

SMF MARKET PULSE – Autumn 2026

What senior Risk, Compliance, MLRO and Internal Audit leaders are seeing

INTRODUCTION:

The financial services market is not short of pressure. Across recent conversations with senior leaders in banking, asset management, insurance, wealth management and private markets, the recurring question has been how to absorb more complexity without simply adding more people.

There is no single view of the market. Some firms are actively growing; others are holding headcount flat or being asked to find further efficiencies. What is consistent is the tension between rising expectations, increasingly specialist work and a strong focus on productivity.

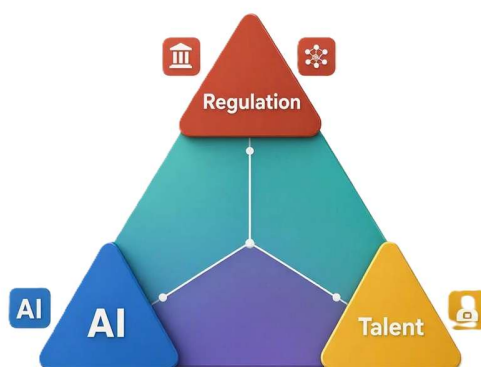
AI sits directly in the middle of that tension. Leaders are using it and exploring where it can remove lower-value work, but the conversations rarely suggest that judgement-heavy regulatory work can simply be automated. In many cases, AI is creating a new requirement for governance, validation and oversight.

At the same time, several leaders described a less visible talent issue: the difficulty of retaining people with enough experience to operate independently in the middle of the organisation. Junior hiring can fill numbers, and senior leaders remain accountable, but the experienced layer between the two is increasingly important.

The observations in this paper are drawn from recent conversations with senior leaders/SMF's. They are intended merely as market insight rather than a statistically representative survey.

AT A GLANCE:

1. More work is being absorbed by existing teams rather than automatically creating headcount.
2. AI is moving from experimentation towards governance, but human judgement remains central.
3. Experienced mid-level talent is repeatedly identified as a pressure point.
4. Outsourcing can improve scale, but it does not remove the need for strong UK oversight and regulatory understanding.
5. Specialist depth is becoming harder to maintain across small and lean functions.



THEMES FROM THE CONVERSATIONS

1. “DO MORE WITH LESS” HAS BECOME A PRACTICAL MANAGEMENT PROBLEM:

The phrase came up in different forms across the conversations. Firms are looking for productivity, reviewing operating models and asking whether technology can create capacity before approving additional headcount.

That does not mean there is no hiring. It means the bar for a new hire appears higher. Leaders are more likely to need a clear business case: a regulatory requirement, a genuine capability gap, growth, a replacement for specialist knowledge, or a problem that cannot be solved through process or technology alone.

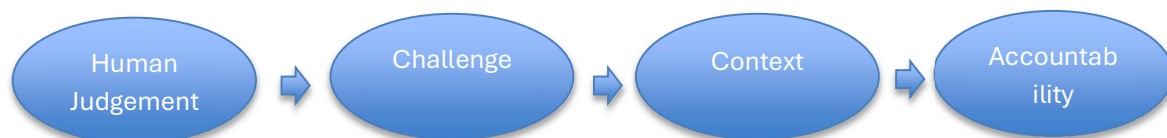
One consequence is that some teams are carrying more work, while decisions on replacement and additional headcount take longer. This was particularly evident in Risk and Compliance conversations.

2. AI IS NOT REMOVING THE NEED FOR HUMAN JUDGEMENT:

Every conversation touched AI in some form, but the maturity of adoption varied considerably. Uses mentioned included drafting, management information, data analysis and helping teams identify issues. The common concern was not whether AI can produce an answer, but whether the answer is reliable enough for a regulated decision.

Leaders repeatedly raised the need for guardrails, human review, data controls and clarity over what information can be put into AI tools. Questions about legal privilege, confidentiality and the risk of missing a material issue were particularly relevant.

There is also a talent question underneath this. If AI takes away some of the more repetitive work, junior staff may have fewer opportunities to develop the judgement that senior roles ultimately depend on. One leader questioned whether future graduates risk becoming good at prompting without developing the same depth of critical thinking. AI still requires:



3. THE MID-LEVEL EXPERIENCE GAP IS WORTH WATCHING:

This was one of the clearest recurring themes. Several leaders described difficulty retaining people who have developed enough experience to operate with limited supervision but are not yet at senior leadership level.

The reasons vary. In some businesses, experienced people can move to smaller organisations where the pressure is lower for similar compensation. In others, geographic constraints make it difficult to build a reliable middle layer. One non-London based team, for example, described a gap between long-serving employees and graduates who may stay for only two or three years.

For employers, the issue is not simply retention. It is the loss of accumulated regulatory judgement and institutional knowledge, precisely the capability that is difficult to replace quickly.

4. OUTSOURCING DOES NOT OUTSOURCE ACCOUNTABILITY:

Outsourcing remains an important part of the operating model, particularly for activities such as KYC, transaction monitoring and onboarding. The conversations highlighted a recurring tension: offshore or outsourced teams can provide scale, but they may not have the same understanding of the UK regulatory context or the commercial and risk nuances of the underlying business.

That can leave senior UK leaders carrying a significant oversight burden. The FCA continues to emphasise that firms remain accountable for managing risks arising from third-party arrangements, and new third-party reporting requirements are due to come into force in March 2027.

The practical implication from the conversations is that outsourcing works best where internal teams retain enough expertise to challenge, test and interpret what is coming back from the provider.

5. SPECIALIST DEPTH IS GETTING HARDER TO MAINTAIN:

Internal Audit provided the clearest example, but the issue extends beyond the 3rd line. Leaders described an expanding list of subjects requiring credible expertise: financial crime, prudential regulation, liquidity, treasury, cyber, AI and increasingly complex business models.

For smaller functions, maintaining all of that expertise in-house is difficult. Co-sourcing can help, but one Internal Audit leader felt that parts of the market had become increasingly commoditised, with junior resource and checklist-driven work replacing some of the specialist depth firms actually need.

The challenge is therefore becoming one of coverage and quality, rather than simply capacity.

6. REGULATORY WORKLOAD IS SHIFTING RATHER THAN DISAPPEARING:

Consumer Duty was described by several leaders as having moved into business-as-usual activity. The emphasis is increasingly on evidencing outcomes and making the framework work within the business, rather than the initial implementation exercise. The FCA continues to publish work on outcomes monitoring, fair value and consumer support in 2026.

For banks, Basel 3.1 remains a live implementation issue. The PRA's final rules provide for implementation from 1 January 2027 for most elements, with the internal model approach for market risk from 1 January 2028.

Financial crime remains another area of active supervisory attention. The FCA published 2026 findings on sanctions controls, customer due diligence and asset management and alternative-firm financial crime controls.

7. PRIVATE MARKETS ARE MOVING CLOSER TO THE MAIN REGULATORY SPOTLIGHT:

The private-markets conversations pointed to a changing environment: more complex structures, secondary-market activity, increasing regulatory interest and continued discussion around how retail investors can access private assets. The FCA is currently consulting on reforms to the UK AIFM regime and has also been developing policy around access to investments.

For growing firms in the sector, this creates a familiar problem: the business can evolve faster than the control framework and the specialist talent needed to support it.

WHAT THIS MEANS FOR LEADERS:

The conversations do not point to a market where firms simply stop hiring. They point to a market where hiring decisions are more deliberate.

The most credible requirements appear likely to be those linked to a clear capability gap: experienced regulatory judgement, specialist technical knowledge, succession, growth, remediation, new business activity or the ability to provide effective oversight of increasingly complex third parties and technology.

For senior leaders, the question is therefore less “Do we need another person?” and more “Where does additional experience materially improve the control environment, resilience or ability to deliver the business plan?”

If these themes are familiar, we're always happy to compare notes. Particularly where changing regulation, capability or team structure is creating questions around the next 6–12 months.

ABOUT THIS PULSE

Sterling Williams is speaking with senior leaders across Risk, Compliance, MLRO and Internal Audit (SMF 3 / 4 / 5 / 16 / 17) to understand how functions are evolving and where capability is changing. This paper combines those conversations with selected current regulatory context. Individual firms and individuals have not been identified.

Market context sources: FCA; Prudential Regulation Authority / Bank of England. Regulatory references checked October 2026.