

The Escalating Challenge of ARROW



ARROW is intensifying: How you respond can make or break your firm's relationship with the FSA

Following the financial crisis, the FSA has intensified its ARROW process to increase its scrutiny of firms. With the FSA taking an uncompromising stance, few firms can afford to have a poor ARROW visit. As a result, firms need to improve their ARROW preparation to achieve a successful outcome.

The FSA is also intensifying its response to adverse findings, making greater and more intrusive use of its powers by putting in place extremely challenging RMPs, commissioning skilled persons reviews and taking enforcement action.

Forewarned is forearmed: Current ARROW investigations are focussing on a number of key areas which your firm can prepare for

We have observed a distinct pattern in the areas the FSA is investigating in its ARROW visits and firms need to be prepared for questioning about these key themes.

The areas the FSA is probing at present include:

Survivability: Is the firm sufficiently capitalised to withstand the shock of internal and external events? Is it able to identify and address emerging risks? What systematic risks would its failure pose?

Governance and decision making: Are the processes clear? Is accountability well defined? Are decision makers competent and subject to suitably expert challenge? Are decisions fair? Are decision makers receiving the right information?

Strategy and stress testing: Are strategies sustainable? Are models and stress tests realistic? Are complex models understood by the decision makers and subject to challenge by the non-execs?

Capital management: Does the firm's capitalisation and liquidity reflect the realistic risks it faces? Is Basel II embedded? Is Solvency II on track?

Risk management: Is risk appetite linked to business planning and strategy? Is risk understood and managed throughout the business? Are risk models realistic?

Treating customers fairly: Is it truly embedded?
What has changed?

Outcomes: Do processes, controls and behaviours really deliver good customer outcomes in practice? What evidence is there of this? How well do systems and controls stand up to testing?

How your firm can achieve a successful ARROW visit

Our recent experience highlights a number of ways firms can prepare for their ARROW visit to maximise their chances of a successful outcome. These include:

- Treat the ARROW preparation as a formal project
- Conduct an honest assessment of what the pre-visit documentation may tell the FSA and the likely questions it will provoke
- Identify key risks to the FSA's objectives beforehand and be able to describe how you are mitigating them
- Ensure interviewees really understand what the visit is seeking to cover, why the FSA has that focus and how to present their evidence
- Practice mock interviews with key staff
- Demonstrate a consistent and joined up approach across all business units
- Provide hard evidence
- Be ready with plans to address any gaps or weaknesses to give the FSA confidence that you are in control
- Encourage a frank and open dialogue whilst the FSA is on-site to ensure any issues are managed properly, before they are formalised
- Respond to the draft RMP quickly to confirm facts and to present back your action plans

How Huntswood can help you

"We will challenge you"

Demonstrating that the FSA can rely on the judgement and activities of your senior management requires honest self-analysis. We know what good, bad and indifferent look like and will challenge your top team to expose any weaknesses, facilitate their self-analysis and coach any remedial action.

"We will focus on action"

We will constantly focus on action. This is our standard approach to assisting our clients – we do not delay sharing news and immediately take the necessary steps to share quick wins, implement improvements or share successes.

"We will share best practice"

We combine regulatory insight and experience with pragmatic business performance tools. We combine the management of regulatory risk with opportunities to improve business performance.

"We have a proven approach"

Our team of ex-FSA supervisors will rapidly analyse key business data to form an early view of the risks in your firm and challenge senior management about how these are being managed. We will provide feedback and coaching on interview performance and seek to work with you to anticipate and address potential issues ahead of the ARROW visit to allow you to achieve your own, rather than an FSA imposed, solution.

For more information on our views on how to prepare for an ARROW visit, or to discuss your firm's approach, please call 0800 583 0794