

# Strategic Risk Committee **Annual Report 2019**



## Chair's Foreword: Judith Worthington

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As this annual report demonstrates, in 2019 the Strategic Risk Committee has focussed on the further development and refinement of CILEx's risk-based approach to authorisation and supervision of individual practitioners and entities and continued work on the risk framework for alternative business structures (ABS). We have refined the practitioner risk matrix in readiness for integration with the CRM, which will be a welcome development in 2020. We have supported CILEx Regulation in identifying the need for and ensuring clarity, for example through the website, for potential applicant firms and businesses.



We have provided oversight to CILEx's anti-money laundering (AML) work and monitored the organisation's very positive progress in implementing the Office for Professional Body Anti-Money Laundering Supervisors (OPBAS) action plan. Throughout the year the committee has been grateful for the dedicated support of David Pope and his team whom we look forward to continuing working with on our ambitious programme for 2020.

## Introduction

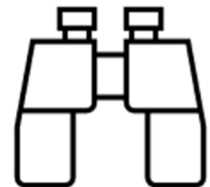
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- CILEx Regulation operates an outcomes-focused, proportionate and risk-based approach to regulation
- It is designated to authorise both individuals and entities
- This report outlines the work undertaken by the Strategic Risk Committee in relation to risk in 2019
- It also identifies areas for development of our risk-based approach to regulation

## The functions of the Strategic Risk Committee

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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 2019. They are Judith Worthington, Andy Burman, Kim Painter, Sarah Ryan and Vicky Smith. The committee met with the CILEx Regulation Board in February.

## Individual Supervision

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Following the initial work in 2018 on a practitioner risk matrix for integration in the CRM system, the Strategic Risk Committee reviewed the test sampling of the practitioner risk matrix that had been carried out and supported its adoption within the CRM system. As work on the CRM commenced, they then reviewed changes that were necessary to automate the collection and assessment of data, ensuring that the risk assessment remained appropriate.

They fully supported the introduction of the practitioner risk matrix as a key driver for appropriate and risk based supervisory activities for individual members.

## Areas for development

CILEx Regulation will involve the Strategic Risk Committee in the integration of the practitioner risk matrix within 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 work on new education standards, which included our approach to future supervision for criminal advocacy, was progressed in 2019 and should now conclude in 2020. The Strategic Risk Committee will be involved in the oversight work.

## Entity Authorisation and Supervision

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Whilst the Strategic Risk Committee were not directly involved in the review of any entity authorisation decisions in 2019, it continued its positive impact in delivering its key oversight role. In its role as a quality assessor, it conducted the annual review of the application process to ensure that the risk frameworks are being applied correctly. It received the second report on the risks identified for applicants, and entities at the time of their annual return, and this is now used with attendees at the annual entity event.

The Strategic Risk Committee had identified that applicants would benefit from greater clarity at the outset on the types of firms and business models that CILEx Regulation was looking to authorise. This was particularly important with the designation of CILEx as a licensing authority. The committee were pleased to approve a new document 'Approach to Applicant Entities seeking authorisation by CILEx Regulation' and recommended a one-page summary to approve accessibility.

The Strategic Risk Committee continued work throughout 2019 on the development of the risk framework for both ABS and for established firms looking to switch regulator to CILEx Regulation.

The Strategic Risk Committee were advised of the progress with compliance with the new consumer transparency rules. They also reviewed changes to the website related to the Entity work and sought clarity on the progress with the new CRM and how that would positively impact on applicants and the assessment of risk.

## Areas for development

The Strategic Risk Committee will continue its watching role on the implementation of the CRM and how that impacts on Entities and the assessment of risk.

In 2020 the CMA will carry out a review of the progress made on improving transparency. The Strategic Risk Committee will be involved in:

- our approach to the next area(s) of law that the CILEx Regulation Transparency rules are extended to, and
- considering what indicators of quality will best assist consumers in making a choice of legal provider.

They will provide an oversight to our work in becoming a Designated Professional Body under the Financial Services and Markets Act 2000 and work related to firms seeking to carry on claims management activities.

## 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) has seen 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 has continued to provide a valuable oversight to the AML work of CILEx Regulation, including the progress that CILEx Regulation has made in 2019 in addressing issues on supervision that OPBAS identified.

They have been informed of the wider supervisory activities that have been carried out including work related to the National Risk Assessment, Intelligence sharing and law enforcement activities. They reviewed the data showing the positive involvement for the first time of CILEx Regulation in the Flag It Up campaign and how the message about the risks of Money Laundering were being communicated to the membership and firms.

They also saw the publication of the first AML Supervision report in 2019. This will be a future requirement for all AML supervisors under the new regulations.

They continued to provide input to the AML Risk Matrix, which will be programmed into the CRM so that a risk rating can be applied to entities and individual practitioners.

### Areas for development

In 2020 the Strategic Risk Committee will continue to provide oversight on our anti-money laundering activities, and the progress that CILEx Regulation makes against the outstanding areas identified by OPBAS visit in their action plan.

They will wish to see the integration of the AML Risk Matrix within the CRM and to then review how this can aid the approach to supervision.

We will wish to involve them further in the outputs from the 2020 National Risk Assessment and how this should be communicated to individuals and firms.

## Analysis of Equality and Diversity Data for applicant firms

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We have reviewed the diversity data for entity authorisation applications processed up to the end of 2019, 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.)

- ⇒ This year saw a continued increase in applications from female (83%) entity owners than male (17%). We do not believe that level is expected to continue in 2020.
- ⇒ For the authorised firms at the end of 2019, there are more female (70%) entity owners than male (30%).
- ⇒ The applications to be an approved manager in a firm in 2019 show more female (86%) approved managers to male (14%) approved managers.
- ⇒ For the approved managers at the end of 2019, there remain more female (67%) than male (33%).
- ⇒ The favoured model remains a Limited Company although we continue to see applications to operate as a sole trader and have our first Limited Liability Partnership.
- ⇒ The majority of entity applications continue to be from white applicants
- ⇒ To the end of 2019, there are five firms with owners from a BAME background (25%) compared to fifteen from a white background (75%).

This information is collected to enable us to inform the Legal Services Board and to monitor the diversity of our regulated firms. This will continue to be monitored for 2020.

## Conclusion

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- The work of the Strategic Risk Committee in 2020 will continue to be mainly focused on guiding the development of our policy on risk relating to individuals and firms. Whilst it remains our intention to move towards a more statistics-based report in future years demonstrating the detail of the Committee's work, the number of firms currently authorised is not yet sufficient to provide meaningful information.
- Whilst good progress was made in 2019 under the oversight of the Strategic Risk Committee, 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 be focusing on the next stage of implementation of its Transparency rules, as well as a continued **focus** on AML supervision and complying with OPBAS requirements.

