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# Baringa 2021 CASS insight survey

The year of the  
'Dear CEO'



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## 2021 CASS Insight Survey

The survey was launched in Q2 2021 with more than 50 firms, including investment banks, custodians, and asset and wealth managers.

It contained more than 100 questions and recorded detailed information, for example on size of CASS teams, the roles of CASS oversight officers, type of approach used for client money calculation and more.

In this, our 5<sup>th</sup> year of running the survey, we have around 300 responses in total and now have trends over a 5 year period.



**2017 - 'A new normal'**



**2018 - 'Reducing the burden'**



**2019 - 'A more risk based approach'**



**2020 - 'CASS as BAU'**

# Introduction

## The year of the ‘Dear CEO’

**Baringa Partners’ annual CASS Survey is the largest of its kind in the UK. Now in its fifth year, around 50 firms took part in 2021, sharing their views on CASS audit, the growing roles of technology in CASS management, and other key areas of concern.**

It has continued to be an unusual time, so we are delighted that so many firms took the time to participate again this year. What the responses highlighted is how well firms have kept responding with developments to keep client assets safe and how auditors are improving the audit experience.

We now have 5 year’s survey of data to trend and our observations reflect changes from 2017 to 2021. Generally speaking, 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 at a similar rate to 2020.

One characteristic of 2020/21 has been the volume of ‘Dear CEO’ letters relating to CASS written by the FCA. While targeted at specific sectors, such as Brokers for example, there is evidence of the highlighted themes being carried across sectors in the CASS audit which means all firms need to be aware of the content.

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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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# The 2021 Survey

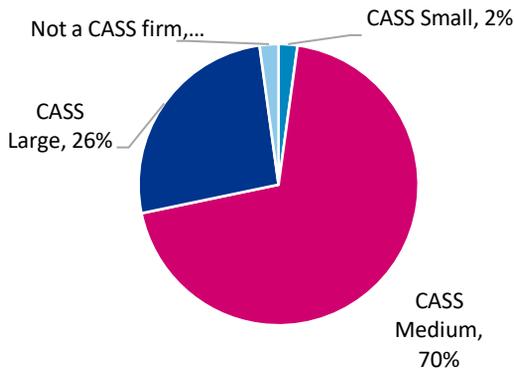
## Key stats

The survey consisted of more than 100 questions, across the following categories:

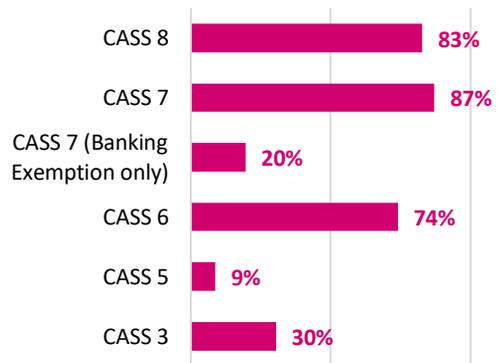
▲ Your organisation	▲ Documentation & controls	▲ Regulatory change	▲ Risks, costs, and challenges
▲ Governance & oversight	▲ CASS culture	▲ Technology	▲ Operational resilience
▲ MI & reporting	▲ CASS Audit	▲ Third party administration	▲ Other concerns

Responses were received from **~50 firms**; across a variety of businesses; and a range of CASS footprints:

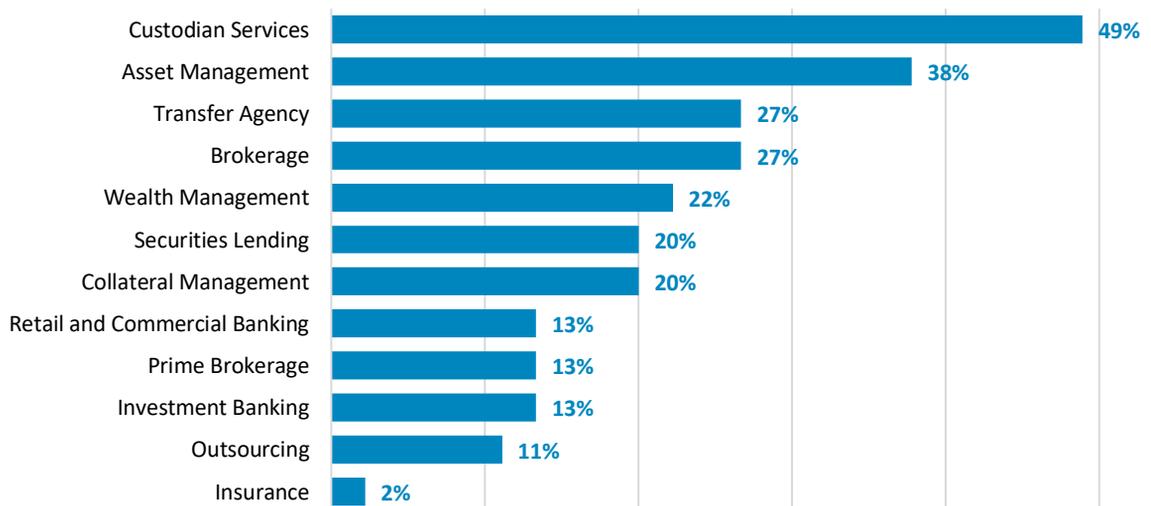
Size of firms taking part



CASS Footprint of firms taking part



Services offered by firms taking part



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# Key findings



# Key findings



**Systemic challenges** seem to be driving an increase in audit costs for everyone. Possible explanations may include:

- ▲ Costs of staff to the auditor – the ‘great resignation’ or changes in staffing post COVID
- ▲ Costs of technology auditing
- ▲ Changes in set up to work more remotely resulting in inefficiency

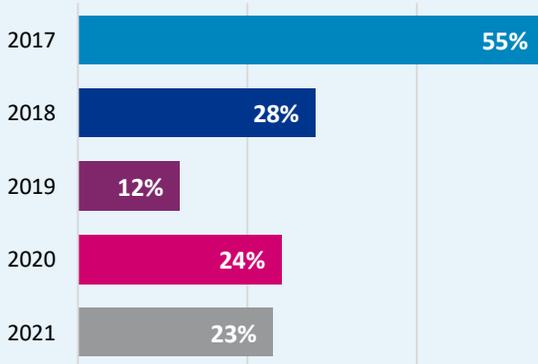
It may also be the true cost of auditing is becoming clearer to the audit firms as the increased technology and control testing focus has bedded in over the last few years.



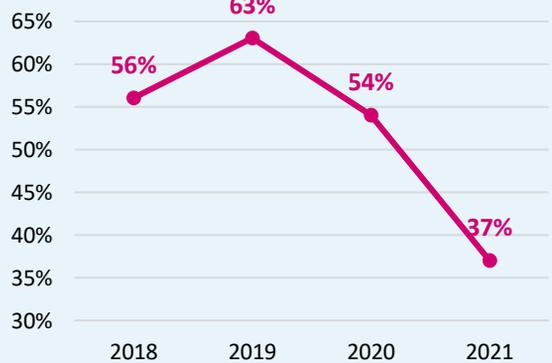
## Reduction in IT investment -

General theme across both technology and governance & culture is that firms may have had to take a ‘make do’ / ‘survival’ approach to CASS in the last year and may be waiting for a ‘return to normal’ before making any significant improvements or investments.

**Average increase in cost of CASS audit**



**Firms investing in CASS related technology**

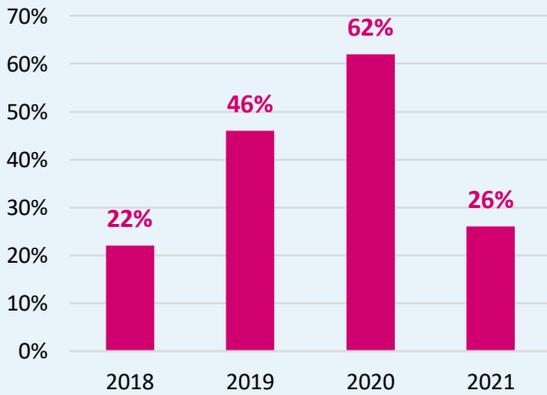


# Key findings



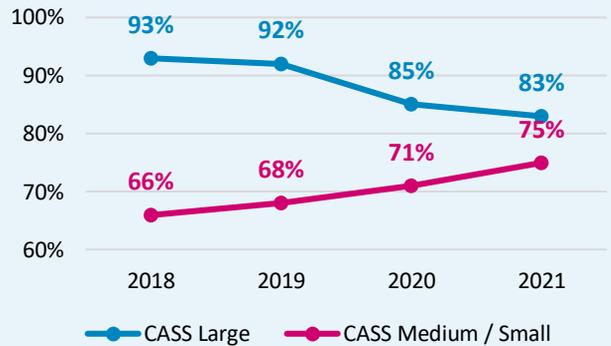
**Use of robotics is down** - This suggests that firms may be actively taking out robots that had been used as a tactical solution for reducing operational cost and risk, and/or moving to more sophisticated automation technology / more strategic solutions.

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



**FCA relationship** - Only 8% of CASS Large firms received a visit from the FCA in the last twelve months regarding CASS – a drop from the 23% of CASS Large firms that received a visit in 2020.

**Have a good relationship with the FCA**



**Significant number of Dear CEO letters** – 7 or more similar communications from the FCA – is this approach going to be used more in the future?

While targeted at specific sectors (such as Brokers for example) there is evidence of the themes in focus being carried across sectors in the CASS audit which means all firms need to be aware of the content.

0.007% 250,000  
0.561% 375,000  
0.032% 621,000  
0.004% 300,000  
0.116% 743,000  
0.57% 405,000  
0.03% 882,000

# 2021 Participant data

08 - 1137  
- G.C%21 - 192,485 5,378%  
31,629 9,825%



# Survey population

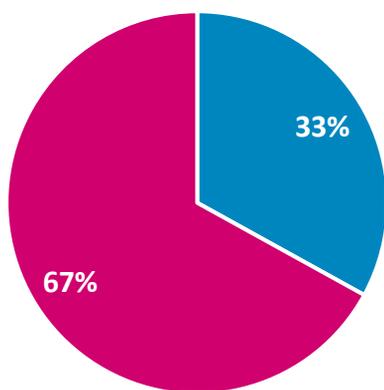
## CASS 6 – Safe custody assets

### Balances

- ▲ **£8.1 trn** – total assets held under custody by CASS 6 firms (£6.2 trn in 2020)
- ▲ **£270 bn** – average client assets balance per CASS 6 firm (£220 bn in 2020)
  - ▲ Large firms: **£680 bn** (£458 bn in 2020)
  - ▲ Small/Medium firms: **£11 bn** (£15 bn in 2020)
- ▲ **98%** - proportion of client assets held by CASS Large firms, despite only making up **39%** of the population

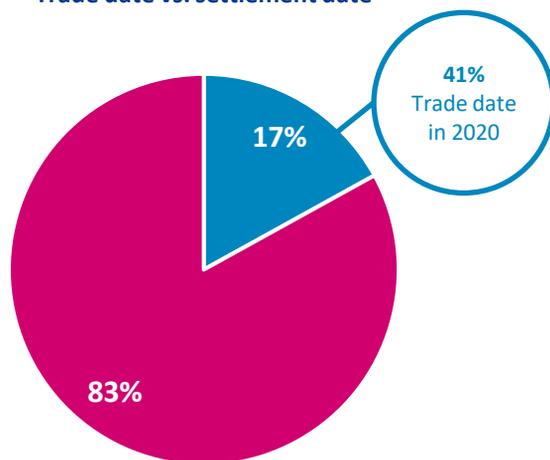
### Other indicators

Internal Custody Record Check



- Internal custody reconciliation method
- Internal system evaluation method (ISEM)

Trade date vs. settlement date



- Trade date
- Settlement date

- ▲ Of this year’s respondents, **two-thirds** of those holding client assets (CASS 6) are now using the Internal System Evaluation Method (ISEM). This is interesting as the ISEM is a relatively new concept and does beg the question what firms were using for their internal custody reconciliations prior to this being an option within the CASS rules?
- ▲ Where applicable, **83%** of firms are now reconciling using Settlement Date – a significant increase from **59%** in 2020 – and evidence that firms are responding to the FCA’s steer on this topic

# Survey population

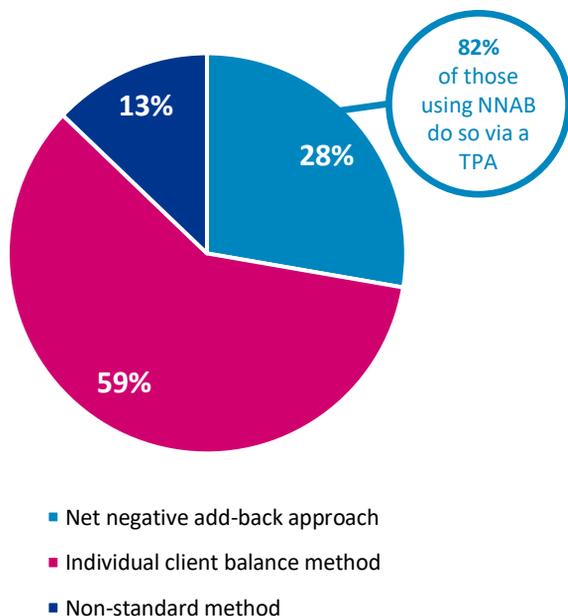
## CASS 7 – Client money

### Balances

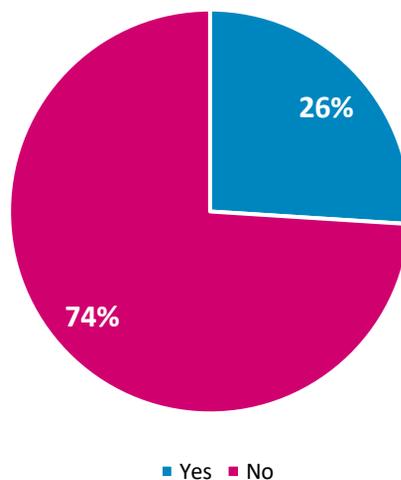
- ▲ **£22 bn** – total client money held by CASS 7 firms (£54 bn in 2020)
- ▲ **£0.6 bn** – average client money balance per CASS 7 firm (£1.6 bn in 2020)
  - ▲ Large firms: **£1.8 bn** (£5.2 bn in 2020)
  - ▲ Small/Medium firms: **£126 m** (£90 m in 2020)
- ▲ **83%** - proportion of client money held by CASS Large firms, despite only making up **27%** of the population
- ▲ **4.2** – average number of client money banks used for diversification (maximum 30)

### Other indicators

Internal Client Money Reconciliations



Unbreakable deposits?



- ▲ Of this year’s respondents, **28%** of those holding client money (CASS 7) are using the Net Negative Addback Method (NNAB). The vast majority of these firms (**82%**) do so via a TPA, which suggests the use of NNAB is driven primarily by the systems employed by a TPA, rather than a conscious choice by the CASS firms themselves
- ▲ Only **26%** of firms are currently making use of unbreakable term deposits, which is no surprise given the current low interest rate environment. It will be interesting to see whether this changes in the coming year

# CASS audit



# Summary

## Audit costs continue to rise significantly year on year

### Key stats



of firms saw an increase in the cost of their annual 'CASS audit'



**£252k**

Average cost of a CASS audit was £252k for CASS large firms and £119k for CASS medium firms



Average rise in cost was 23%



**More firms than ever**

regard the audit as valuable for their firm



### Key commentary

- ▲ Greater use of breach / incident grouping
- ▲ 88% is the largest proportion of firms seeing an increase since 2017
- ▲ Similar across different types of firms e.g. TPA v non TPA, which seems to indicate more systemic issues with audit costs
- ▲ Possible explanations may include:
  - ▲ Costs of staff to the auditor – the 'great resignation' or changes in staffing post COVID
  - ▲ Costs of technology auditing
  - ▲ Changes in set up to work more remotely resulting in inefficiency
  - ▲ It may also be the true cost of auditing is becoming clearer to the audit firms as the increased technology and control testing focus has bedded in over the last few years

# Audit: costs

## Costs continue to rise year on year

CASS audit costs up again:

- ▲ 87.8% of firms saw an increase  
(74% in 2020, 49% in 2019, and 69% in 2018)
- ▲ 2.4% a reduction  
(2% in 2020, 4% in 2019, and 17% in 2018)

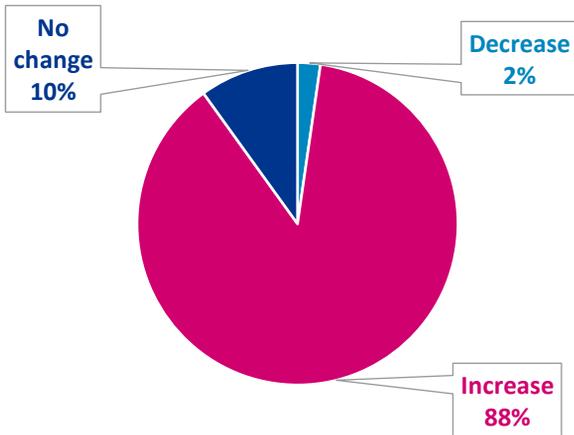


An even larger proportion of firms saw an increase in cost again this year, 88% is the most we have seen since 2017. The number seeing a reduction in costs was also at its lowest ever level.

Unlike prior years there was no variance between firms using a TPA and those not. Along with the 88% figure above and the variety and of firms surveyed this seems to us to indicate the costs increase being driven by systemic factors. Possible explanations may include:

- ▲ Costs of staff to the auditor – the ‘great resignation’ or changes in staffing post COVID
- ▲ Costs of technology auditing
- ▲ Changes in set up to work more remotely resulting in inefficiency

CASS audit fee change



The rate of increase has stayed similar to last year: average cost increase 23% (see graph)

- ▲ Average cost increase in 2021 survey:
  - ▲ CASS Large firms: 14%  
(15% in 2020)
  - ▲ CASS Medium and Small firms: 29%  
(32% in 2020)



The rate of increase in costs remains remarkably high. The 2017 figure was likely driven by the enhanced FRC assurance standard which then dropped off over the subsequent 3 years. Since then however, the rate has stopped falling and has been above 20% two years in a row.

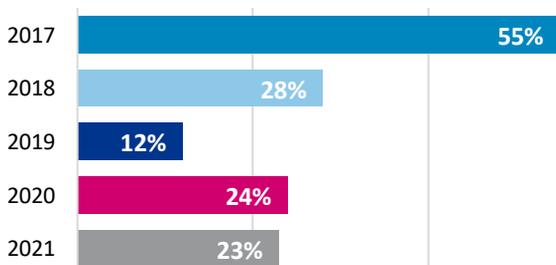
We can only suggest why this might be:

- ▲ Increased focus on IT controls testing costs
- ▲ Further changes to the audit standard

Where the CASS Large firms lead the Medium/Small seem to follow, we suspect that Medium/Small too should be trending down toward the 10-15% range seen in 2019.

We noted also a significant difference between firms using TPA and those not (40% v 14%). This may align to the suggestion about technology focus driving audit cost increase – for example, TPAs are some of the biggest users of robotic process automation (RPA).

Average increase in cost of CASS audit



# Audit: costs

## Firms' bills can vary significantly

- ▲ 89% of firms in our survey had their CASS audit conducted by a 'big 4' firm (94% in 2020)
- ▲ The average cost across the full sample was **£154k** (£122k in 2020)
- ▲ Comparing CASS Large firms with CASS Medium firms: Large **£252k** (£201k in 2020) and Medium **£119k** (£107k in 2020)

◆ Low    ● Average    ◆ High



In the chart you can see a wide range of costs, as you might expect given the wide variety of firms included and relative complexity of their business.

It is hard to say what might have driven costs up again this year, and by such a substantial amount:

- ▲ Increased costs of IT focussed work
- ▲ Less efficiency working remotely
- ▲ High demand for specialist CASS resource

With inflation costs and the above trends set to continue, it would be likely in our view that we will see more increases in 2022.

# Audit: views of firms

## Broad consistency across the sample

Statement	Large	Medium / Small
The audit was valuable for the firm	↑ 92% (85% in 2020, 50% in 2019)	↑ 85% (68%, 61%)
Auditors should be able to apply materiality to breaches in annual CASS audits	↑ 67% (62%, 64%)	↑ 85% (84%, 80%)
CASS-specific IT controls are documented	↑ 100% (92%, 86%)	↓ 79% (87%, 78%)
Audit firms rely heavily on the documentation provided to them	↓ 92% (100%, 93%)	↑ 97% (90%, 78%)

### And finally:

**25** The average number of CASS audit findings, from (59 in 2020 and 52 in 2019)

Most striking has been the continued trend for firms to see the Audit as valuable to them, the rise initially seen for CASS large firms is now also reflected in Medium/Small firms as well.

This seems logical as audit firms learn lessons from auditing under the new standards and enhance the audit experience.

IT controls and auditor reliance on documentation now seem to be an established theme.

The desire for use of materiality in CASS audits remains the majority view but it is not increasing, perhaps suggesting people have a view based on principle.



Emerging themes:

**IT controls, Mandates, TTCA**



A significant drop in the average number of CASS audit findings could have several explanations:

- ▲ Greater use of grouping
- ▲ It's harder to find issues with more remote working
- ▲ Improvements feeding through from prior years

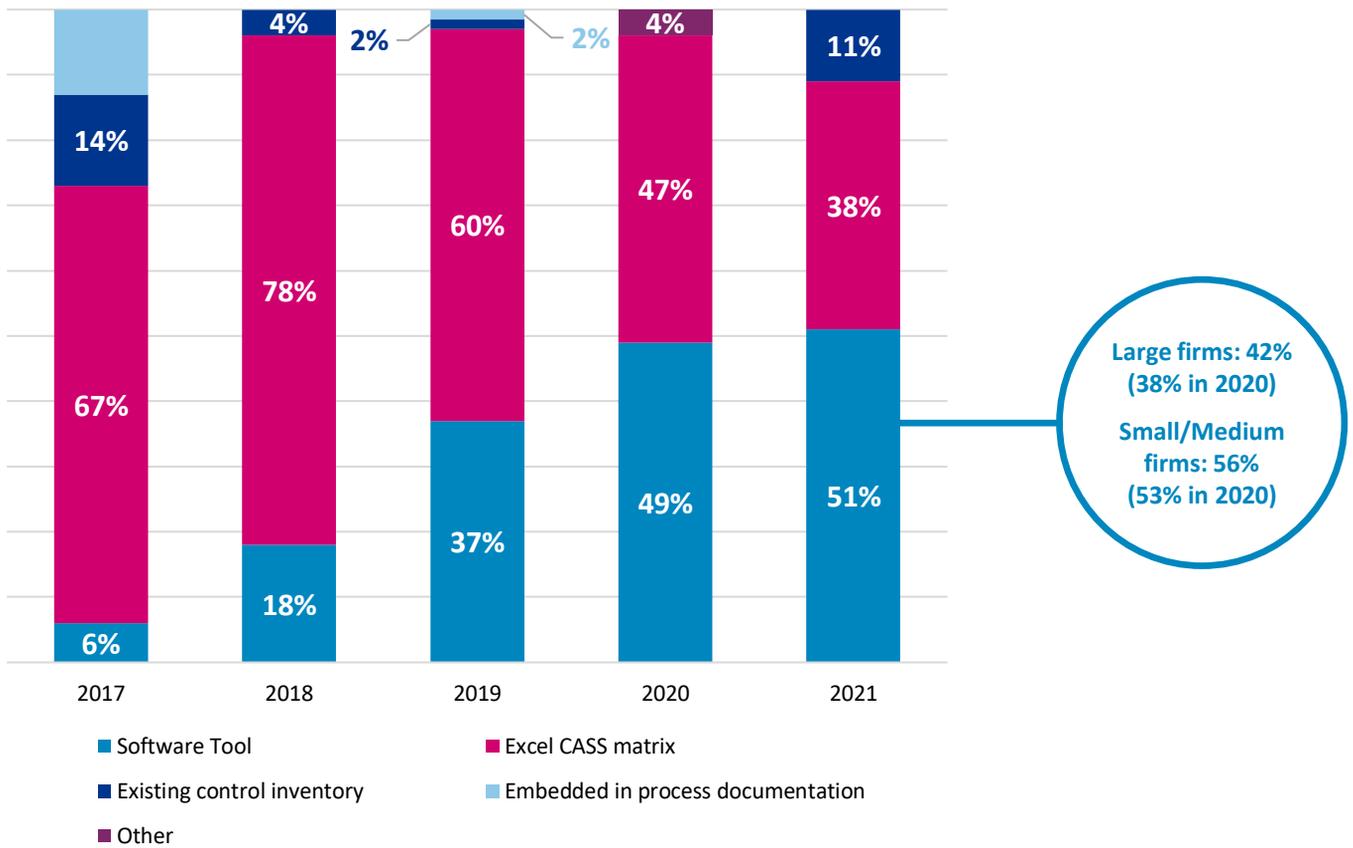
We also note the TTCA theme, this was mentioned in the FCA's 'Dear CEO' of July 2020. While this was addressed to Brokers it seems the messages have been carried across to other types of firm as well. This makes awareness of all such letters key for CASS firms even if they are not the direct recipients.

# Audit: CASS toolkit software

Software solutions for CASS toolkit continue to be popular in response to the FR&C assurance standard and auditor expectations

- ▲ Of our 2021 participants, only 38% are using Excel to manage their CASS toolkit. This is less than half the number we saw just 3 years ago
- ▲ The use of software tools has levelled off slightly – only increasing by 2% since 2020
- ▲ Now that more than half of respondents are using a software tool, time will tell whether this represents a tipping point in terms of Auditors and the regulator having heightened expectations of CASS firms

CASS Toolkit Approach





# Key trends

# Summary

The 5 years worth of data accumulated through this survey has identified some key trends over time

## Key stats



### Fewer FCA visits

(8% of Large firms down from 23% in 2020)



### Firms reporting fewer audit findings

but there remains a huge range



### Relationship with FCA trending down

for CASS Large firms but upward for Medium and Small



## Key commentary

- ▲ The vast majority (8 out of 10) of firms still say they have a good relationship with the FCA when it comes to CASS
- ▲ The gap between CASS Large and Medium/Small has however narrowed significantly over the last five years
- ▲ The reduction for CASS Large firms could be explained by there being fewer visits reported perhaps, but it is less clear what is driving the increase for CASS Medium/Small

# Controls and testing

Controls documentation and testing is now an almost universal approach

	2017	2018	2019	2020	2021
Average number of controls	88	160	165	206	163
% of first line testing	68%	73%	73%	89%	88%
% of second line testing	63%	75%	83%	93%	93%
% of third line testing	56%	63%	68%	82%	96%

- ▲ Testing is now well established in all 3 lines of defence which has been a significant shift over the past 5 years to such an extent that only a very small minority are not doing this
- ▲ The average number of controls recorded has remained roughly flat now for a few years. This is potentially linked to the number of applicable CASS rules and the practice of mapping a control or two against each

	2017	2018	2019	2020	2021
Average dedicated CASS team size in FTEs	3.5	6.2	5.8	5.7	8.4
Average number of CASS incidents	<40	59	177	126	139
Average number of CASS breaches reported to the FCA	<5	7.0	14.7	12.1	31

- ▲ More reporting to the FCA on breaches this year: with the first nearly full year with significant remote working due to government restrictions, this could be related. We will have to wait until 2022 to see if this drops back again
- ▲ The number of CASS incidents recorded was roughly flat so perhaps the increase in reporting to the FCA reflects greater uncertainty in operating some of the rules under current circumstances

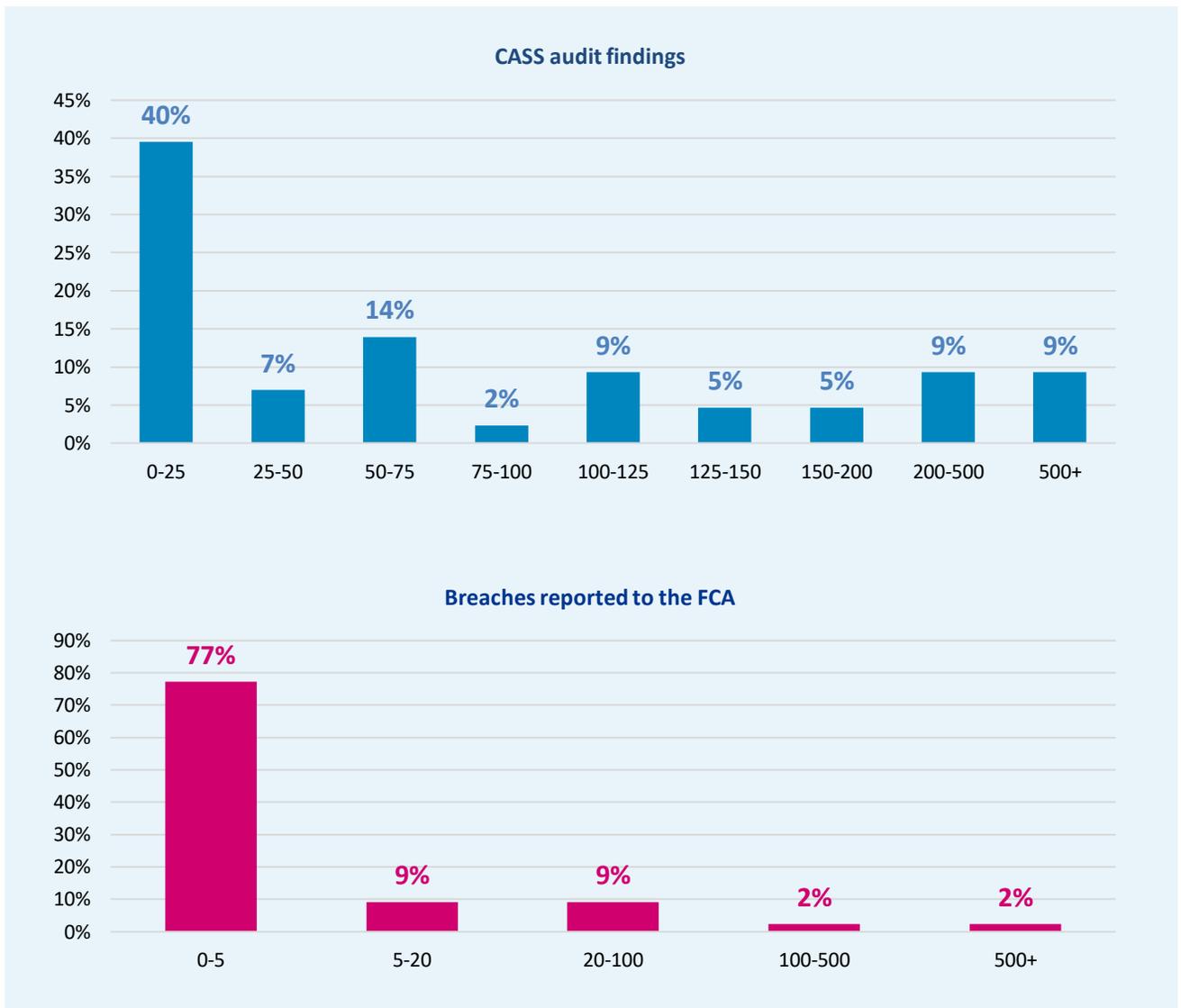
# Incidents and breaches

## Distributions show a small number of firms still have high volumes

We see a similar pattern to prior years for CASS audit findings, with approximately two thirds of firms receiving fewer than 100. There were however nearly 20% of firms that recorded over 200 audit findings.

From our discussions auditor approach can vary, some for example would group findings by similar types of breach and others do not. This together with business specific factors likely to account for the majority of variance.

Breaches reported to the FCA follow a similar pattern, with the majority of firms reporting 5 or fewer and a small number of firms sharing 100+.



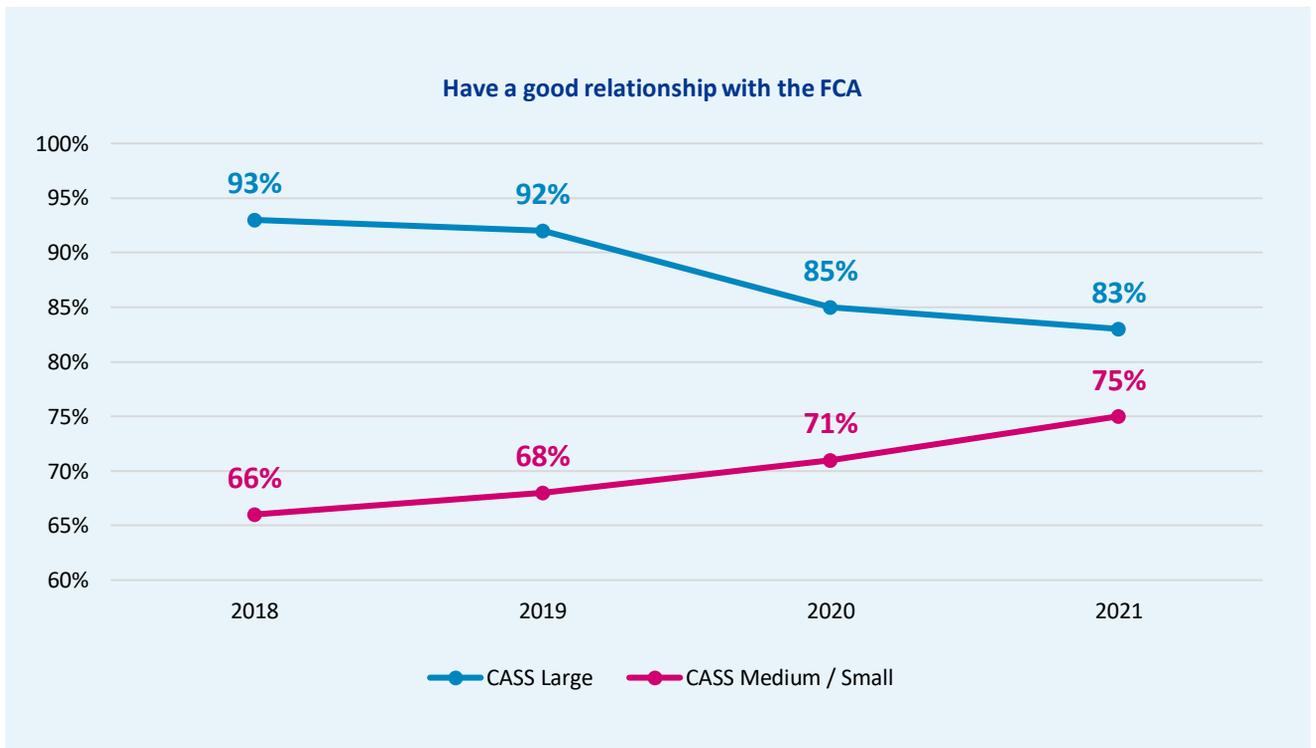
# FCA interaction

## Changing relationships with the FCA

Only 8% of CASS Large firms received a visit from the FCA in the last twelve months regarding CASS – a drop from the 23% of CASS Large firms that received a visit in 2020.

No CASS Medium / Small firms received an FCA visit in that time period for the second year running. This reduction in direct regulatory intervention will come as no surprise as further lockdowns in the last 12 months will have heavily restricted the number of firms able to open their offices to employees, or for regulatory visits.

Despite this, the trends seen in 2020 in the relationships firms were reporting with the FCA have continued into 2021. CASS Large firms continue to see a drop in positive responses to whether they have a good relationship with the FCA, while CASS Medium / Small firms continue to see an improvement in their relationship with the FCA, despite (or perhaps because of) the lack of regulatory visits they have received over the last two years.



The background of the image is a close-up, top-down view of several white envelopes. The envelopes are scattered and overlapping, with their flaps and corners creating a complex, geometric pattern of light and shadow. The lighting is soft and even, highlighting the texture of the paper and the sharp edges of the folds.

# Dear CEO letters

# Dear CEO letters

Unusually high number of 'Dear CEO' letters issued by the FCA over the last year



## Dear CEO

2<sup>nd</sup> July  
2021

**General Insurance intermediaries** – importance of maintaining adequate safeguards

18<sup>th</sup> May  
2021

**e-money firms** – ensure your customers understand how their money is protected

30<sup>th</sup>  
September  
2020

**All firms** – adequate arrangements and the impact of coronavirus

30<sup>th</sup>  
September  
2020

**General Insurance intermediaries** – Adequate Client Money Arrangements

12<sup>th</sup>  
August  
2020

Increased client money balances since coronavirus

24<sup>th</sup> July  
2020

**Brokers** – recent examples of inappropriate use of TTCAs by brokers in wholesale financial markets

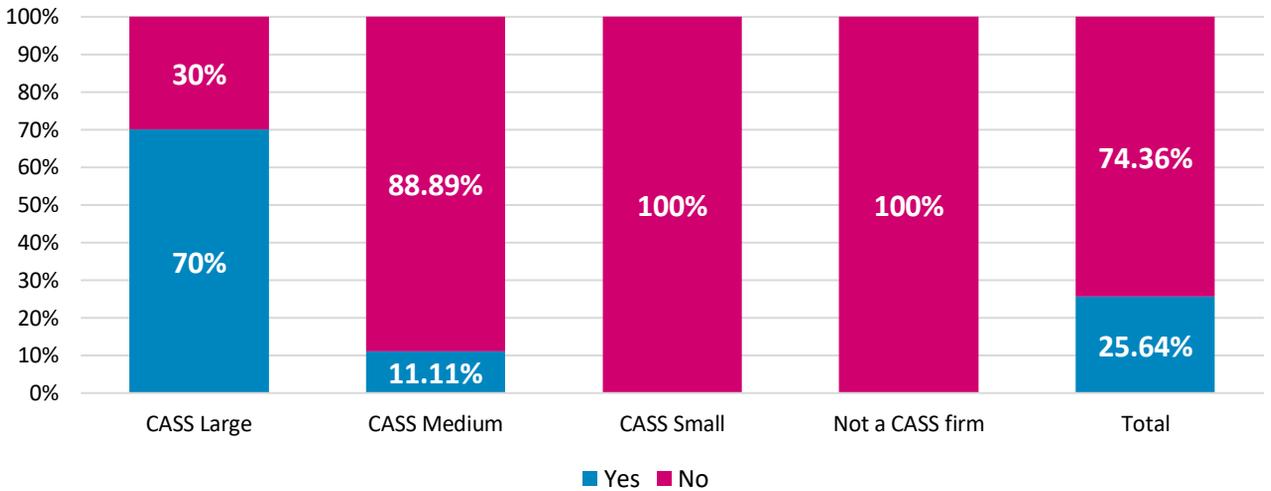
6<sup>th</sup> April  
2020

updated 14<sup>th</sup> September 2021 – client assets and coronavirus (summary of Dear CEO letters)

# Dear CEO letters

## Client Money Deposits

Do you place any client money in unbreakable deposits?



- ▲ Given CASS Large firms hold much larger client money balances, it is unsurprising to see they are more likely to place client money in unbreakable term deposits – **70%** of CASS Large firms vs **11%** of CASS Medium firms
- ▲ We would also expect CASS Large firms to have a larger portion of their client money balance that is relatively static – thus allowing them more flexibility regarding the average term of a term deposit – evidenced by our responses of an average of **79 days** for CASS Large firms, and **35 days** for CASS Medium

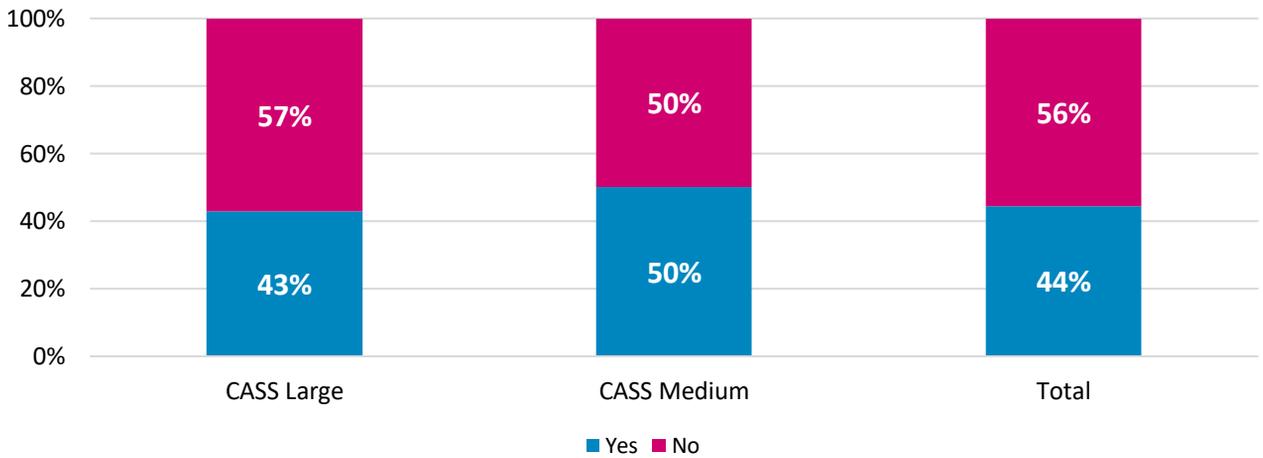
	CASS Large	CASS Medium	CASS Small	Not a CASS firm	Total
Average term (days):	79	35	n/a	n/a	68



# Dear CEO letters

## Client Money Deposits

Do you pass on the interest earned on client money balances held in unbreakable deposits to clients?



- ▲ Despite CASS Large firms being far more likely to make use of unbreakable term deposits, the number of firms that pass on the interest earned to clients is broadly similar across all respondents at around **50%** - it would be interesting to see whether this would differ outside of the current low interest rate environment
- ▲ Client money banks continue to be an interesting topic in the industry with many firms still experiencing issues in opening new accounts – this results in a low number of diversification banks being employed by all CASS firm types:

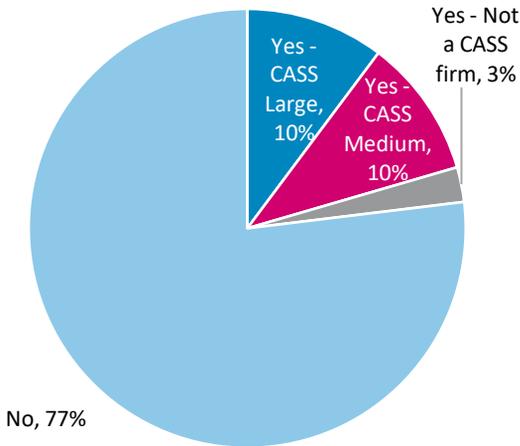
	CASS Large	CASS Medium	CASS Small	Not a CASS firm	Total
Average no. of diversification banks:	10	2.33	1	1	4.23



# Dear CEO letters

## Client Money Deposits

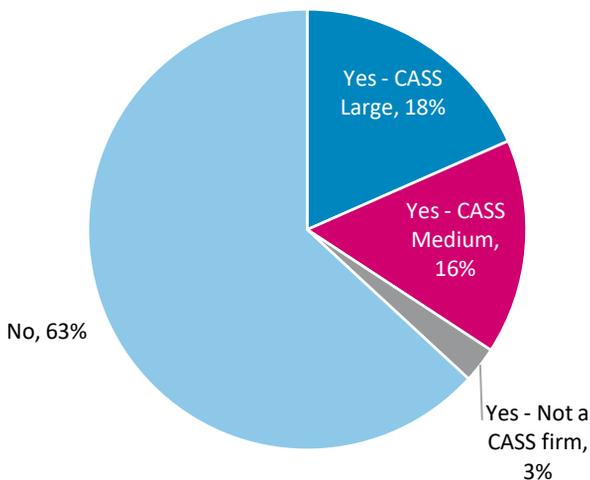
Have you experienced any challenges in placing client money balances with banks? If yes, please provide further details.



Nearly **1 in 4** firms have experienced challenges in placing client money with banks in the past 12 months. Below are a sample of comments provided by respondents:

- ▲ *“Banks not wanting to provide night deposit services”*
- ▲ *“In the low interest rate environment the banks we use for client money have low to no appetite for client money deposits especially on shorter durations.”*
- ▲ *“Challenges observed for smaller firms.”*
- ▲ *“We have been unsuccessful in retaining client money bank accounts with a back up service provider.”*
- ▲ *“Usually timing related issues when funds get held up or are not processed in a timely manner. We have also experienced issues with opening new bank relationships (not only client money) and new accounts with banking partners during the pandemic”*

Have you experienced a reduction in the returns offered by banks on client money balances? If yes, please provide further details.



Approximate **a third** of firms have experienced a reduction in the returns offered on client money balances in the past 12 months. Comments include:

- ▲ *“Our banking panel largely offer rates in line with the Bank of England base rate which reduced in March 2020”*
- ▲ *“Rates are generally directly linked to BOE base rate so returns have fallen in line with reductions in the central bank rate.”*
- ▲ *“Consistent down tick, some providers actively suggesting negative rates”*
- ▲ *“These reductions are driven by the low/negative interest rates on client money accounts”*
- ▲ *“Rates for GBP at call now 0% and 35 -95 day notice / deposit accounts rates have reduced by half at the beginning of the summer. Some products have been removed altogether.”*
- ▲ *“We charge to hold most currencies at the moment apart from USD”*

# Dear CEO letters

## Client Money Deposits



### Dear CEO

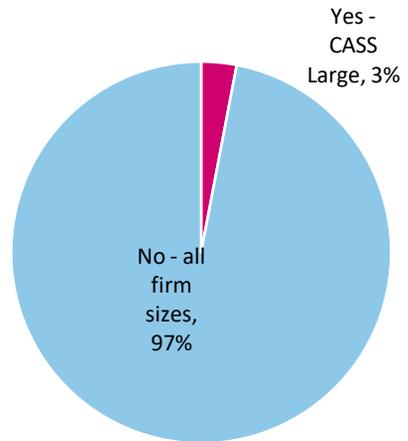
14<sup>th</sup>  
April 2021

Obtaining Deposits via Deposit Aggregators

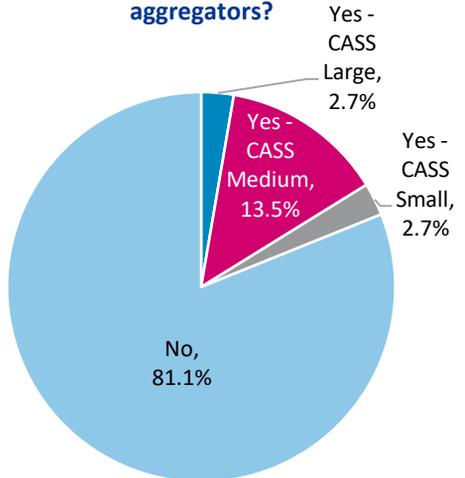


Included question on this topic for the first time

Are already using, or planning to use, a Client Money aggregator service?



Did you receive/review the 'Dear CEO letter' regarding Client Money aggregators?



Has the letter altered your stance on the use of client money aggregators?



*Low interest rates and a volatile bank appetite for CASS client money have hampered returns and diversification over the last eighteen months for CASS firms.*

*Insignis can provide CASS firms that hold client money with a highly efficient way to access new banks and products, transacting via a single platform with robust operational resilience and single-view reporting. Whether small, medium or large we would encourage the 97% of firms who have not considered using a platform to get in touch and see what we can do to support."*



Sponsor content

# Technology



# Summary

## Fewer firms invested in technology relating to CASS over the last 12 months

### Key stats



**£294,000**

average amount firms spent on CASS-related technology last year



of firms that invested in Workflow tools also invested in CASS Toolkit technology



of firms invested in CASS-related technology in 2021



### Key commentary

- ▲ Technology spend has dropped significantly when compared to the levels seen in 2020
- ▲ Firms were almost twice as likely to spend on CASS Toolkit related technology when compared to any other tool
- ▲ Robotic Process Automation (RPA) is falling out of favour as a tool to support CASS
- ▲ Auditors are increasingly likely to provide feedback on CASS-related technology for CASS Large firms

# Technology: investments

Fewer firms are investing, and those that are prepared to invest are spending less

## Technology investment takes a significant hit in 2021

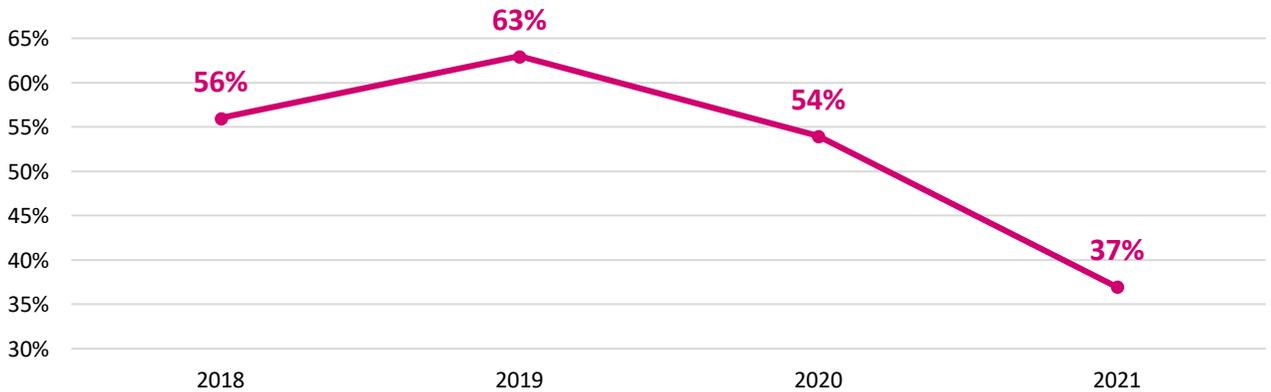
2021 has seen a dramatic drop off this year in both the number of firms prepared to invest in CASS-related technology, and in the amount they are prepared to spend.

In previous years, the percentage of firms investing in CASS-related technology has been fairly consistent (between 54% and 63%), but this year the percentage of firms investing in CASS-related technology has fallen to only 37% - the lowest figure seen since our survey began.

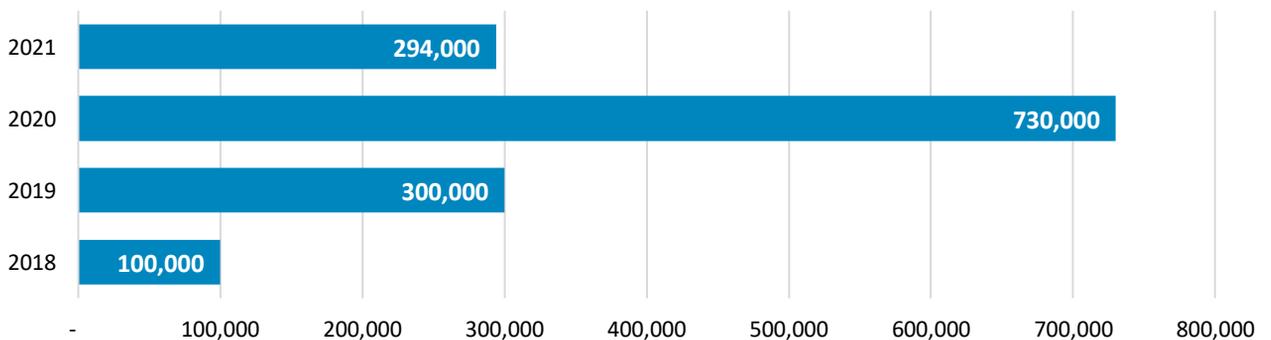
2020 saw a huge jump in the amount firms were prepared to spend on their CASS-related technology, with average investment rising to £730,000. This jump has however been completely reversed in 2021. Those firms that that were prepared to spend this year invested an average of only £294,000 – falling slightly below the average spend seen in 2019 (£300,000).

Is this because many firms have made significant upgrades over the last few years, and therefore have no need to spend? Or is the ongoing COVID-19 pandemic hindering the ability and appetite for firms to invest in technology driven improvements as firms and employees continue to battle the hybrid office/home working models mandated by COVID-19 and the uncertainty over future ways of working?

Firms investing in CASS related technology



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



# Technology: tools

Falls in investment were seen across all spend categories, however some tools held up better than others

## What tools are firms investing in?

Technology to support the CASS Toolkit has been the tool most firms were prepared to invest in during 2021, with 22% of firms spending in this category. This is almost double the score seen in any other spend category in 2021, and continuing the trend seen in 2020 where CASS Toolkit technology was also the most popular tool for firms to invest in.

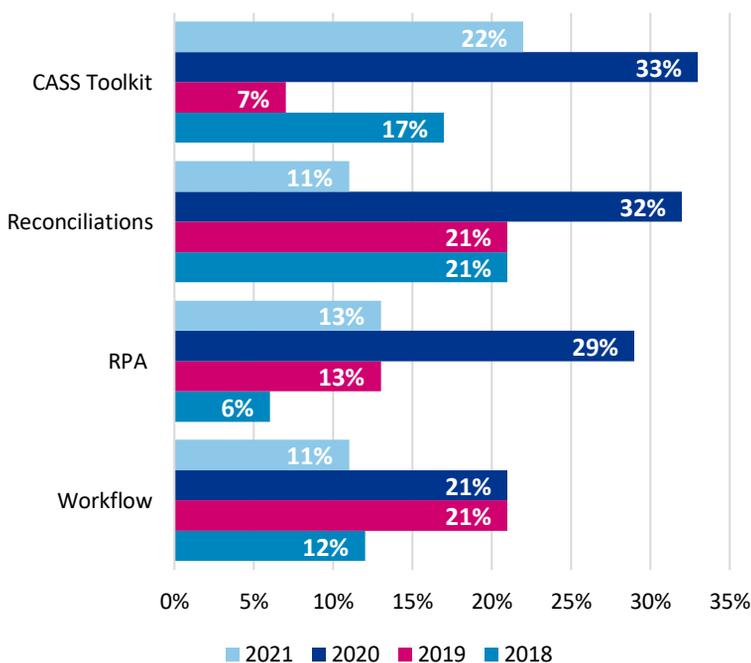
Reconciliations tools saw the biggest drop off in percentage of firms investing, falling from 32% in 2020 to just 11% in 2021 – its lowest ever score. Reconciliations tools have always previously been one of the most popular tools in our survey, so it may be that most firms have already upgraded their reconciliations tools to more automated solutions, or that the high cost associated with upgrading reconciliations tools (as will be seen later in our report) has stalled investment in this area.

Automation solutions targeting reduction of cost and operational risk exposure have also seen significant drops in 2021. The number of firms prepared to invest in Workflow solutions fell from 21% in both 2020 and 2019, to just 11% in 2021. However, it is worth noting that every firm that spent on Workflow tools also invested in their CASS toolkit, suggesting that those firms looking at investing in CASS Toolkit technology should consider whether their supplier is providing a high quality Workflow solution as part of their CASS Toolkit if they want to reduce overall technology spend.

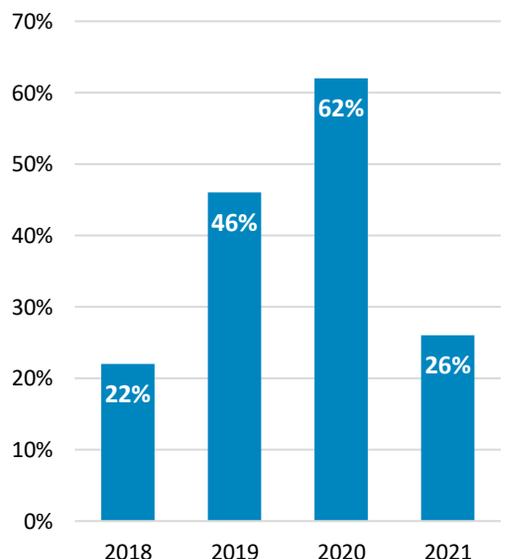
Only 13% of firms invested in RPA to support CASS related processes in 2021, a fall back to 2019 levels. And the story for RPA providers doesn't get better when looking at the number of firms applying / planning to apply Robotic Process Automation to CASS-related operational processes this year – only 26% of firms responding positively to this question – a huge drop on 2020 levels (62%), and only just higher than levels seen in 2018.

This suggests that firms may be actively taking out robots that had been used as a tactical solution for reducing operational cost and risk, and moving to more sophisticated automation technology / more strategic solutions.

What are CASS firms investing in?



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



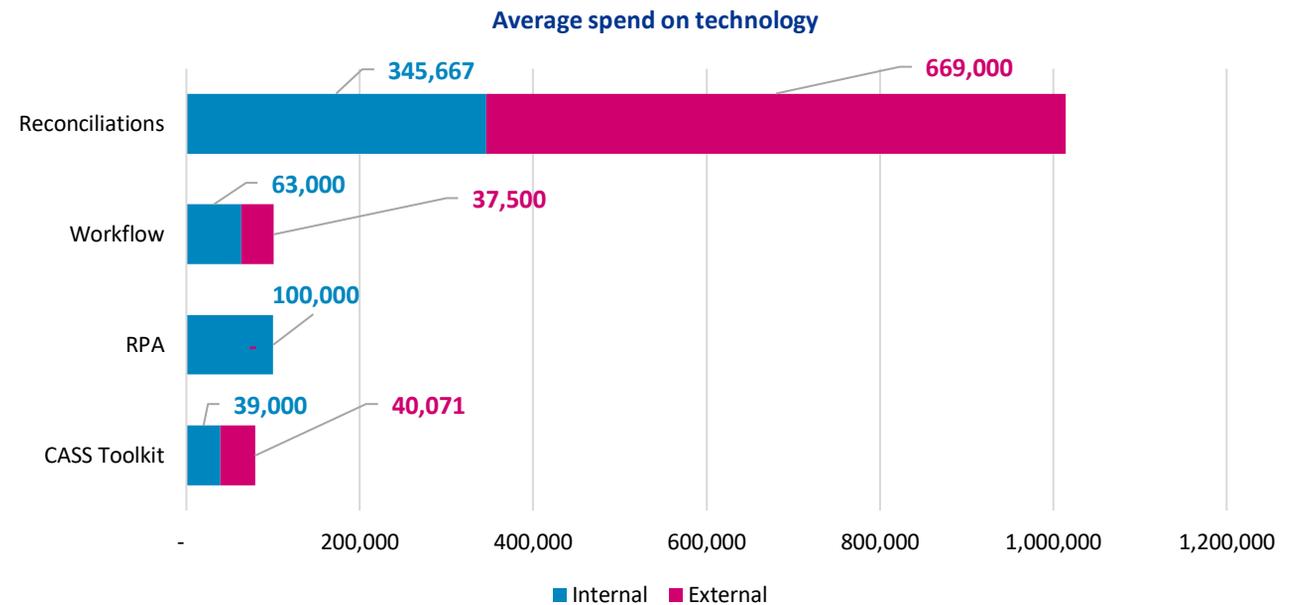
# Technology: average spend

Expensive tools saw the biggest drop in popularity during the pandemic, with firms more likely to invest in those tools with a smaller price tag

Reconciliations tools were far and away the most expensive tool in 2021, and this may have been a major contributory factor for why so few firms were prepared to spend on these tools, as on an average, total spend on reconciliations tools exceeded the £1m barrier.

It is also worth noting that the only firms to spend on reconciliations tools were CASS Large firms, given these firms generally have a more complicated CASS footprint than CASS Medium / Small, they may warrant implementing more high tech solutions for their CASS reconciliations.

In stark contrast, and in line with the results seen in 2020, the CASS Toolkit was the cheapest tool to implement in 2021. The average total spend on a CASS Toolkit in 2021 was £79,071 – the only tool in our survey costing less than £100,000 this year. The relatively low cost of the CASS Toolkit may make this an investment that is easier for CASS accountable individuals to gain budget approval for, contributing to its continued popularity.



# Technology: audit

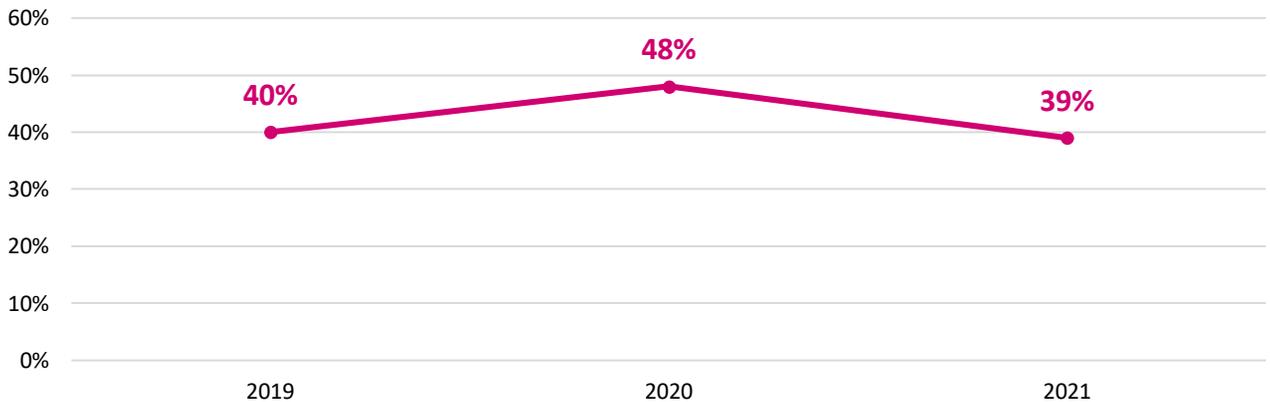
## Auditors are increasingly likely to provide feedback on CASS related technology for CASS Large firms

Technology continues to be a key focus for CASS auditors in 2021 firms - **39%** of firms received feedback on improvements required to their CASS control environment. This is a slight drop from 2020 and 2019, suggesting that some firms have been able to close technology control gaps identified by their auditors.

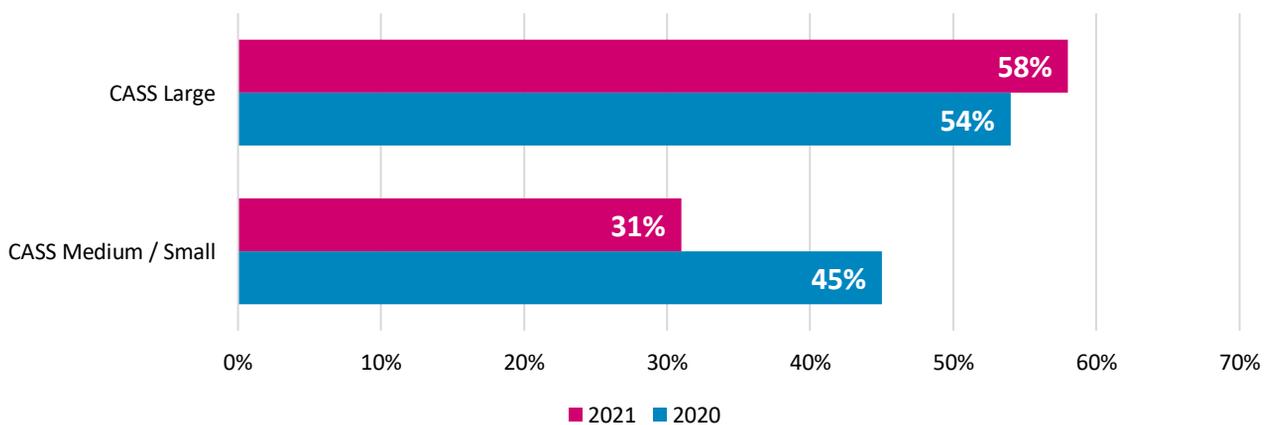
However, whilst fewer firms overall have seen a reduction in feedback from their auditors on technology, the split between CASS Large firms and CASS Medium / Small firms has continued to widen. CASS Large firms were more likely to have received feedback on technology in 2021 (**58% of firms**) than they were in 2020 (**54% of firms**).

Of the firms that did receive feedback on technology, firms were most consistently challenged by their auditor on access controls for CASS technology (**23%**), use of automation for CASS processes (**23%**), as well as the quality of the oversight of CASS technology change controls (**15%**).

Percentage of firms for whom auditors provided feedback related to technology



Percentage of firms receiving feedback on technology



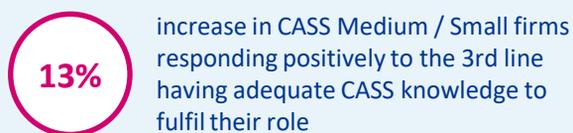
A photograph of two business women in a meeting. The woman on the left is wearing a dark blue blazer over a black and white striped shirt and is holding a white tablet. The woman on the right is wearing a dark blue blazer and is holding a laptop. They are sitting at a wooden table with a salt shaker and a pepper shaker. The background is a blurred office setting with large windows.

## Governance & culture

# Summary

## Firms' focus on "CASS culture" continues

### Key stats



### Key commentary

- ▲ CASS Medium / Small firms continue to improve their relationship with the FCA. CASS Large firms continue to report a fall in the quality of their relationship with the regulators
- ▲ CASS culture increases as a focus for all firm types in 2021
- ▲ Scope and appropriateness of CASS training delivered across CASS Large firms continues to trend downwards

# CASS oversight

## Consistent increase in experience and time spent on oversight

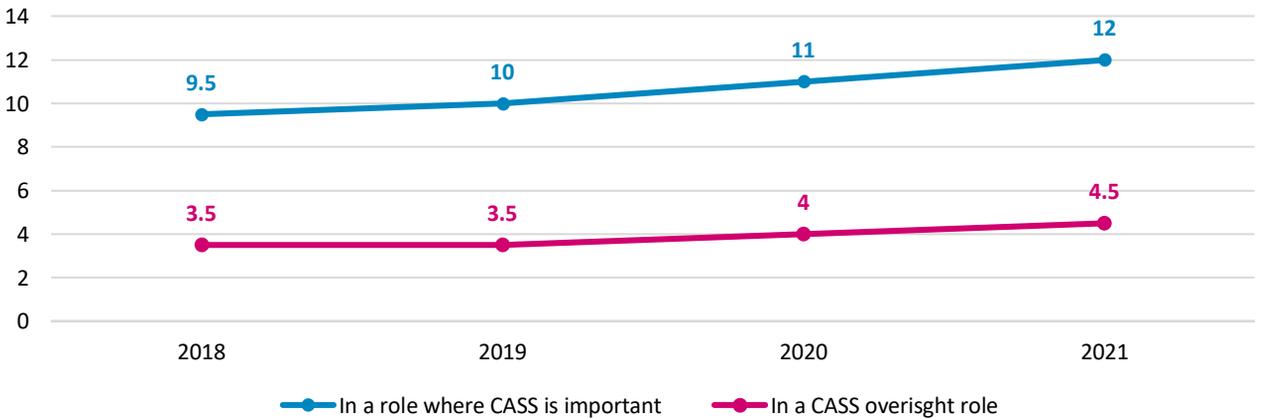
In line with previous iterations of this survey, governance continues to be highly stable across all firm types, with the experience of individuals in CASS oversight roles continuing to trend upwards.

In addition to the increases in experience of individuals in CASS oversight roles, there was a significant jump in the amount of time spent on CASS oversight this year.

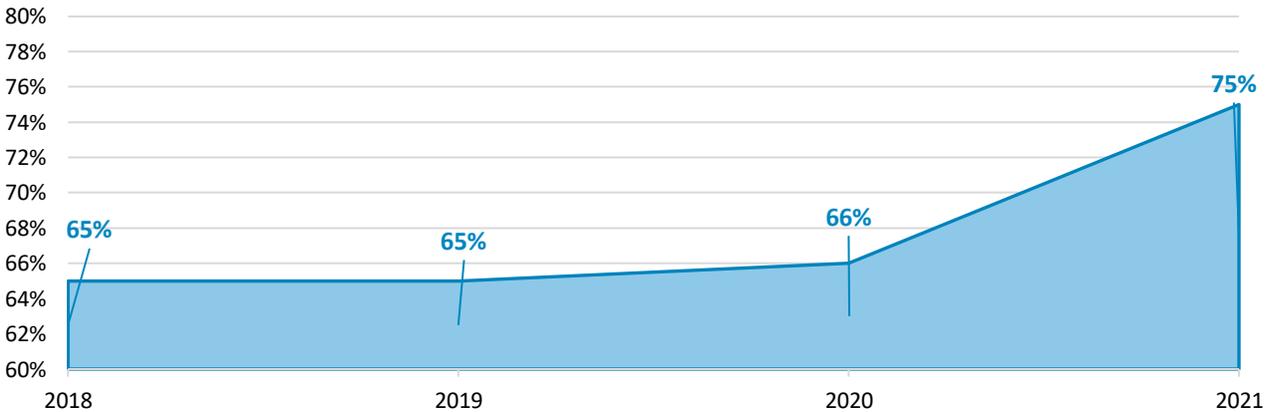
In previous iterations of this survey, CASS accountable individuals have consistently spent around 65% of their time on CASS oversight. This rose sharply in 2021 to 75% on average, potentially as a response to increased challenges posed by the hybrid working environment and increased operational control risk introduced through the COVID-19 pandemic.

The increase in average amount of time spent on CASS oversight would also suggest there would likely be an increase in focus for CASS across the board, however, this is not true in some of our key metrics.

Average experience for individuals in CASS oversight roles (number of years)



Time spent by CAO on CASS oversight



## Further culture metrics

CASS firms continue to score extremely highly on our culture metrics, with CASS Medium / Small firms demonstrating stronger gains than their CASS Large counterparts

The table below shows the percentage in each group either agreeing or strongly agreeing with each of the statements. Increases in positive sentiment versus the previous year are shaded blue, reductions are shaded pink. Statements for further comment are highlighted in **bold pink text**.

% agreement with the statements	Large				Medium / small			
	2018	2019	2020	2021	2018	2019	2020	2021
CASS is given the right level of priority within the organisation	100%	100%	100%	100%	97%	95%	94%	97%
The 2 <sup>nd</sup> line has adequate CASS knowledge to fulfil their role	86%	92%	100%	100%	80%	93%	94%	94%
<b>The 3<sup>rd</sup> line has adequate CASS knowledge to fulfil their role</b>	<b>79%</b>	<b>85%</b>	<b>85%</b>	<b>83%</b>	<b>53%</b>	<b>68%</b>	<b>71%</b>	<b>84%</b>
There is adequate knowledge and understanding of CASS in the 1 <sup>st</sup> line	100%	92%	100%	92%	91%	91%	94%	91%
People in my organisation take their CASS responsibilities seriously	100%	100%	100%	100%	97%	93%	97%	97%
<b>All breaches are escalated and reported quickly</b>	<b>100%</b>	<b>83%</b>	<b>85%</b>	<b>100%</b>	89%	91%	90%	97%
<b>We have a safe escalation environment</b>	<b>93%</b>	<b>100%</b>	<b>92%</b>	<b>100%</b>	97%	98%	100%	100%
We have a good CASS relationship with the FCA	93%	92%	85%	83%	66%	68%	71%	75%
<b>CASS culture is a focus for the current year</b>	<b>93%</b>	<b>83%</b>	<b>69%</b>	<b>83%</b>	<b>71%</b>	<b>77%</b>	<b>81%</b>	<b>88%</b>
<b>CASS training is delivered to all impacted groups/functions within the business</b>	<b>100%</b>	<b>92%</b>	<b>92%</b>	<b>92%</b>	<b>94%</b>	<b>91%</b>	<b>90%</b>	<b>97%</b>
<b>CASS training is delivered at the right level, appropriate to individuals' CASS responsibilities</b>	<b>100%</b>	<b>92%</b>	<b>92%</b>	<b>83%</b>	<b>86%</b>	<b>91%</b>	<b>94%</b>	<b>97%</b>
Staff with CASS responsibilities have a good understanding of role	100%	92%	100%	92%	94%	95%	97%	97%
<b>Our documentation of processes and controls is up to date</b>	<b>93%</b>	<b>100%</b>	<b>100%</b>	<b>92%</b>	<b>80%</b>	<b>70%</b>	<b>84%</b>	<b>97%</b>

CASS culture has returned to significant focus for CASS Large firms (**83% positive**) after seeing a significant drop off in 2020 (**69% positive**). CASS Large firms however still do not have as consistent a focus on culture as CASS Medium / Small firms which increased their score from **81%** in 2020 to **88%** in 2021.

This heightened focus on culture for CASS Medium / Small firms may be manifesting itself in the scores related to CASS training. CASS Medium / Small firms now outperform CASS Large firms in both training categories, meaning they are more likely to be delivering the most appropriate training to each of the impacted functions across their organisations.

Improved scores for training for CASS Medium/Small firms also appears to have impacted the perception of whether the 3<sup>rd</sup> line of defence has adequate CASS knowledge to fulfil their role, with CASS Medium / Small firms (**84% positive** responses) now outperforming CASS Large firms (**83% positive** responses) in this category for the first time.

We hypothesised in last year's survey that the big increase in spending on CASS Toolkit-related technology in 2020 would positively impact the quality and completeness of process and control documentation in 2021. This appears to have been the case for CASS Medium / Small firms which have increased their score from **84% positive** in 2020, to **97% positive** in 2021. A small reduction in the score for CASS Large firms now also means that CASS Medium / Small firms have also overtaken CASS Large firms in their process and control documentation scores for the first time in four years.

It's not all bad news for CASS Large firms though. **100%** of CASS Large firms were positive in their responses to questions in five different categories, whereas CASS Medium / Small were only able to score 100% in one category. CASS Large firms were noticeably strong in their responses to breach management, prioritisation of CASS within their firm and in the seriousness with which CASS is regarded within their firms.

# Outsourcing



# Outsourcing

A general theme of stability, and maturity of TPA offerings

## Key stats

86%

of firms have experienced no material change in TPA costs this year

42%

more breaches are experienced on average by firms using a TPA, compared with firms with in-house operations

44%

of firms received good visibility of intra-day issues from their TPA

21%

lower headcount in the average CASS team in firms using a TPA

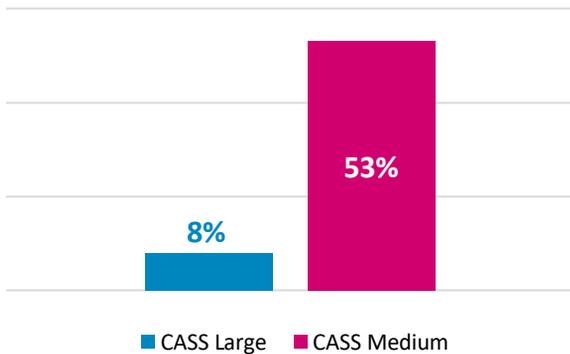


# Outsourcing

## TPA usage

- ▲ The 2021 results have **40%** of firms currently employing at least one TPA to support their CASS-related processes (slightly down from **44%** last year)
- ▲ There is a significant difference between the number of CASS Large firms (**8%**) and CASS Medium firms (**53%**) making use of TPAs
- ▲ There is a clear focus on a small number of TPAs – of those firms using a TPA, **82%** use only one, and **94%** use a maximum of two
- ▲ This flows through to the number of TPA locations used by firms:
  - ▲ The average number is **2.2** (up from 1.85 in 2020);
  - ▲ **More than half** of respondents use only one; and
  - ▲ **77%** are using a maximum of two

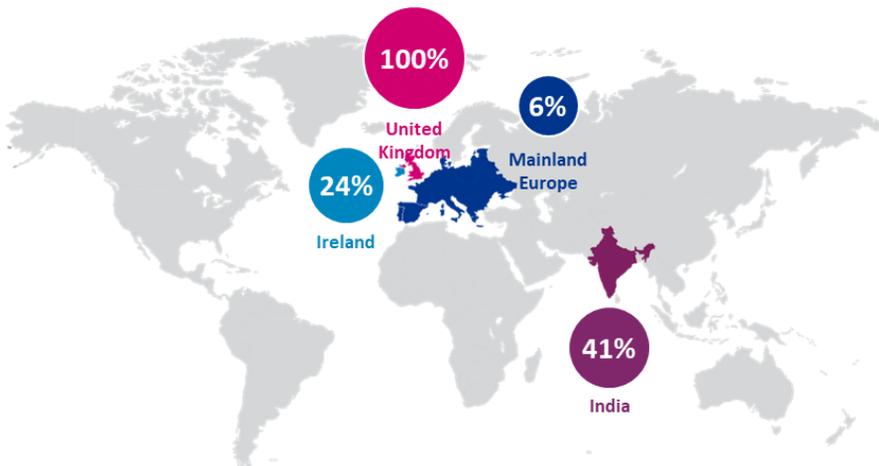
% of CASS firms utilising a TPA in 2021



Number of TPA locations used by CASS firms



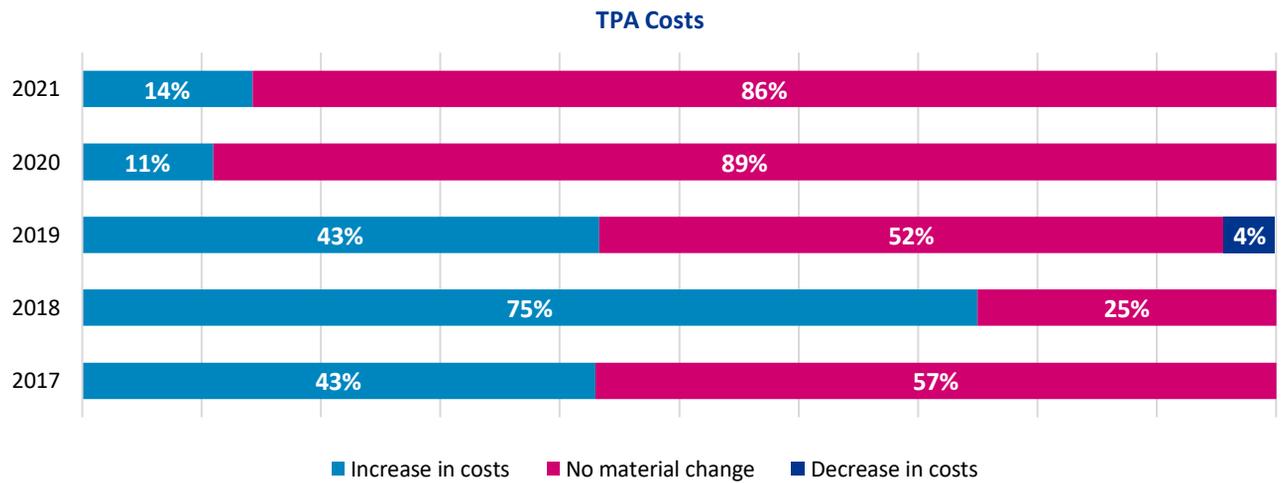
## Percentage of firms using at least one TPA



# Outsourcing

## TPA costs

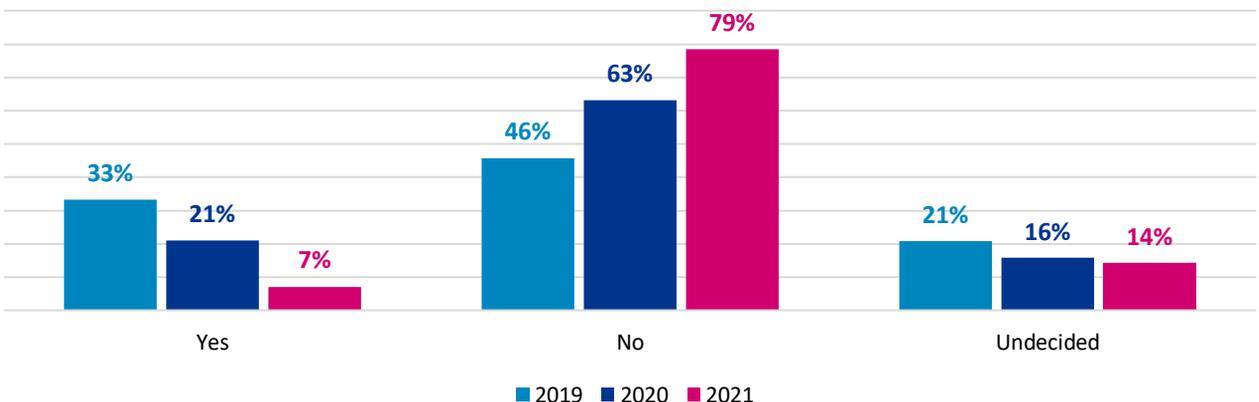
- ▲ 2021 appears to have continued the move from last year towards more stability in TPA costs with only **14%** of firms experiencing an increase in costs
- ▲ TPA processes and controls, along with their CASS advisory team, are now far more mature and in a 'business as usual' state which should signal limited cost increases for firms using TPAs
- ▲ This is in stark contrast to the peak of **75%** of firms seeing an increase back in 2018



## Re-negotiating SLAs

- ▲ In 2021, only **7%** of CASS firms using a TPA have sought to re-negotiate their SLAs
- ▲ Nearly **80%** of firms now appear to be comfortable with the SLAs in place with their TPA(s) – a significant increase from just **46%** in 2019

**Have you re-negotiated, or are you planning to re-negotiate, your SLAs in light of the FRC standards or FCA pressure?**

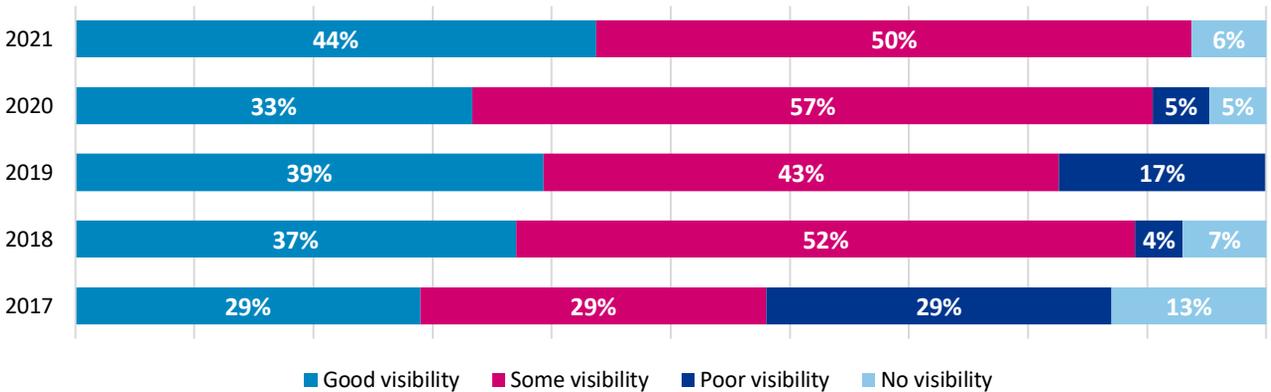


# Outsourcing

## TPA transparency

- ▲ 2021 has seen a peak in the number of firms experiencing 'Good visibility' from their TPAs – up to **44%**
- ▲ The number of firms experiencing 'good' or 'some' visibility has been in excess of 80% in every year other than 2017 (**58%**), and has also peaked this year at **94%**

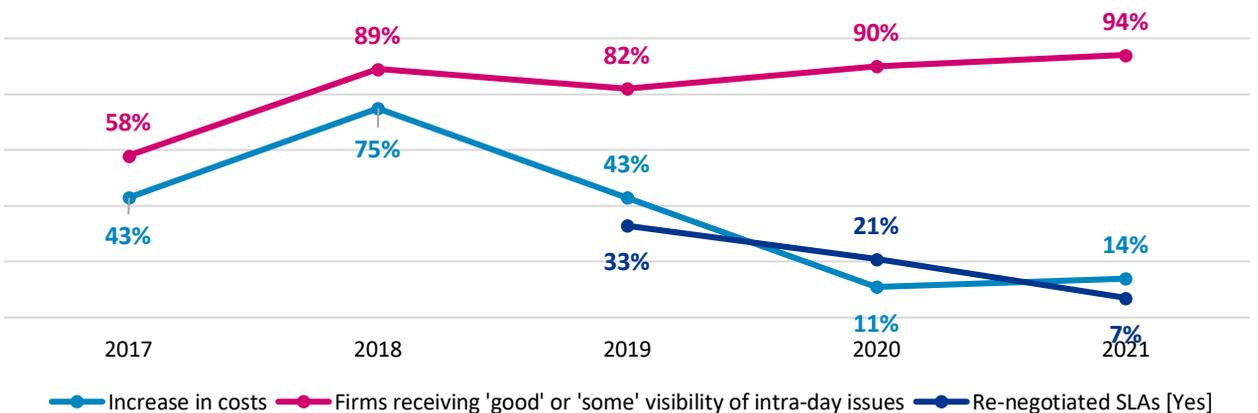
Visibility of issues from TPAs



## The overall picture

- ▲ Pulling together these three questions over the 5-year period tells an interesting story
- ▲ TPA charges increased significantly in 2017-19, with a clear spike of **75%** firms seeing an increase in charges in 2018. In response we have seen the following:
  - ▲ Visibility of intra-day issues (a proxy for service quality) improved sharply, and has seen a continued upward trend since 2019
  - ▲ At the same time, the number of firms looking to renegotiate their SLAs with TPA(s) has decreased since 2019 to just **7%** in 2021
- ▲ Overall, the data is telling us that the service offering (processes, controls, MI, CASS advisory services) from TPAs is now far more mature and stable – having needed a significant upgrade in 2017

TPAs: cost vs service quality vs SLA renegotiation



# Outsourcing

## To outsource, or not

- ▲ The number of incidents (-23%) and breaches (-30%) experienced by a CASS firm are lower for firms choosing not to outsource CASS-related processes
- ▲ Conversely CASS firms not using a TPA identify an average of 21% more immediately reportable breaches – likely linked to how the criteria are defined / applied
- ▲ Audit support (and therefore internal cost) is 217% larger for firms not using a TPA
- ▲ Headcount (and therefore cost) is higher for both Direct FTE (27%), and Indirect FTE (442%), for firms performing all CASS processes themselves

	TPA	No TPA	Var
Average number of CASS incidents	156.1	120.4	-23%
Average number of CASS breaches	151.5	106.4	-30%
Average number of immediately reportable breaches	2.0	2.4	21%
Average total time to support Audit (hours)	281	892	217%
Direct FTE	7.4	9.4	27%
Indirect FTE	5.0	27.1	442%

A hand holding a pen points to a bar chart on a document. The chart has a vertical axis labeled 'Sales' with values 1000, 2000, 3000, 4000, and 5000. The chart shows several bars in blue and pink. Overlaid on the image are various financial data points: '10,000', '5,000', '75,000', '500', '40,000', '22,000', '4,000', '20,000', '5,000', and '100,000' in white, and '2.08' in green. The background is blurred with colorful bokeh lights.

## Risks, challenges & costs

# Risks, challenges & costs

## Similar themes persist across the years

### Risks

The 'top' risk this year is 'Business Change' with **33%** of respondents calling this out as their #1 risk currently - this is in line with the forecast made by our 2019 respondents.

In 2 years from now, there is a clear indication that our respondents believe 'Technology' will play an increasing role in CASS compliance, but that it will also be difficult to entirely remove the need for risky 'Manual processes'. Interestingly 'Business Change' drops out of the top 3 when it comes to future risks - indicating perhaps that firms expect the current raft of change to abate over the coming 24 months.

The table below shows the % of firms that included each item in their top 3 risks:

2019 Prediction		Now			In 2 years		
Regulatory / Business Change	54%	Business Change	48%	→	Technology	63%	↑
TPA / Outsourcing	46%	Technology	43%	↑	Manual processes	43%	↑
External Expectations	41%	Third Parties	39%	↑	Third Parties	35%	→

### Challenges

'Business Change' is also this year's 'top' challenge, with **41%** of respondents identifying this as their #1 challenge in 2021. More than half of respondents included this in their top 3, which is much higher than predicted in the 2019 survey which had both 'Staff' and 'External Expectations' ranked higher. Audit is also ranked highly, with nearly **40%** of firms including this in their top 3 currently.

As per the risks above, there is an expectation that the increased reliance on technology will in turn bring further challenges regarding technology - this is evidenced by nearly **60%** of firms referring to Technology in their top 3 challenges 2 years from now.

2019 Prediction		Now			In 2 years		
Staff	53%	Business Change	52%	↑	Technology	59%	↑
External Expectations	45%	Audit	37%	↑	Business Change	50%	↓
Regulatory / Business Change	35%	Third Parties	37%	↑	Training	28%	↑

# Risks, challenges & costs

## Similar themes persist across the years

### Costs

Unsurprisingly there is very little change in terms of costs with Audit the clear 'winner' (40% of firms naming it as their #1 cost), continuing the trend from previous years, and also looking forward.

For 2nd and 3rd place, again we see a shift on the horizon between staff costs and technology, with firms expecting to spend more on technology in the coming years relative to staff.

2019 Prediction		Now			In 2 years		
Audit	87%	Audit	80%	→	Audit	80%	→
Staff	65%	Staff	41%	→	Technology	63%	↑
Technology	56%	Technology	37%	→	Staff	43%	↓



## Contact details



If you would like to receive a **benchmark report**, please email [cass@baringa.com](mailto:cass@baringa.com)



The 4 prior annual CASS survey reports are available at [www.baringa.com/cass](http://www.baringa.com/cass)



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# Baringa's 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 in excess of 20 consultants with significant experience in this field.

1

## 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**.

2

## 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.

3

## CASS Training and development



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

4

## FRC CASS toolkit



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

5

## CASS Software implementation



We work with clients to implement their chosen CASS software. We are also an **implementation partner** for **Signavio** the only full FRC toolkit provider.

6

## Process and control 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**.

# About 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.



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