

Baringa 2020  
CASS Insight Survey  
**The risk of CASS becoming  
a ‘business as usual’  
activity**





# Baringa 2020 CASS Insight Survey

## The risk of CASS becoming a ‘business as usual’ activity

**Baringa Partners’ annual CASS survey is the largest of its kind in the UK. In 2020, the survey’s fourth year, ~50 firms took part and shared their views on CASS audits, the growing roles of software and automation in CASS management, and other key areas of concern.**

**It has been an unusual year by any measure, so we are delighted that so many firms took the time to participate in the survey, given the challenging circumstances. What the responses highlighted is how successful firms have been in keeping client money and custody assets safe and in limiting the impact of the global pandemic. It is a testament to the improvements made in recent years by all parties.**

We now have four years of survey data, which allows us to observe changes and trends from 2017 to 2020. In summary, the increases in staff required and the number of breaches that came with the enhanced FRC standard have levelled off, and firms are happier with their CASS audits. Audit costs do, however, continue to rise, and at a faster rate than in 2019.

Overall, the biggest risk may be CASS becoming a bit too ‘business as usual’ (BAU) in the eyes of those removed from the detail. There is now a well-trodden path for compliance and audits, one revolving around rule mapping and controls testing. The danger of a blind spot remains. Firms and auditors will need to continue assessing and mitigating the risks to client money, and this requires more than a formulaic BAU approach.

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## Benchmarking

The survey consisted of more than 100 questions and recorded detailed information on the size of CASS teams, the roles of CASS oversight officers, type of approach used for client money calculation, and more. Results can be analysed by different attributes, including sector, business activity, firm size, CASS footprint, etc., allowing firms to compare themselves to peer organisations even when they are not in the same industry group. Baringa offers a benchmarking service against this data. For more information, please contact us via [cass@baringa.com](mailto:cass@baringa.com).

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# Key findings

There are four key findings from the survey:

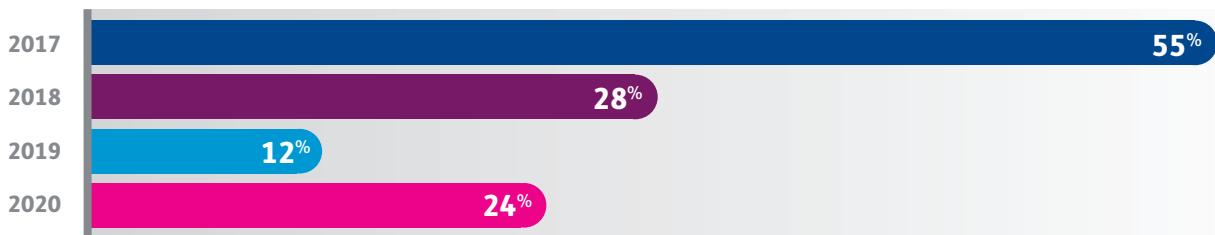
## 1 Covid-19 lockdowns had little impact on CASS compliance

More than a quarter of firms (27%) claimed to have experienced no issues as a direct consequence of the rapid switch to remote working. Despite the interconnectedness of the financial services industry, almost 30% of firms were able to avoid the issues/ challenges faced by more than 70% of their peers/competitors. As expected given the FCA publication in April, the most prevalent issues/ challenges faced by CASS firms were:



## 2 Audit costs are increasing at a faster rate again

The majority of firms (74%) saw an increase in CASS audit costs again this year (up from 49% in 2019). The average increase in costs was 24% (up from 12% in 2019). The prior three years had all shown a steady decrease.



## 3 Incidents and breaches have stabilised

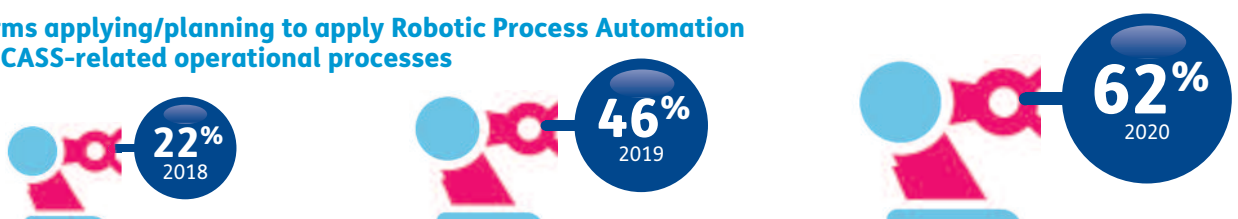
Incidents and breaches, which had risen for three years in a row, have reduced slightly this year. It is likely that the rises driven by the original FRC audit standard in 2016 have now fallen away as firms have embedded their toolkits, strengthened controls, and remediated findings.

	2017	2018	2019	2020
Average number of CASS incidents	<40	59	177	126
Average number of CASS breaches reported to the FCA	<5	7	14.7	12.1

## 4 Use of automation continues to grow for CASS-related operational processes

Automation of costly manual processes through Robotic Process Automation (RPA) continues to grow in popularity, as evidenced by the number of firms reporting they have already invested in RPA – 62% of firms now deploy, or are planning to deploy, RPA on operational CASS processes to cut cost, reduce operational risk, and increase efficiency.

**Firms applying/planning to apply Robotic Process Automation to CASS-related operational processes**



This area of investment has shown significant growth across the last three years, and the investment figures recorded previously suggest that RPA and automation will continue to be a focus for CASS firms next year too.

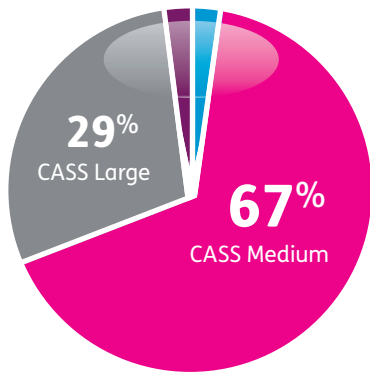
# 2020 Participant Data



As in previous years, we have received responses from a variety of firms (differing in size, CASS footprint, services offered, etc.). This highlights a key challenge for firms in that there is one set of CASS rules that must be complied with irrespective of these variances. This can also complicate the drawing of detailed comparisons using the full sample, something which our benchmark reports look to address in providing detailed peer comparisons.

## Size of firms taking part

Not a CASS firm - 2% 2% - CASS Small



## Firms using third-party administrators (TPAs)

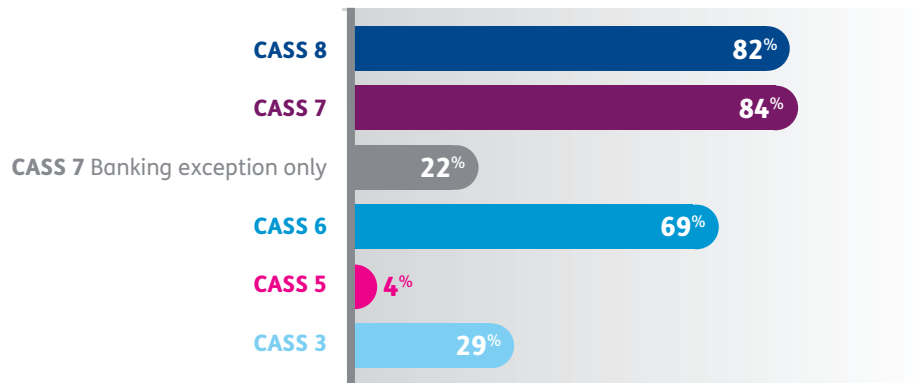


44%



56%

## CASS footprint of firms taking part



## Services offered by firms taking part



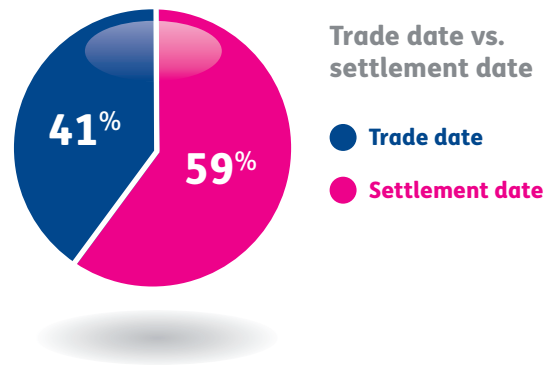
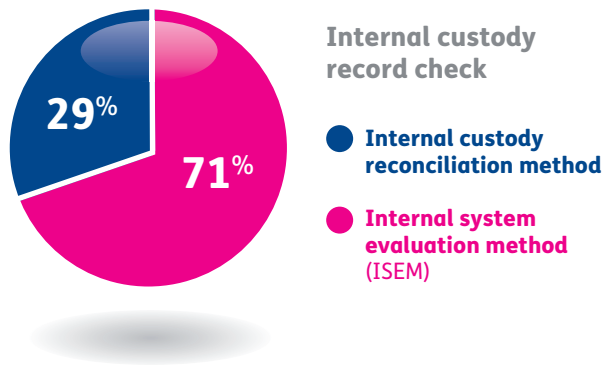
## CASS 6 – Safe custody assets

### Balances

- ▲ The total assets held under custody by CASS 6 firms is **£6.2 trn**
- ▲ The average client assets balance per CASS 6 firm is **£220 bn** (£458 bn for CASS Large firms, £15 bn for CASS Medium)
- ▲ Despite only making up **29%** of the survey population, CASS Large firms hold **96%** of client assets

### Other indicators

- ▲ More than **70%** of CASS 6 firms utilise the internal System Evaluation Method (ISEM) to perform their internal custody record check
- ▲ Of those firms reconciling units in collective investment schemes, more than **40%** continue to use trade date rather than settlement date



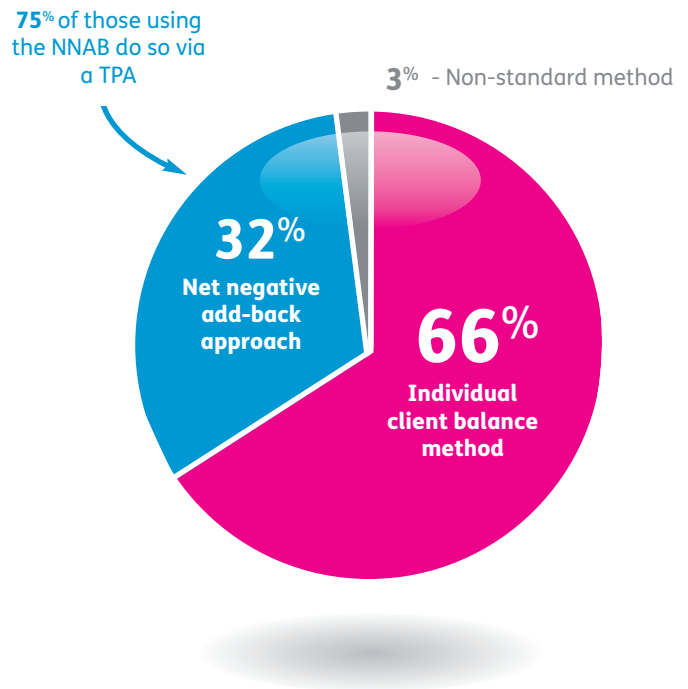
## CASS 7 – Client money

### Balances

- ▲ The total client money held by CASS 7 firms is **£54 bn**
- ▲ The average client money balance per CASS 7 firm is **£1.6 bn** (£5.2 bn for CASS Large firms, £90 m for CASS Medium)
- ▲ The average number of client money banks used for diversification is **4.5** (maximum 30)
- ▲ As per client assets, CASS Large firms hold **96%** of client money despite only making up **29%** of the survey population

### Other indicators

- ▲ Nearly two thirds of CASS 7 firms use the individual client balance (ICB) method for their internal client money reconciliations
- ▲ **32%** of CASS 7 firms use the net negative add-back (NNAB) method – **75%** of whom use a third party administrator (TPA)
- ▲ Less than a third of CASS 7 firms are making use of unbreakable term deposits to hold client money



### Unbreakable deposits



# CASS in Lockdown

## Summary Stats

**63%** of respondents experienced issues/challenges with CASS compliance due to Covid-19 and remote working

**20%** saw an increase in the number of incidents and breaches due to Covid-19

**30%** experienced a negative impact on their annual CASS audit

**25%** have interacted with the FCA directly due to issues and challenges linked to Covid-19 and remote working

## Covid-19



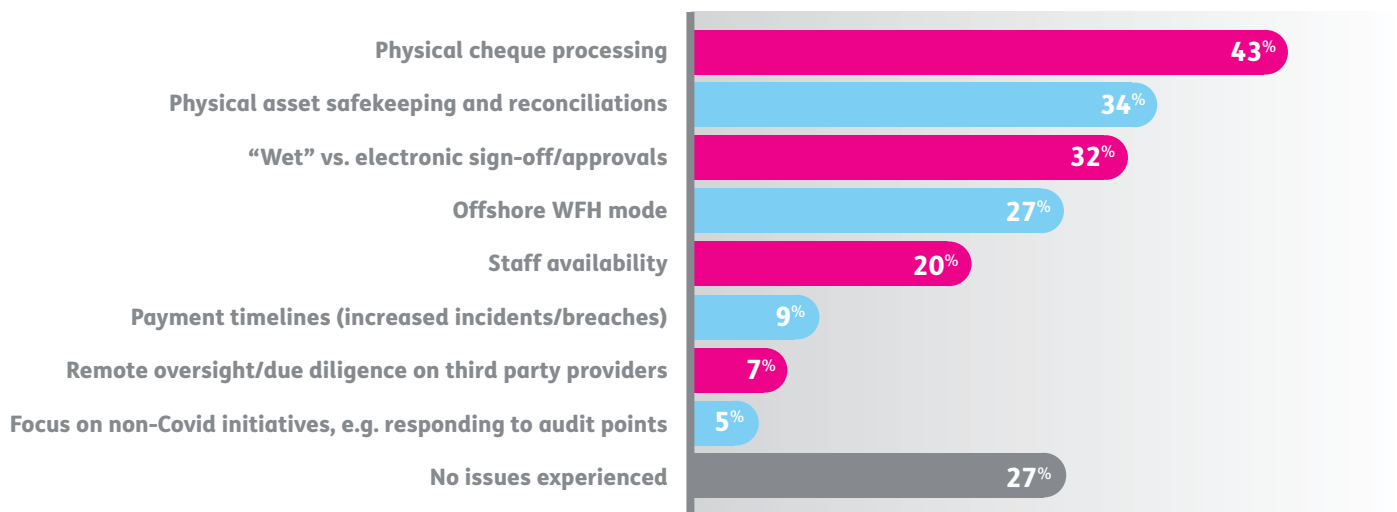
**When remote working due to Covid-19 commenced in March 2020, business operations changed fundamentally overnight and are unlikely to ever return to what was known and accepted as the 'normal', pre-Covid. CASS firms were not immune to this change, and have had to adapt incredibly quickly in the face of significant operational and compliance challenges.**

In response the FCA has been very visible in publishing its views on both a) areas of concerns raised by firms, e.g. handling cheques and completing physical asset reconciliations (<https://www.fca.org.uk/firms/client-assets-coronavirus>, dated 6 April 2020), and b) its own observations and recommendations, such as how firms should be looking to approach increased client money balances (*Dear CEO letter*, dated 12 August 2020).

The response has been predominantly positive, with the vast majority of firms maintaining an effective CASS control environment and ensuring the continued protection of client assets and client money.

It is understandable that the increased pressure and strain placed on operations processes and staff have resulted in pockets of increased challenges, and in some cases incidents and breaches.

## Impacts/challenges from Covid-19 on CASS firms



Nearly a third of firms (**27%**) claimed to have experienced no issues as a direct consequence of the rapid switch to remote working. Despite the interconnectedness of the financial services industry, almost **30%** of firms were able to avoid the issues/challenges faced by more than **70%** of their peers/competitors.

As expected given the FCA publication in April, the three most significant impacts

were all related to processes dependent on interaction with physical documentation, with significant interruption also seen in the ability of staff to continue working whilst in lockdown.

In many cases firms will have applied short-term fixes to address these, but equally there may be longer-term opportunities to improve efficiency in CASS processing – for example, where possible,

firms may look to reduce the use of physical paper (cheques and certificates) and move to electronic processing by default.

Firms may also look to move to electronic signing (as many have done already), as well as reconsidering the suitability of their outsourcing/off-shoring models.



Some of the other feedback in responses included the following:



Issues/challenges

- ▲ Unable to deliver face-to-face CASS training as planned
- ▲ An increase in trading volumes, and the number of mandate transactions
- ▲ Difficulties in issuing CASS 9 statements via postal services
- ▲ Impact on oversight/due diligence performed on third-party providers



Opportunities

- ▲ Increased automation to reduce reliance on manual processes and controls
- ▲ Use of video conferencing tools to reduce travel expenses (e.g. training and site visits)
- ▲ Accelerated delivery of telephony solutions for staff working from home to ensure seamless customer journeys

Key stats/findings from other Covid-19 questions

Despite the challenges faced by participants during this time, for the majority of firms, **this has not directly translated into increased numbers of incidents and breaches**. In fact, only one in five firms have seen an increase in incidents / breaches, and only one in four firms have interacted with the regulator as a consequence.

Specific examples included the banking of cheques, and increases in manual processing errors due to resource constraints; one respondent noted that the

regulator had been slow to respond to a notification of a breach relating to physical asset reconciliation.

This does suggest that firms' **control environments have proven to be robust** in protecting client assets and client money. That said, there remains a risk that increased incidents/breaches may be discovered after the fact, so we may not understand the full impact for some time to come.

Regulator interaction due to Covid-19/ remote working



Increased incidents/breaches



**Slightly more firms (30%) encountered an impact with their annual CASS audit** due to Covid-19/remote working, however this number may also be under-reporting the true impact as, since completing the survey, many firms will have subsequently entered their annual audit cycle and will likely be encountering similar issues to those firms already through the process. Both **technology** in general (only **19%** impacted) and solutions used to manage firms' **CASS toolkits (11%)** have proven to be relatively resilient in the face of the Covid-19 challenge.

Specific audit challenges included:

- ▲ no on-site demonstrations of controls;
- ▲ delays in communications between auditors and TPAs; and
- ▲ remote sign-offs proving problematic.

A number of firms were more positive on the topic, suggesting that **future costs could be reduced** due to less travel time and no physical site visits required.

Impact to annual CASS audit



Challenges in managing CASS toolkit (rules/risks/controls mapping)



Impact to technology used in CASS processing



There also appears to be a somewhat **limited impact linked to third party administrators** with fewer than one in five of firms using a TPA experiencing issues with their service provision during this period.

This is an area where firms may have expected to see more challenges given prior experiences, but recent **regulatory focus** on resilience and third party outsourcing seems

to have **driven a positive outcome** – the main exception being around postal services and physical cheque processing.

Finally, around a third of firms stated they had tested their CASS Resolution Pack (RP), with some referencing changes to updated processes and controls, but **not a single firm identified any issues** with either the RP content, or the retrieval procedures.

TPA impact (% of those firms using a TPA)



Tested CASS RP during remote working



# CASS Audit

- ▲ CASS audits **costs increase** again and at a faster rate than in 2019
- ▲ The **average cost** of a CASS audit for firms surveyed was **£122K**
- ▲ Firms find the audit **more valuable than before**
- ▲ **Incidents and breaches reduced** slightly after three years of significant increase
- ▲ Frequency of **contact from the FCA is up slightly** for CASS Large firms and down slightly for everyone else.

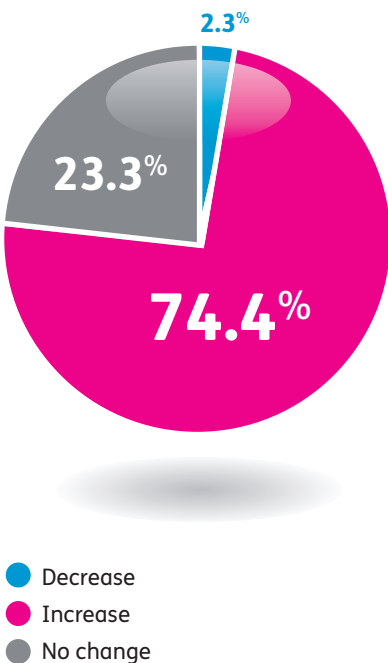
## Summary Stats

- 94%** The 'big 4' continue to dominate the CASS audit of firms: **94%** of firms surveyed had their CASS audit conducted by a 'big 4' firm
- 59↑** Average number of CASS audit findings was **59** (up from 52 in 2019)
- 24%** Average increase in annual CASS audit costs was **24%** (up from 12% in 2019)
- 73%** More firms said the audit was valuable for their firm – **73%** compared to 57% in 2017
- 93%** **93%** of firms surveyed now have a footprint document (compared to 85% in 2019)

## Cost and Scope

The majority of firms (**74%**) saw an increase in CASS audit costs again this year (up from 49% in 2019). The average increase in costs was **24%** (up from 12% in 2019). The prior three years had all shown a steady decrease.

### CASS audit fee change



It is not clear what is driving the increase in fees as the updated FRC standard introduced only modest changes. We will be looking to understand the causes over the coming months.

This year was the first time we asked firms about their CASS audit costs.

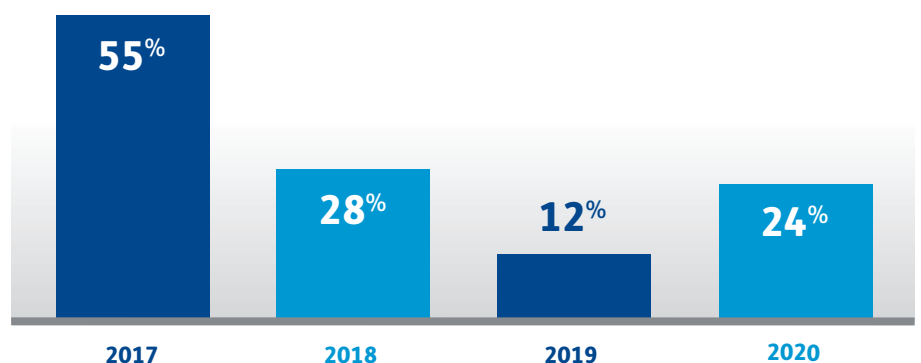
The average cost was **£122K**, but there is quite a wide range – as you might expect

from a diverse group of firms with different footprints.

We looked at the data to see what might be the biggest drivers of cost. The size of the CASS firm was the strongest indicator of costs.

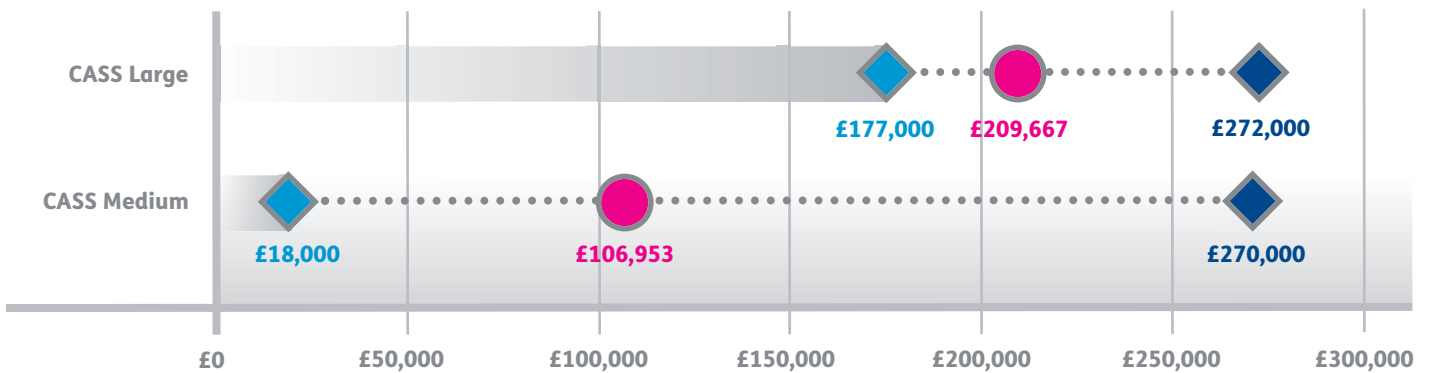
Our data also showed having CASS 6 and CASS 8 in scope as indicators of a more expensive audit.

### Average increase in cost of CASS audits



## CASS audit cost

◆ Low ● Average ◆ High



## Firms' perceptions

### The audit was valuable for my firm

● Strongly agree ● Agree ● No opinion ● Disagree ● Strongly disagree



Firms' views on how valuable the CASS audit is have steadily improved over the last four years. **73%** either agree or strongly agree the audit was valuable, with a record number in the 'strongly agree' category. This may well be a settling down as firms and auditors have adjusted to the audit changes introduced in 2016.

There was some evidence the gain above might be coming from improved outcomes from the audit. We asked firms in 2019 and 2020 what the audit helped them to identify: control gaps remains a high-ranking outcome, but auditors also identified significantly more risks and governance gaps.

### Items the audit helped identify

● 2020 ● 2019



## Themes

We asked firms what trends and changes they saw in their CASS audits. Some of the most common themes reported for 2020 were:

- ▲ technology;
- ▲ mandates, i.e. CASS 8 (where relevant);
- ▲ TTCAs, i.e. CASS 3 (where relevant); and
- ▲ outsourcing (where relevant).

The top two were also themes in 2019. Inclusion of TTCAs on the list this year will come as no surprise to those who have heard the FCA speak on the issue. This was re-enforced by the recent ‘Dear CEO’ letter addressed to wholesale brokers.

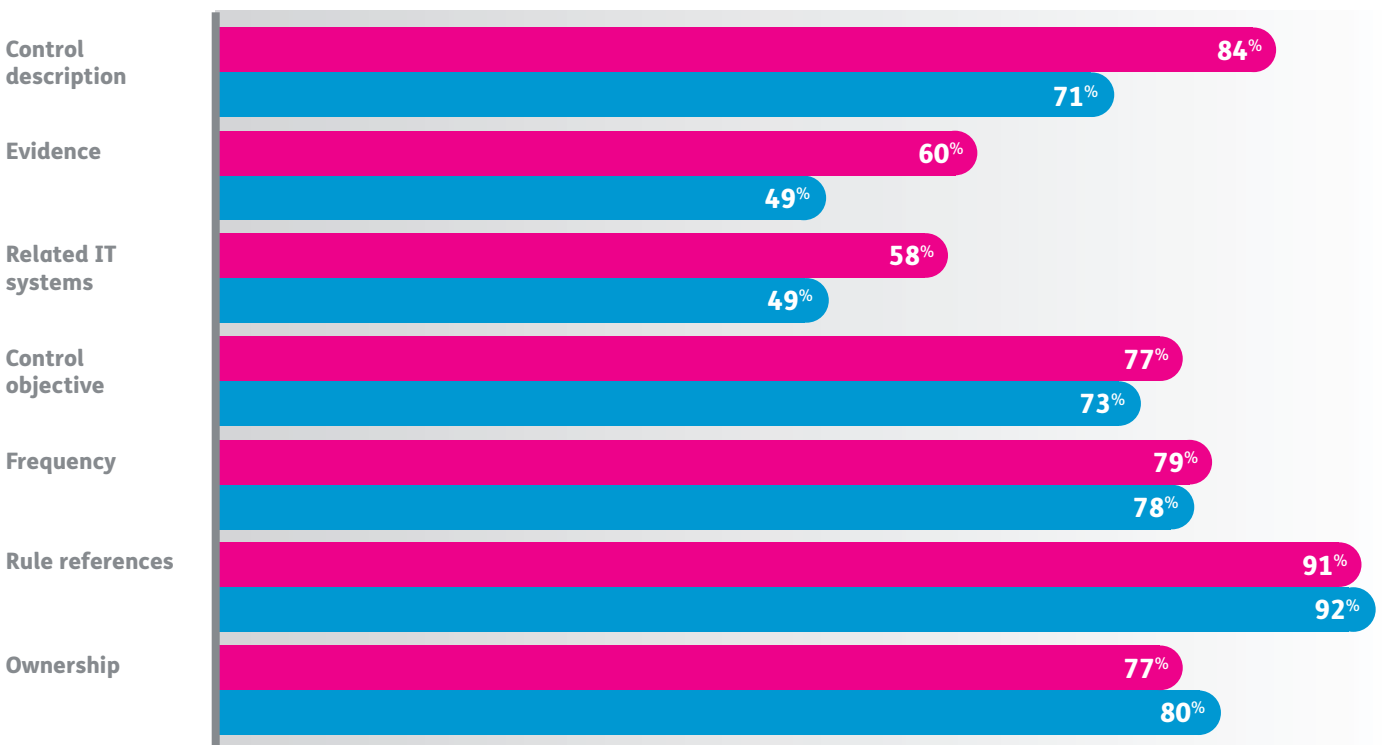
The impact of COVID-19 on the audits conducted in the first half of 2020 was limited, with **70%** of firms reporting no impact and **12%** reporting a small delay of the audit.

## Control documentation

Controls to process mapping are in place for **90%** of firms surveyed (up from 89% in 2019, 78% in 2018, and 53% in 2017). This is another clear trend over the last four years. Firms without process mapping in place are now in a small minority. The quality and completeness of control documentation are also increasing. The largest gain this year is in the completeness of evidence, which we suspect may be related to the greater focus on controls testing reported in CASS audits.

### Items the audit helped identify

● 2020 ● 2018





# Key trends

## Summary



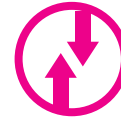
Increased controls testing in all three lines of defence



Size of dedicated CASS teams stable for the last three years



Incidents and breaches declining after rising for three years



FCA interactions up for CASS Large firms but down for CASS Medium and Small firms

Over the four-year period, there are some very clear trends which firms can measure their own progress against.

Incidents and breaches, which had risen for three years in a row, have reduced slightly this year. It is likely that the rises driven by the original FRC audit standard in 2016 have now fallen away as firms have embedded their toolkits, strengthened controls, and remediated findings.

	2017	2018	2019	2020
<b>Average number of controls</b>	88	160	165	206
<b>% of 1st line testing</b>	68%	73%	73%	89%
<b>% of 2nd line testing</b>	63%	75%	83%	93%
<b>% of 3rd line testing</b>	56%	63%	68%	82%
<b>Average dedicated CASS team size in FTEs</b>	3.5	6.2	5.8	5.7
<b>Average number of CASS incidents</b>	<40	59	177	126
<b>Average number of CASS breaches reported to the FCA</b>	<5	7	14.7	12.1

The size of CASS teams, which increased in 2018 following the introduction of the FRC audit standard and associated work involved, has since been fairly static. While team size varies between firms based on footprint, the overall trend is consistent. Again this aligns with a stabilisation of the CASS environment.

For four consecutive years we have seen increased testing in all three lines of defence, with 2020 showing a particularly strong increase. This growth will naturally flatten out now, but firms not performing some element of testing across all three areas should look to align themselves to this trend.

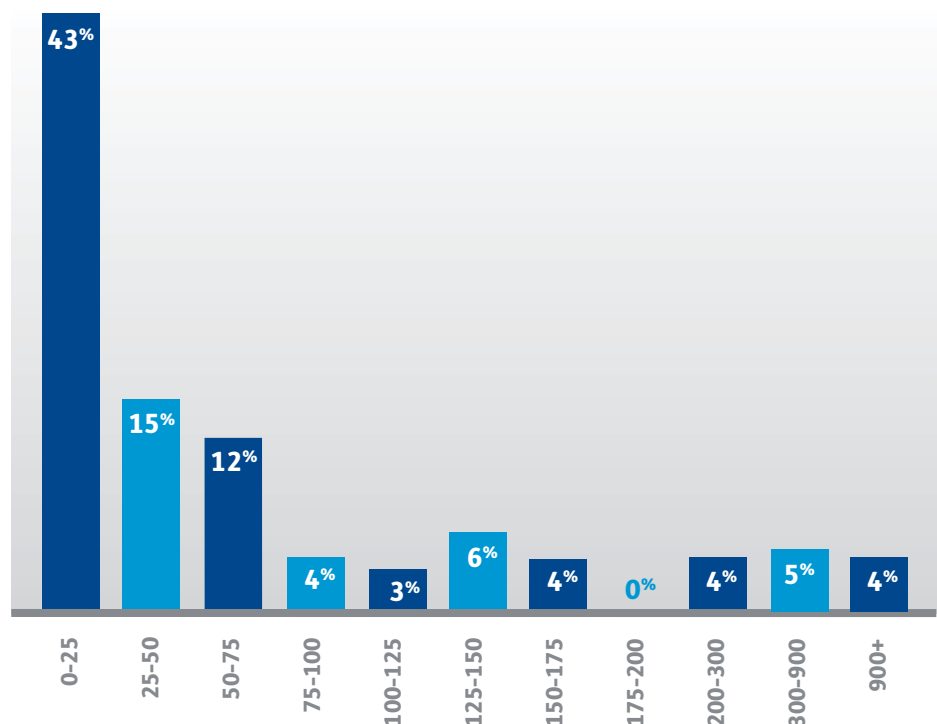
## Incidents

The distribution of incidents remains similar to prior years. The graph shows the number of incidents per firm per year averaged over 2018, 2019, and 2020 data. The vast majority of firms are recording under 100 incidents per year, but each year a few firms are recording several hundred or even over 1,000.

As with incidents, a small number of firms have each reported hundreds of CASS breaches to the FCA. The volume of breaches will also be impacted by a number of factors. If you were to place your firm on the graph, would it be in the position you might expect based on the volume of transactions, complexity, and nature of your business?

The vast majority of firms saw no change in incident and breach levels during the COVID-19 pandemic and associated lockdown. The impact may not be fully visible until 2021.

**Number of CASS incidents per year**  
Average 2018-2020



## Breaches

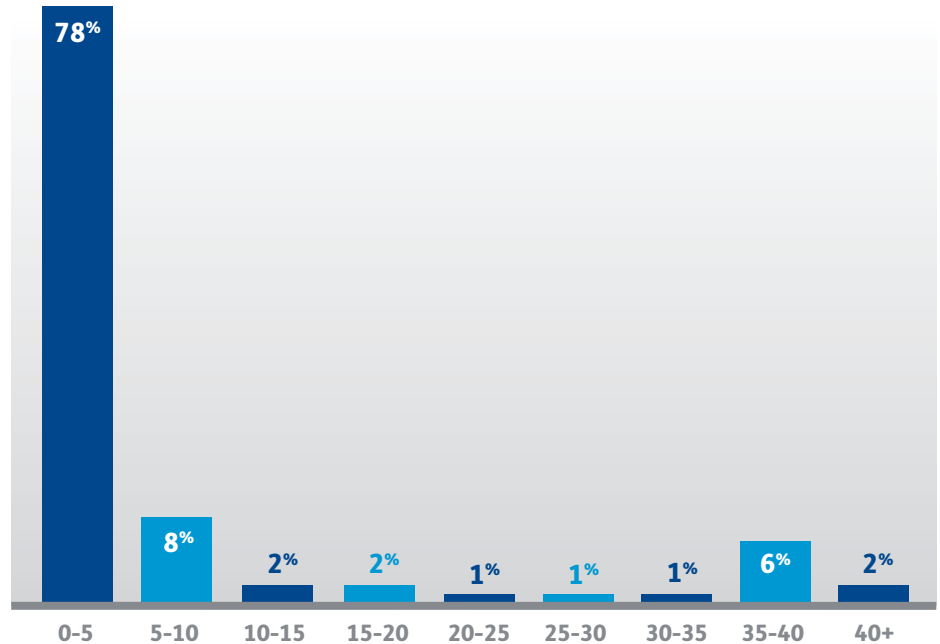
The distribution of breaches reported to the FCA is similar to prior years. Again approximately 90% of firms report fifteen or fewer breaches to the FCA per year, with more than 70% of firms reporting five or fewer.

As with incidents, a small number of firms have each reported hundreds of CASS breaches to the FCA.

The volume of breaches will also be impacted by a number of factors. If you were to place your firm on the graph, would it be in the position you might expect based on the volume of transactions, complexity, and nature of your business?

The vast majority of firms saw no change in incident and breach levels during the COVID-19 pandemic and associated lockdown. The impact may not be fully visible until 2021.

**Number of breaches reported to the FCA per year**  
Average 2018-2020

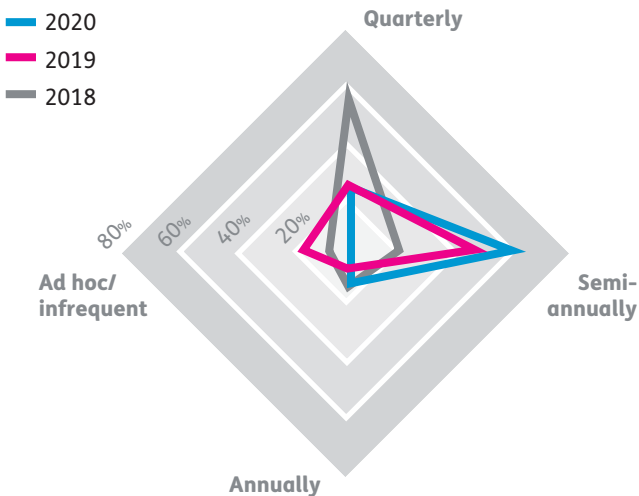


## FCA Interaction

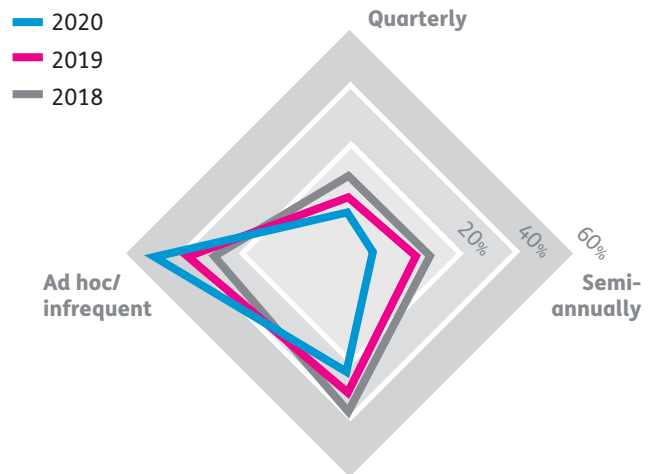
Excluding those who reported monthly interactions with the FCA regarding CASS, there has been an increase in frequency of interaction for CASS Large firms and a decrease for CASS Medium/Small firms.

We understand the FCA has been keen to confirm that the policy around interactions and visits has not changed, and the results of the survey are consistent with this.

### CASS Large firms interactions with FCA



### CASS Medium/small firms interactions with FCA



The results showed that 7% of firms surveyed had a visit from the FCA relating to CASS in the prior 12 months, similar to the 8% in 2019.

# Technology

- ▲ Average spend on CASS-related technology has increased sevenfold in the last three years
- ▲ Use of automation continues to grow for CASS-related operational processes
- ▲ Auditors are increasingly providing feedback on technology
- ▲ Fewer CASS Large firms are reporting a good relationship with the FCA
- ▲ CASS culture is falling out of focus for CASS Large firms

## Summary Stats

**£730,000**

The average amount firms spent on CASS-related technology last year

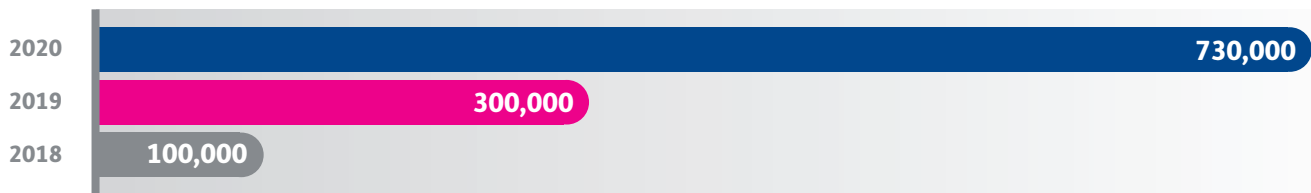
**62%** The percentage of firms applying/ planning to apply Robotic Process Automation (RPA) to CASS processes

**48%** The percentage of firms receiving feedback related to technology from their auditor

## Investment on the increase

At 54%, the overall percentage of firms investing in CASS-related technology has fallen slightly compared to the previous two years (63% in 2019, 56% in 2018). However, the firms investing in technology to support CASS processes have been **spending in multiple categories**, and **the amount they have spent has risen significantly** compared to prior years.

## Average investment in CASS-related technology in the last 12 months (£)



For firms investing in technology to support CASS processes, average spend tripled between 2018 (£100k) and 2019 (£300k). This figure has risen significantly again in 2020, with firms **spending over £730k on average**.





## What tools are firms investing in?

There was **no fall recorded in any spending category** for CASS-related technology compared to 2019.

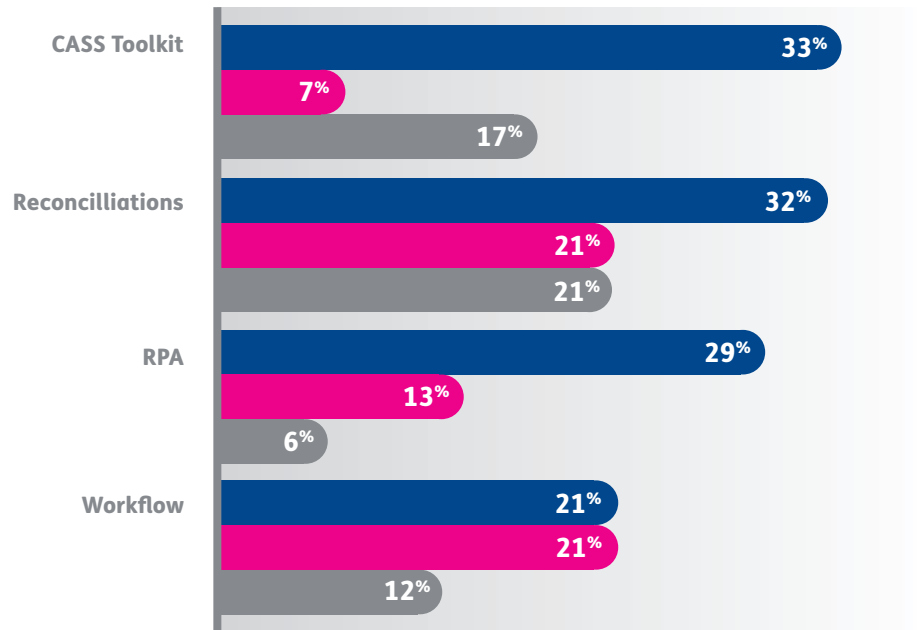
Perhaps most significantly, the 2020 survey results show **a return to favour for technology to manage the CASS Toolkit**. In 2018, 17% of firms invested in this technology. However, by 2019 this number had dropped to only 7% of firms – this was justified in our 2019 report by the fact that 37% of firms had already deployed specific technology to manage CASS rules, risks, controls, and associated process maps.

This year, however, **33% of firms spending on CASS-specific technology have invested in a solution to support the CASS Toolkit**. The key drivers of this are not clear from the wider survey data, although 69% of firms investing in such technology also received feedback from their auditor related to technology. Has audit focus on technology increased the drive for firms to make the transition from MS Excel to tailored software to manage the CASS Toolkit?

**Reconciliations tools have been the most consistent investment** across the last three years, with 2020 seeing a rise to 32% of firms investing in tools to support the migration away from costly manual reconciliation processes.

### What are CASS firms investing in?

● 2020 ● 2019 ● 2018



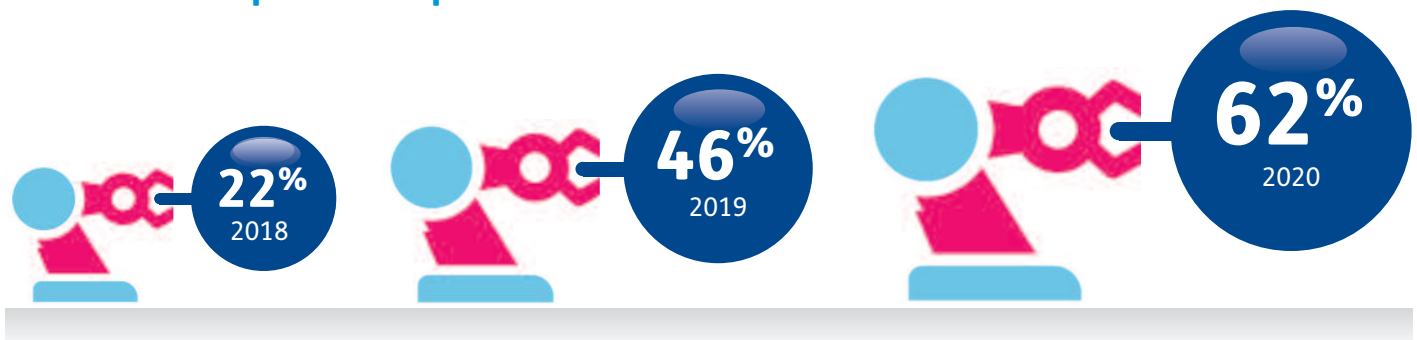
Firms have also looked to reduce cost and decrease operational risk exposure through investment in automated **Workflow tools**. The number of firms investing this year **stayed consistent** with last year at 21%.

The move to automate highly manual operational processes continued elsewhere, with investment in **RPA** for CASS processes **increasing fivefold over the last three years**, from 6% in 2018 to 13% in 2019 to 29% in 2020.

## Acceleration in automation

The evidence that automation of costly manual processes through RPA continues to grow in popularity can also be seen in the number of firms reporting they had already invested in Robotic Process Automation this year – **62% of firms now deploy, or are planning to deploy, RPA on operational CASS processes to cut cost, reduce operational risk, and increase efficiency**.

### Firms applying/planning to apply Robotic Process Automation to CASS-related operational processes

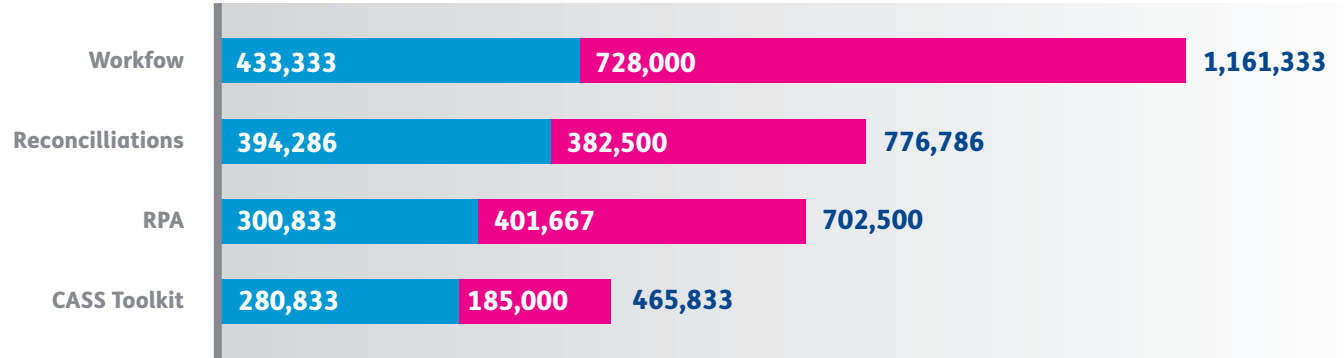


This area of investment has shown significant growth across the last three years, and the investment figures recorded previously suggest that RPA and automation will continue to be a focus for CASS firms next year too.

## How much was spent on each tool type?

### Average spend on technology

■ Internal ■ External # Total



Workflow tools stood out this year as the costliest investment CASS firms made (over £1.1 m on average), and this may be part of the reason 2020 saw the lowest percentage of firms prepared to invest in this technology. The return to favour of technology to support the CASS Toolkit may be linked to it being the cheapest technology solution to deploy.

On average, internal investment in any technological solution was fairly consistent, roughly in the £300K to £400K range. However, external costs showed a much wider variance – on average, external spend on Workflow tools was nearly four times larger than external spend on solutions to support the CASS Toolkit.

## Audit focus on technology

As firms increase their investments in technological solutions to improve their CASS control environments, **attention from auditors on technology continues to intensify**. This year 48% of firms received feedback from their auditor relating to technology – up from 40% in 2019.

CASS Large firms were more likely to receive attention on this topic, with 54% of firms in this category reporting feedback on technology related to CASS. This figure was noticeably lower for CASS Medium/Small firms, with only 45% of firms receiving attention in this area.

Of those firms that did receive feedback from their auditor on technology, **firms were most likely to receive feedback on the oversight and quality of controls** related to CASS technology (35%), or about **transitioning manual processes** into appropriate software solutions (20%).

### Percentage of firms for whom auditors provided feedback related to technology





# Governance and Culture

## Summary Stats



the percentage of CASS Large firms receiving a CASS visit from the FCA in the last twelve months



the percentage fall in CASS Large firms reporting a good CASS relationship with the FCA



CASS Medium/Small firms (81%) more consistently see CASS culture as a focus for the current year than CASS Large firms (69%)

## Strong and stable governance

Governance remains a stable area with well-established models.

On the whole, there has been minimal change in the statistics surrounding individuals in CASS oversight roles – the average **tenure in a CASS oversight role is four years** (slight increase from 3.5 years 2019), average **CASS experience is 11 years** (up from 10 years in 2019), and average **time spent on oversight remains consistent at 66%** (65% in 2019).

However, firms are reporting some significant change in the quality of relationships and the frequency of interaction with the FCA...



**Increased tenure in CASS oversight roles – up to 4 years**



**Time spent by CAOO oversight remains consistent – 66%**

## Evolving relationships

Only 23% of CASS Large firms received a visit from the FCA in the last twelve months regarding CASS, and no CASS Medium/ Small firms received a visit in that time period.

**Firms receiving a visit from the FCA in the last twelve months**



**CASS Large firms received a visit from the FCA**

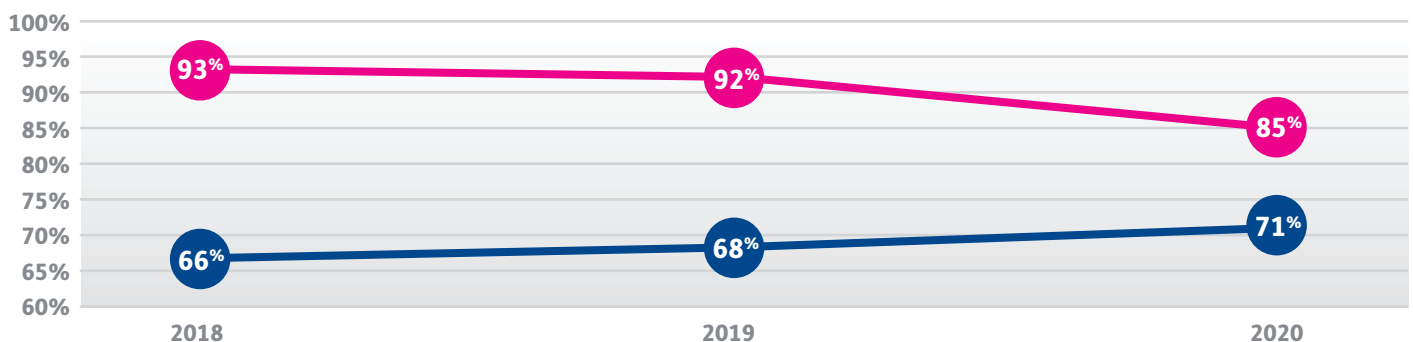
**0%**

**CASS Medium/Small firms received a visit from the FCA**

Regulatory visits on CASS have been received well – all the CASS Large firms that received a visit from the FCA reported having a good relationship with the regulator. However, **fewer CASS Large firms are reporting a good relationship with the FCA this year**. CASS Medium/Small firms are seeing some improvement in their relationship.

## Have a good CASS relationship with the FCA

● CASS Large ● CASS Medium/Small



## Further culture metrics

On the whole, CASS Large firms score extremely highly on our culture metrics, with Medium/Small firms showing improvements in all areas and in most cases now closing the gap to the Large firm responses. The table below shows the percentage in each group either agreeing or strongly agreeing with each of the statements. Statements for further comment are highlighted in **pale blue**.

% agreement with the statements	Large			Medium/Small		
	2018	2019	2020	2018	2019	2020
CASS is given the right level of priority within the organisation	100%	100%	100%	97%	95%	94%
There is adequate knowledge and understanding of CASS in the 1st line	100%	92%	100%	91%	91%	94%
The 2nd line has adequate CASS knowledge to fulfil their role	86%	92%	100%	80%	93%	94%
<b>The 3rd line has adequate CASS knowledge to fulfil their role</b>	<b>79%</b>	<b>85%</b>	<b>85%</b>	<b>53%</b>	<b>68%</b>	<b>71%</b>
People in my organisation take their CASS responsibilities seriously	100%	100%	100%	97%	93%	97%
<b>All breaches are escalated and reported quickly</b>	100%	83%	85%	89%	91%	90%
<b>We have a safe escalation environment</b>	93%	100%	92%	97%	98%	100%
CASS training is delivered to all impacted groups/functions within the business	100%	92%	92%	94%	91%	90%
CASS training is delivered at a level appropriate to individuals' CASS responsibilities	100%	92%	92%	86%	91%	94%
Staff with CASS responsibilities have a good understanding of role	100%	92%	100%	94%	95%	97%
<b>Our documentation of processes and controls is up to date</b>	93%	100%	100%	<b>80%</b>	<b>70%</b>	<b>84%</b>

Perhaps most striking of the remaining culture statistics is the perception of the 3rd line of defence, and whether this function has the knowledge to fulfil their role. While improvements have been made across the 1st and 2nd lines over the last three years, **there still appears to be a significant gap in knowledge in the 3rd line**, which firms should consider making efforts to close over the next year.

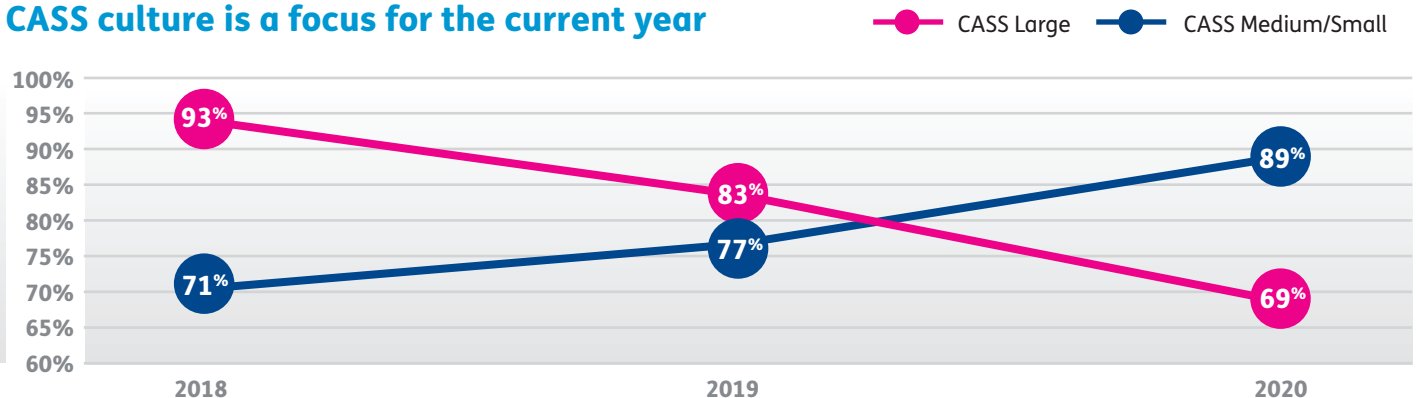
CASS Large firms are reporting **an 8% drop** in positive responses to whether they have a **safe escalation environment**, and **15% of Large firms are failing to escalate and report breaches** quickly. Based on the responses received, CASS Medium/Small firms appear to be outperforming the Large firms in both of these categories.

For the last three years, CASS Medium/Small firms have consistently lagged behind CASS Large firms when self-assessing the **maintenance of processes and controls documentation**. While some gains have been made by Medium/Small firms this year, it will be interesting to see whether the investments seen in technology to support the **CASS Toolkit** in 2020 will improve scores for Medium/Small firms in next year's results.

## Cultural split

Firms' approach to CASS culture is showing the most significant reversal in focus compared to previous years. **CASS Medium/Small firms (81%) are now more likely than Large firms (69%) to identify CASS culture as a focus** for the coming year.

### CASS culture is a focus for the current year



# Outsourcing

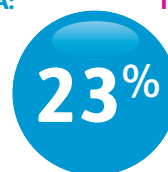
## Summary Stats



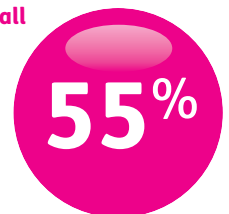
## TPA Usage

Of this year's respondents, **44%** of firms currently employ at least one TPA to support CASS-related processes, which is consistent with previous years. There is a significant difference between the number of CASS Large firms (**23%**) and CASS Medium/Small firms (**55%**) making use of TPAs. This is unsurprising given the tendency of many CASS Large firms to perform the majority of their CASS-related processes in house. Consequently, it is worth noting that the population under consideration for this section comprises only 15% CASS Large firms, and 85% CASS Medium/Small firms.

**CASS Large firms using a TPA:**



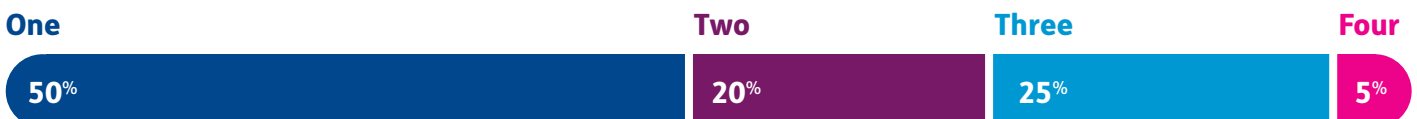
**CASS Medium/Small firms using a TPA:**



Within this group, the clear trend is to focus on a small number of outsourcing providers – presumably to benefit from the providers' core focus on CASS-specific processes. Of the firms that do use a TPA, **75%** use only one, and the remaining **25%** use only two. This approach should also assist in minimising oversight requirements – reducing duplication and simplifying compliance with third-party oversight and operational resilience requirements.

A knock-on effect of this concentration is that firms also tend to use TPAs in a small number of locations. The average number across the population is **1.85**, and the distribution is shown below:

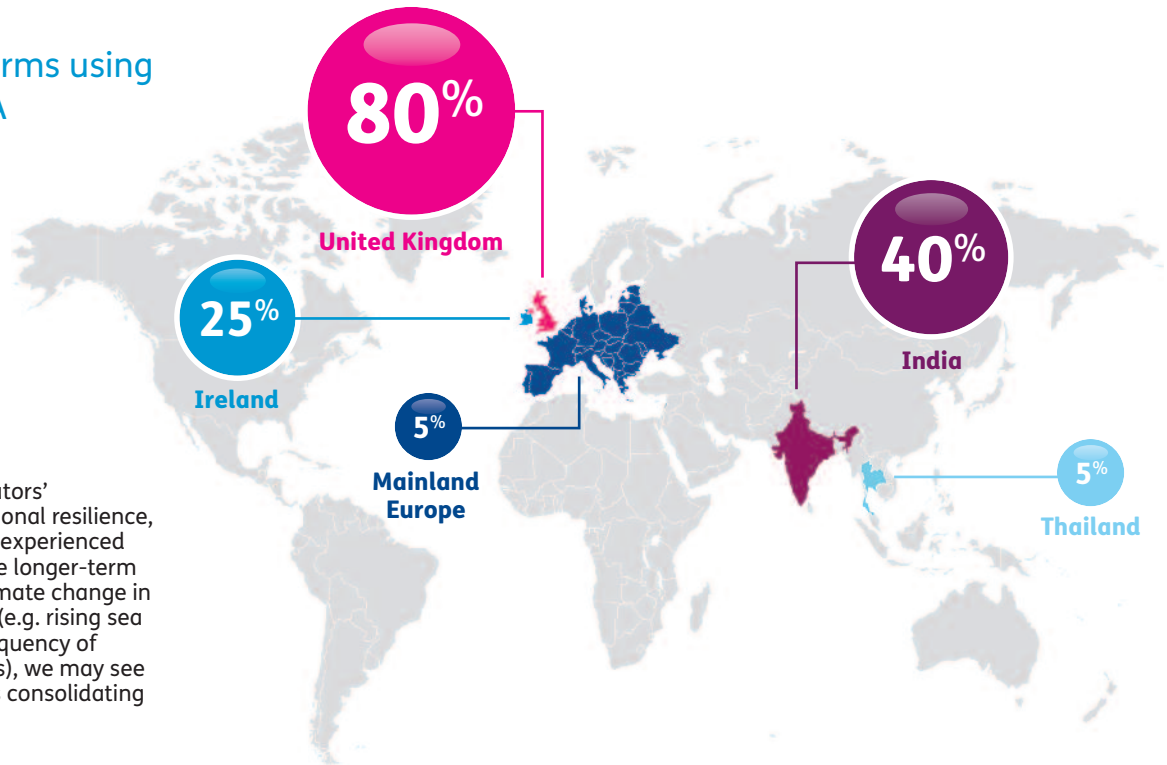
## Number of TPA locations used by CASS firms



In terms of actual locations used, there continues to be a preference for the more traditional hubs of the UK (80% of firms), India (40%), and Ireland (25%). It will be interesting to see how remote-only monitoring due to Covid-19 will influence firms' approach to using more diverse locations – i.e. will they be more comfortable in selecting non-standard cities/countries given that physical site visits are less likely to be required in the short term.

## TPA Locations

Percentage of firms using at least one TPA



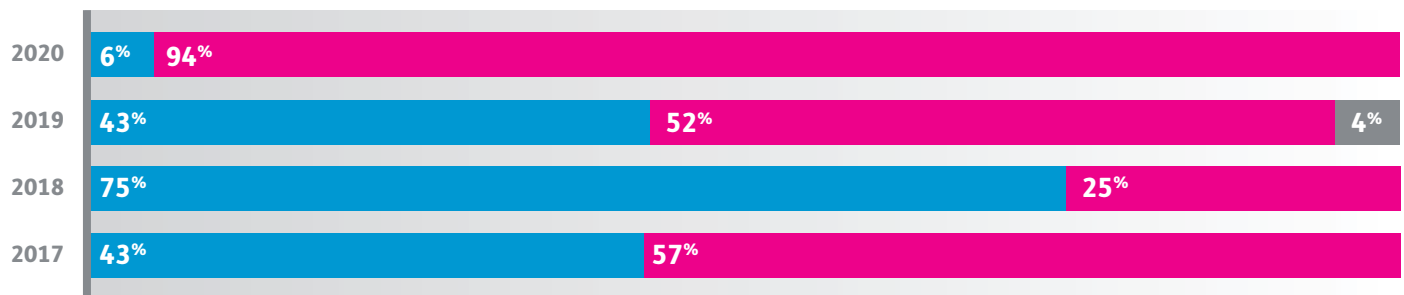
Conversely, given regulators' expectations for operational resilience, some of the challenges experienced during Covid-19, and the longer-term challenges posed by climate change in locations such as India (e.g. rising sea levels and increased frequency of extreme weather events), we may see the number of locations consolidating over time.

## TPA Costs

2020 has bucked the trend on TPA costs in recent years, with 94% of firms experiencing no material increase in costs. The firms that have seen an increase are very much in the minority this year (6%), and this is in stark contrast with the 75% of firms who saw costs increase back in 2018. Our hypothesis here is that the additional requirements for TPAs introduced through the implementation of the FRC's Assurance Standard for CASS audits, plus those highlighted through various regulator-led reviews, are now firmly embedded and the associated costs have been passed on to CASS firms prior to 2020. In fact, TPAs are likely now able to reduce costs through operational excellence and automation, but these reductions are less likely to be passed on to CASS firms.

## TPA Costs

■ Increase in costs ■ No material change ■ Decrease in costs



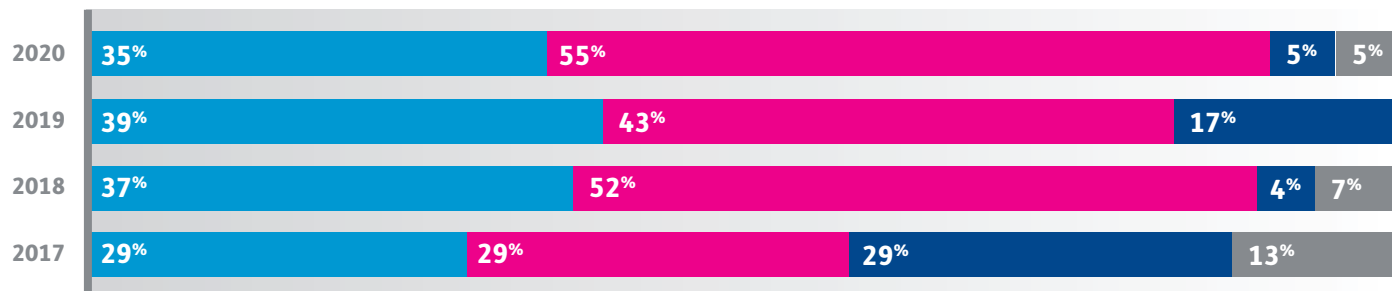
Unsurprisingly given the above, the percentage of firms looking to re-negotiate their TPA service level agreements (SLAs) is low at 22% in 2020 (down from 33% in 2019). If costs are no longer on the increase, then firms will presumably have a reluctance to open them up for review.

## TPA Transparency

Firms using TPAs have seen the overall visibility of intra-day issues return to levels seen in 2018, i.e. **90%** claim to have either good or some visibility. This is up slightly from **82%** in 2019. Worryingly, there are still **10%** of firms with poor or no visibility – there is a strong correlation between these firms and those looking to re-negotiate SLAs.

### Visibility of issues from TPAs

■ Good visibility ■ Some visibility ■ Poor visibility ■ No visibility



## To Outsource or not to Outsource

When comparing firms that use a TPA with those that perform CASS processes in house, the differences have, in the main, persisted since 2019.

#### Firms using a TPA:

- ▲ Higher numbers of incidents and breaches, except those that are immediately reportable (a reversal from 2019)
- ▲ Higher numbers of reconciliation breaks, both CASS 6 and 7

#### Firms performing CASS processes in house:

- ▲ More time spent on audit and toolkit maintenance
- ▲ Larger CASS team size, both direct and indirect

		TPA	No TPA	Var (2019 in brackets)	Comments
Breaches	Average number of CASS incidents per firm	143.5	111.0	-23% (-13%)	Firms using a TPA continue to experience more incidents on average, and this gap has increased by 10% since 2019.
	Average number of CASS breaches per firm	130.9	98.3	-25% (-28%)	Firms using a TPA continue to experience more breaches on average, and this gap has reduced slightly.
	Average number of immediately reportable breaches per firm	1.1	3.5	+2.4 (-0.6)	In 2020, firms using a TPA have experienced fewer immediately reportable breaches – this is a reversal from 2019, and likely due to more TPA users being CASS Medium/Small rather than CASS Large.
Audit/Toolkit	Average total time to support audit (hours)	326	491	+51% (66%)	Firms without TPA arrangements spent more time on average supporting the CASS audit, and this gap has reduced by 15%.
	Average time to support the CASS toolkit (hours per week)	5	10	+5 (+0.9)	Firms without TPA arrangements spent twice as much time maintaining the CASS toolkit – this difference has grown significantly since 2019.
Rec Breaks	Average number of CASS 6 breaks per firm	289	178	-38% (-14%)	Firms using a TPA continue to experience more CASS 6 rec breaks at month end on average, and this gap has increased by 24% since 2019.
	Average number of CASS 7 breaks per firm	459	246	-46% (-13%)	Firms using a TPA continue to experience more CASS 7 rec breaks at month end on average, and this gap has increased by 33% since 2019.
Team Size	Direct FTE	4.3	6.4	+2.1 (+2.8)	Firms with TPAs had smaller CASS teams, although the gap has been reduced by 20% from 2019.
	Indirect FTE	5.3	24.0	+18.7 (+24)	Firms without a TPA require more FTEs with CASS knowledge, although this gap has reduced significantly since 2019.












# Risks, Challenges, and Costs

## Risks







We once again asked firms to identify their top three risks now, and their anticipated risks in two years' time. These are combined with the 2018 responses below:

Rank	2018 prediction	Now	In 2 years
1st	Technology (43%)	 Manual processes/errors (58%)	 Technology (59%)
2nd	TPA (43%)	Business change (47%)	 Manual processes/errors (39%)
3rd	Technical rule risks (36%)	 TPA (40%)	 Staff (25%)
4th	Manual processes/errors (29%)	 Technology (36%)	 Business change (23%)

In 2018, our survey participants expected their top risks in 2020 to be technology and TPAs. Technical rule risks (primarily driven by the trade date vs. settlement date debate) also scored highly. In 2020, both technology and TPAs appear in the top four, with very similar numbers of firms recognising them as a top three risk, but they have both been overtaken by manual processes and business change – this is likely to be a driver behind the increased spending we're seeing on technology, and more specifically on automation. The technical rule risk does seem to have gone away and is no longer front of mind for our respondents; a more pressing risk is that of business change, and its knock-on impact on CASS compliance.

For 2022, the risks identified by firms are more diverse, with six themes identified by at least 20% of those surveyed. Technology once again rises to the top (59% of firms), which is consistent with firms receiving more tech-related audit feedback, and significantly increasing spending on technology to address manual processes and controls.

## Challenges

Rank	2018 prediction	Now	In 2 years
1st	Technology (44%)	 Business change (42%)	 Business change (55%)
2nd	Technical rule risks (39%)	 Audit (35%)	 Audit (40%)
3rd	Audit (34%)	 Staff (35%)	 Staff (33%)
4th	TPA (29%)	Covid-19 (26%)	Board/business engagement (30%)

Of the top four future challenges identified by respondents in 2018, only one continues to feature in the 2020 equivalent, and that is audit – the one thing CASS firms cannot escape! As per the previous section, the technical rule risks no longer seem to be present, and both technology and TPA are less prominent this year.

Interestingly, this year's top three challenges are also firms' top picks for the future. More than half of firms view business change as being in their top three challenges in 2022, and a third of firms are concerned about their workforce both now and in two years' time. Unsurprisingly, Covid-19 is a top three challenge for more than a quarter of firms this year, but didn't make the cut for 2022 – perhaps that would be different if we were to re-run the survey now!



## Costs

Rank	2018 prediction	Now	In 2 years
1st	Audit (84%)	➡ Audit (83%)	➡ Audit (85%)
2nd	Technology (74%)	⬆ Staff (54%)	⬆ Technology (75%)
3rd	Staff (60%)	⬇ Technology (49%)	⬇ Staff (58%)

The prediction from 2018 has proven to be very accurate, with audit, technology, and staff continuing as the top three costs in 2020 and in the future. Within those three, technology has fluctuated from 74%, down to 49%, and then back up to 75% – perhaps as a consequence of technology investments (and implementations) taking longer than originally planned to realise the benefits of increased automation and control.

Nearly a quarter of firms view remediation as a top three cost both now and in two years’ time, suggesting that, despite there being no major changes in regulatory requirements in recent years, firms are still experiencing compliance challenges in BAU, and identifying breaches that require remediation. Also, 20% of firms (almost half of those using a TPA) cite their TPA costs as being in their top three.

# Webinar

On November 5, we held a webinar attended by over 90 people from a range of firms to discuss the findings in this report. The event also featured respected external speakers from within industry who gave their views. Some of the key themes raised at this event are summarised below:

## Covid-19

- ▲ The move to working from home went well, with less impact than expected.
- ▲ Where a small group of individuals are performing key CASS controls, having appropriate cover for childcare or sickness, etc., across those key roles became incredibly important.
- ▲ Lockdown drove some unusual actions, e.g., asking clients to move away from cheques and helping them see the benefits of this. As there were delays in the banking process, prefunding solutions were also put in place to make up for those delays.
- ▲ The number of trades failing on settlement date went up, driven by high volumes (clients exiting certain areas, etc.), which had knock-on effects on shortfalls and funding.

## Audit

- ▲ It appears the large control gaps of years past are closed, and firms now focus on the nuances and very technical issues. Year on year, the actual manifest of risk to clients is reducing.
- ▲ Challenges remain for those unfamiliar with the detail (e.g., non-CASS NEDs and audit heads) to understand materiality, but there is no real indicator in the audit report to support this assertion.
- ▲ CASS professionals would like to see an improvement in the way issues are signposted and shared by auditors, as well as a move towards thematic audits in years to come.
- ▲ CASS breaches shortly after the first lockdown highlighted training-related issues, which would have been unlikely to occur if staff were in the office.
- ▲ Audit costs can be influenced by staffing costs; firms have seen a constant churn in staff managing the audits, and this lack of continuity makes it difficult to deliver efficiencies.

## Technology

- ▲ While RPA and toolkits are only a few years old, reconciliation tools are not a new phenomenon, so it is interesting to observe increased spend here. The assumption is that this spend comes from a combination of upgrades to existing platforms and a move away from any remaining Excel-based reconciliations.
- ▲ Even though RPA is not always deployed directly within CASS oversight processes, in many cases it is being implemented across the upstream operations space, in processes that impact CASS compliance and would benefit from automation. This in turn is driving an increased audit focus on robotics used in CASS-related operations, which we expect to continue in years to come.

## Outsourcing

- ▲ Training and a lack of contextual knowledge are key issues, and ultimately drivers for elevated numbers of breaks. Providing effective training to the staff directly performing the CASS-related processes and not only to the oversight managers will ensure any knowledge gaps are quickly identified and can be closed.
- ▲ At the start of the Covid-19 lockdowns, staff in some service locations (e.g., India) were not immediately ready to work from home, which meant that work had to be covered internally for at least the first 48 hrs.

## Other

- ▲ Auditors highlight that they are seeing more firms treating CASS as a BAU risk or as a utility.

## Conclusion

Once again, our annual survey has shone a spotlight on the key current trends in the CASS space. In general, firms are better prepared and feel they are getting more value from their CASS audit than in 2017.

Looking ahead, while the impact of Covid-19 seems minimal at the moment, it may be more visible in breach and incident numbers in 2021. In 2021 we will also have a new set of firms subject to the newest chapter of the CASS handbook — CASS 14. Despite this, we do not anticipate a great deal of change, and, as highlighted during the webinar, the danger remains of CASS becoming too BAU and risks to client money and assets being overlooked.

We hope that you have found this summary report of interest. We will contact all survey respondents to arrange some time to review their custom benchmark report. If your firm did not take part this year but would still like a benchmark report, then please do get in touch ([cass@baringa.com](mailto:cass@baringa.com)), and we will share a template in which to provide your offline survey responses for comparison.

# Our CASS Capabilities

Baringa has deep technical CASS expertise. Our core team of subject matter experts combines a mix of industry and consultancy experience and is supported by more than 20 consultants with significant experience in this field.



## CASS assessments

We perform health checks, deep-dive reviews, and **simulations** to identify areas to be addressed based on the **CASS rulebook and best practice**.



## CASS RP testing

We assess the **completeness and effectiveness** of clients' CASS RP. We perform mock FCA visits to give assurance on the quality and robustness under realistic conditions.



## CASS training and development

We develop, produce, and deliver tailored CASS training **programmes, materials, and eLearning** to upskill and refresh knowledge.



## FRC CASS toolkit

We help clients to **understand and articulate** their **business operating models** across products, **functions**, and **legal entity** structures.



## CASS software implementation

We work with clients to implement their chosen CASS software. We have **significant experience** with the **software solutions** available and can support in both **selection and implementation**.



## Process and controls mapping

We help our clients to understand the **scope** of their core CASS-related processes, and to clearly map these in **a consistent format**, highlighting **CASS controls**.



## Baringa Partners

Baringa Partners is an independent business and technology consultancy.

We help businesses run more effectively, navigate industry shifts and reach new markets. We use our industry insights, ideas and pragmatism to help each client improve their business. Collaboration is central to our strategy and culture ensuring we attract the brightest and the best. And it's why clients love working with us.

Baringa launched in 2000 and now has over 700 members of staff and more than 70 partners across our practice areas Energy and Resources, Financial Services, Products and Services, and Government and Public Sector. These practices are supported by cross-sector teams focused on Customer & Digital; Finance, Risk & Compliance; People Excellence; Supply Chain & Procurement; Data, Analytics & AI; Intelligent Automation & Operations Excellence; and Technology Transformation. We operate globally and have offices in the UK, Europe, Australia, US, Middle East and Asia.

Baringa Partners have been voted as the leading management consulting firm in the Financial Times' UK Leading Management Consultants 2020 in the categories energy, Utilities & the Environment, and Oil & Gas. We have been in the Top 10 for the last 13 years in the small, medium, as well as large category in the UK Best Workplaces™ list by Great Place to Work®. We are a Top 50 for Women employer, and are recognised by Best Employers for Race.

**Baringa. Brighter Together.**

**For more information,  
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**[baringa.com](https://baringa.com)**