

Picture the scene.

Imagine buying a financial services business is like buying a car.

**In advance of the purchase:**

- You should check the history of the car. Has it been involved in a crash? Does it have outstanding Finance? Has it been 'window dressed' for a sale with rust covered up but not treated?

In our world this equates to conducting due diligence on a prospective purchase & its clients BEFORE purchasing it. Review client files, review PI notifications, review regulatory correspondence, consider if it being sold too cheaply or if the value is over inflated?

- Why are you buying the vehicle? Is it a 'lifestyle' choice, have you been told you must buy it from someone more senior elsewhere in Group? Go in with your eyes wide open as to your motivation and the condition of the vehicle.
- Basic Fuel and Oil Checks; you can't get far without the right levels of staff and resources. What is the right level? Just like a Ferrari needs a different type of fuel to an Nissan Leaf, so a large firm with a low risk appetite requires different resources to a small firm with a high risk appetite. You should review your risk appetite in the context of your resources, what you intend to do should equate to how many and what type of staff you have. The wrong balance leads to problems like unserviced and unhappy clients.

**Imagine that once purchased you take your vehicle for a service. Martin the Mechanic will perform a number of checks, which could equally apply to your business:**

- Emissions test. Is your car a pollutant? How many complaints or alerts are you receiving? No complaints or alerts may be indicative of incorrect reporting (like VW found with its diesel emissions); a high level can equally be a sign that there may be a problem.

- Brake tests. Can your vehicle stop if it needs to? Do you have sufficient capital and PI insurance? We are looking to ensure an orderly wind down in all circumstances. There is little point finding out that your brakes don't work when you try to apply them, equally there is little point having a PI policy that doesn't cover what you were expecting.
- Do your windscreen wipers and headlights work? Can you see where you are going or is your view obscured? Conflicts of interests can often pop up and distract. Other businesses seem to spend time looking in the rear view mirror or at themselves and don't pay enough attention on the road ahead.
- Warning lights on the dashboard means the car needs to slow down or stop. Are your warning lights working - does your Management Information identify issues? Do you have staff off with stress or are you under resourced? Are you reviewing breach reporting and responding if it is indicating that your business is running too hot? Is your management information ensuring you make informed decisions as a board?
- What did the previous service say? Are there repeat breaches? Have auditors been flagging significant concerns in management letters which have been ignored? Has the Commission raised key red flags in Industry Presentations, Thematic reports, Annual reports or directly in visit feedback which has been overlooked?

Martin the Mechanic is particularly nosy, but conscientious, and thus as part of this service he doesn't just want to satisfy himself that the vehicle is working but also wants to check whether it is being driven properly.

### **Martin wants to understand about the cars drivers**

Are you one of the drivers? Are you a safe driver that sticks to the speed limit or are you a chancer who aims to be 'close enough'? From our analysis, it is often the safer drivers that have fewer accidents, avoid hazards and are more profitable.

Do you know who is driving and giving directions? Are you along just for the ride, don't care where you are going as long as it is a nice day out? Are you sitting in the back of a chauffeur driven limo with your feet up?

Too often the cause of the problems we identify is from the Governance of the firm. The wrong driver, the driver asleep at the wheel, a bystander shouting directions - ultimately if you are one of the drivers you are responsible for the firm.

Assuming you're the driver, do you have the right skills to drive a particular vehicle; are you for example an experienced Mini? driver and now have been asked to drive a School Bus?

Do you have the right licence. Do you really need a heavy goods vehicle licence, but only have a moped CBT licence? We have been surprised at recent examples of unregulated activity and this is an area we will continue to be tough on as it poses an unacceptable risk.

**[End] We all want well run businesses, whatever the weather conditions.**

At the Commission we have the benefit of seeing all financial services businesses in the Bailiwick and therefore hope that Martin the Mechanic has helped give some steers on what we, and you, should be looking out for.

What happened to Martin the Mechanic? Unfortunately he left his keys in his ignition whilst he was undertaking your service, when he returned his car was gone - a reminder to always remember cyber security.