to supporting the team in 2019."*

## Introduction



- ✓ CILEx Regulation operates an outcomes-focused, proportionate and risk-based approach to regulation
- ✓ It is designated to authorise both individuals and entities
- ✓ This report outlines the work undertaken by the Strategic Risk Committee in relation to risk in 2018
- ✓ It also identifies areas for development of our risk-based approach to regulation

## The functions of the Strategic Risk Committee



The Strategic Risk Committee provides an oversight function for the review and application of CILEx Regulation's risk framework and how this should be applied to our authorisation processes. In addition, it can consider and decide whether to endorse decisions to reject or revoke authorisation for CILEx Regulation's firms.

The committee is made up of five members, comprising both Lay and Professional members, all of whom have helped support CILEx Regulation in its work during 2018. This year saw the appointment of Judith Worthington as the new chair and new terms of reference were approved, which extended the scope of the committee to include anti-money laundering and risk-based supervision of regulated individuals.

During 2018, the CILEx Regulation Board met with members of the Strategic Risk Committee to discuss future opportunities for informing their work.

# Strategic Risk Committee Report 2018

## Individual supervision



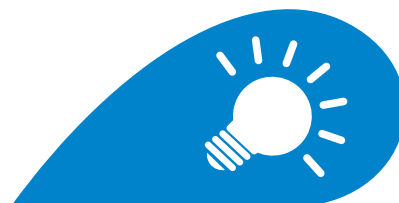
Following the decision that our risk-based approach to individual supervision should be enhanced, 2018 was the first year that the role of the Strategic Risk Committee was extended to include individuals as part of the work that it carries out.

The new terms of reference were adopted enabling the Strategic Risk Committee to advise CILEx Regulation on the development and monitoring of risk in relation to the authorisation and supervision functions at CILEx Regulation for both regulated individuals and authorised entities.

In 2018 CILEx Regulation commenced the work on a practitioner risk matrix for integration with the CRM system. This will take into account the area of practice in which the individual works, the type of practice in which the individual works (e.g. regulated firm) the nature of the work undertaken (e.g. advocacy) and the type of consumer to which legal services are delivered (e.g. vulnerable consumer).

The Strategic Risk Committee reviewed the draft risk matrix and risk framework providing recommendations on how CILEx Regulation may move forward with a better assessment of the supervision an individual may require.

Once the risk matrix was finalised, they recommended that CILEx Regulation proceed with a test of its application, with the results to be reviewed in early 2019.



## Areas for development

CILEx Regulation will involve the Strategic Risk Committee in the outputs following the testing of a sample group of members and then the integration of the practitioner risk matrix with the new CRM system. This will include a review of the assessed levels of risk post implementation and input in to how CILEx Regulation can structure appropriate levels of supervision, based on that risk assessment.

The consultation on new education standards, which included our approach to future supervision for criminal advocacy was launched in December 2018 and the Strategic Risk Committee will be involved in the oversight work to take this forward in 2019.

# Strategic Risk Committee Report 2018



## Entity authorisation and supervision

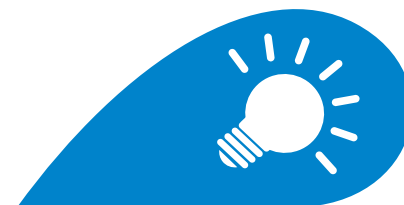
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Whilst the Strategic Risk Committee was not directly involved in the review of any entity authorisation decisions, it again continued to play a key oversight role in 2018. It conducted a quality assessment review of the application process to ensure that the risk frameworks are being applied correctly and received a report on the risks identified for applicants, and entities at the time of their annual return.

CILEx Regulation extended the oversight function of the Strategic Risk Committee to cover decisions relating to licensing of ABS, to maintain a consistent approach to decision making for non-ABS and ABS. New rules for the Strategic Risk Committee were approved by the Legal Services Board as part of the Licensing application.

The Strategic Risk Committee commenced work on the development of the risk framework both for ABS and for established firms looking to switch regulator to CILEx Regulation. This work will continue in to 2019.

The Strategic Risk Committee were involved in the work on new rules to aid consumer transparency, as well as the supporting guidance to help firms in providing the required information to consumers.



## Areas for development

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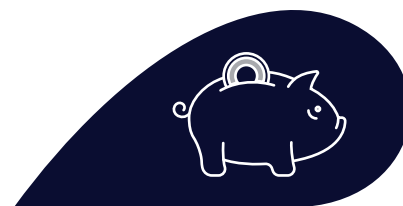
The Strategic Risk Committee will continue its work on the development of the risk framework for ABS and for established firms looking to switch regulator to CILEx Regulation.

They will assist and guide the development work on how we communicate our approach to different types of applicant firms including ABSs, ensuring that we are assessing all risks carefully and encouraging applications from those firms and businesses that are our core market.

# Strategic Risk Committee Report 2018

## Anti-money laundering

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The implementation of the Money Laundering Regulations 2017 and the setting up of the Office for Professional Body Anti-Money Laundering Supervisors (OPBAS) saw a greater focus on the supervisory activities of the Professional Body Supervisors, including CILEx, and CILEx Regulation in its delegated function.

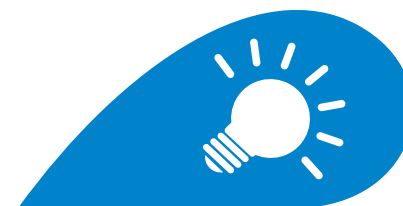
The Strategic Risk Committee assessed the new AML risk matrix and proposed changes prior to the adoption of the approach to proactive supervision of those falling under the Money Laundering Regulations 2017.

The intention is that the framework will be programmed into the new CRM so that a risk rating can be applied to entities and individual practitioners.

They also provided an oversight to the AML work of CILEx Regulation with OPBAS.

## Areas for development

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In 2019 the Strategic Risk Committee will continue to provide oversight on our anti-money laundering activities, including the messages that are communicated to supervised members and firms. This will include a review of the application of the AML Risk Matrix.

The progress that CILEx Regulation makes against the areas identified for action following the OPBAS visit will be overseen by the committee.

# Strategic Risk Committee Report 2018



## Analysis of Equality & Diversity data for applicant firms

We have reviewed the diversity data for entity authorisation applications processed up to the end of 2018, in relation to gender and ethnicity, to consider the overall impact of decision making on a number of groups with protected characteristics. (It should be noted that due to the systems in place prior to an applicant submitting an application, there were no refused applications and therefore findings may be of limited value.)

- ✦ There were twice as many female (66%) entity owners than male (33%) and this trend appears to be continuing in early 2019.
- ✦ That gap narrows slightly when considering the number of female (63%) approved managers across the firms to male (37%) approved managers.
- ✦ The favoured model is a Limited Company although we continue to see applications to operate as a sole trader.
- ✦ The majority of entity applications are from white applicants.
- ✦ To the end of 2018, there are three firms with owners from a BAME background (20%) compared to twelve from a white background (80%).
- ✦ This will continue to be monitored for 2019.



## Conclusion

We expect the work of the Strategic Risk Committee in 2019 to continue to be mainly focused on guiding the development of our policy on risk relating to individuals and firms. However, as the work of the Strategic Risk Committee develops, we anticipate a more statistics based report demonstrating the detail of the Committees work will be introduced in future years.

In 2019, the work of the Strategic Risk Committee in relation to the strategy on supervision of regulated individuals will be influenced by the timetable for implementation of the new CRM system and the progress with education standards.

Working with the Strategic Risk Committee, CILEx Regulation will continue to develop its risk frameworks, which underpin the authorisation and supervision of entities, including the key area of Anti Money Laundering, incorporating the additional risks posed by ABS licensing and firms switching regulators

The Strategic Risk Committee will be supporting CILEx Regulation with its plans to improve its communication of its approach to authorisation to applicants.