7 Succession Planning Questions around Regulatory Interest, Expectations and Good Governance

While 86 percent of leaders believe leadership succession planning is an “urgent” or “important” priority, only 14 percent believe they do it well.[1]

Adam Canwell et al., “Leaders at all levels: Close the gap between hype and readiness,” Deloitte University Press, March 7, 2014.

In April this year, Hanover Search Group facilitated a seminar with the UK regulator around regulatory interest, expectations and good practice. Attendees included Chairs, NEDs, CROs, CEOs and the companies represented included firms from insurers, reinsurers, consultancies and mutuals.

WHY SUCCESSION PLANNING?

The purpose of the seminar was predicated around the increased interest from the Regulator when assessing firms' board effectiveness. Under Solvency II, succession planning is required and Article 258 under General Governance Requirements outlines within sections 1(c), 1(d) and 1(e) the necessary requirements senior business leaders must meet in order to ‘effectively manage and oversee’, ‘perform the tasks assigned’ and ‘carry out the responsibilities allocated to them properly’.

In 2016 the Regulator then expanded these requirements in the form of Supervisory Statement 5/16, outlining what the ‘PRA expects boards to do’. If you are not paying close attention to the skills, experience and effectiveness of your board members, you're not meeting the regulator's expectations.

As a result, robust succession plans are required to meet both current and future business needs. In addition, these succession plans must address the unexpected loss of key individuals, particularly those within the Senior Managers Regime. In other words, you now must have a plan to cover immediate, short-term and longer-term replacements.

But good succession planning goes beyond compliance. The most effective businesses recognise that ensuring the right people are in the right roles at the right time positions them to continually evolve their organisation and grow their bottom line. For individual leaders, a clear succession plan offers greater clarity, engagement and motivation to inform their career development – they know what they need to do to continue progressing to bigger and broader roles.

So why is succession planning such a challenge for even the most focused boards and leadership teams (as some of the results illustrate)? The answer may partially lie in the cross-over between logic and emotion. Succession plans based on data and other ‘hard’ inputs may be logical, but when the time comes to select a successor for a critical role, decisions are usually dominated by emotion, whether it’s their own or that of the potential successors.

Succession planning is also an insurance policy that focuses on the medium and long-term. Even if a business is planning short-term replacements, the need to implement that plan is unlikely to occur in the next few weeks or months. This type of thinking and planning is at odds with a context and culture of weekly, monthly and quarterly results where short-term action is often valued most highly.

Accountability is another challenge – succession planning shouldn’t be seen as a HR exercise. Instead it should sit with the board and executive committee as a critical accountability that must be regularly re-visited and revised to ensure currency.

With these challenges in mind, the discussion at Hanover Search Group’s succession planning seminar produced some insightful results.

RESULTS:

From the seven questions asked, the following results included:

- 62% responded that short term cover is the most challenging aspect of Supervisory Statement 5/16 and that finding the right successor quickly was of paramount importance.

- Overwhelmingly 75% felt that staff development via succession plans should include the Board, Senior Management Function Holders and all of the Executive Management team.

- Diversity is very important, as outlined in the PRA rulebook: Conditions Governing Business Part 2 General Governance Requirements section 2.7 and 2.8. Diversity helps boards with effectiveness by creating different perspectives among directors and breaks down the tendency towards group think. Less than half (42%), whilst having a diversity policy referring to skills and experience, did not consider a gender target necessary. A third are still developing an approach/policy.

- Attention to factors being considered to build a good succession plan was a surprisingly low result – 20%. Factors that might be considered as good practice are:

➢ Definition and identification of key roles;
➢ Identification of risk of loss of a key person (including retirement, rotation of role);
➢ Potential departure time and retention is appropriate;
➢ Assessment of skills demand and skills supply internally;
➢ Identification of emergency, short-term and longer-term cover;
➢ Should you look externally to fill the role;
➢ Development plans with time bound goals and actions to achieve with.

- Common difficulties included skills gaps between Board level and the next level of senior management, not always finding the right skills / experience mix, plus lack of diverse pipeline. 50% responded that recruiting IT as the hardest skill set to recruit for onto the board, followed by Risk and Actuarial and Audit.

- Two thirds felt developing a diverse pipeline is relevant to their firm as difficulties that the board regularly can see.

- Finally, when it came to how effective succession plans are in practice, 46% identified gaps in the succession plan as being hard to fill.

CONCLUSION:

The results from our seminar are interesting for a number of reasons, even though the attendees don’t represent the wider Financial Services industry as the seminar was deliberately focused on a small group of regulatory post-holders; this was intentional so as to encourage discussions and sharing of experiences, which was reflected in the results.

A clear message from the seminar was that the regulatory post-holders surveyed see various aspects of Supervisory Statement 5/16 as challenging. This is not surprising - as with any new regime, there will be a focus on wanting to get it right from the start, however building succession planning into the business as a counter-measure is far more effective than reacting to a vacancy, and the plan should be revised and revisited regularly, especially given the Regulator's expectations.

The most agreed response related to utilising succession planning for staff development (75%) – with one comment highlighting the depth of such development within the executive team and down to two levels below, specifically targeting more senior roles.

The least agreed response was surprisingly around the consideration of factors relating to succession planning (20%). More work needs to be done on this issue to ensure boards and leadership teams are considering all of the relevant influences on succession decisions.

As a search firm, the question around the hardest category of successors to recruit for was not surprising. IT, Actuarial, Risk and Audit is the primary experience required given the nature of the industry. The true value of utilising a search firm is definitely in the knowledge, depth and experience of the firm and consultants.

The PRA expects businesses to clearly understand the technical and behavioural competency of individuals and to quantify and mitigate any gaps, both currently and in the future. They also expect succession planning to support a firm's diversity policy for any post holder that is being considered for such.

Overall the seminar was interesting, insightful and reinforced the day to day issues that are faced by post holders and the companies they lead.

If you would like to know more about the specific seven questions discussed, please contact Clinton Poore - clinton.poore@hanoversearch.com.

If you would like to participate in the survey, please contact the same email address. The survey will continue until December 2019 with the results cascaded before Christmas to those that participated.

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Clinton is a Partner at Hanover Search Group where he covers senior assignments across the Life Insurance and Risk markets. His experience has been extensive where he has worked on mid to senior level appointments on both retained search and contingency basis across Life and Non-Life markets. During his career, he has built a successful network of contacts and completed assignments in the UK and Europe. Prior to joining Hanover Clinton had established and managed another actuarial business plus he had worked onsite building the European team for a major global consultancy firm.

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Richard is passionate about helping leaders, teams and organisations to increase their performance through impactful and dynamic leadership and talent consulting. He has assessed, developed and advised leaders at all levels, from guiding FTSE businesses on CEO selection through to supporting front-line nurses in the NHS.

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