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T-C NEWS

COMPETENCE • EXPERTISE • PROFESSIONALISM

OCTOBER 2018

# Pragmatic and practical or disparate and dangerous? The opportunities and perils of SMCR

## By Emma Howell from Worksmart

IN THIS ISSUE

T-CNEWS
OCTOBER 2018

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Welcome to the October edition of T-CNews. The next quarter will be extremely busy from a people aspects of regulation standpoint. The IDD came into force on 1 October and the SMCR takes full effect for insurers from 10 December. The message is clear to all remaining companies that will be affected by the SMCR changes late next year – do not put things off – take advantage of the time you have to get things ready. Our regular authors have provided a broad range of topics that will be of interest and may well switch on the odd light bulb. Plenty of food for thought. Enjoy

Jeff Abbott

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# Quantitative easing (QE) – time to go cold turkey

By **Paul Archer** from Archer Training

The German Weimar Republic did it in the 1920's, Zimbabwe did it in the 2000's and countless other countries since. Both of these though caused hyperinflation in the 000%.

They called it printing money we call it Quantitative Easing. The UK, The USA, the Eurozone and Japan have been QE'ing since the financial crash to the tune of billions of pounds. The US Fed once had a balance sheet of $4.5trn. Yes, we've been printing money on an enormous scale. Although it's not physical notes as in the Weimar republic, it's electronic money.

> Stopping and then reversing QE will have dramatic effects

Let me explain how it works simply and then we can have a look at the effect as it comes to an end, because it is going to end, and that's the worry. But knowing allows you to plan and advise clients.

The financial crash saw banks around the world suddenly losing the value of their assets or capital. The value just dropped. The main culprit as we know, were mortgage backed securities (MBSs). They were bailed out by various governments. Here in the UK we bailed out RBS to the tune of £45 Billion to bolster their balance sheet and we still hold the majority shares, 10 years later.

But it wasn't enough to encourage them to start lending again, instead they just tried to rebuild their balance sheets, and you would have done too.

The governments wanted them to lend, thus ensuring economic growth, prosperity and employment so they started QE'ing on a gigantic scale.

What happens is the Bank of England suddenly comes into a lot of money from nowhere, since it has just been magicked out of thin air. This goes into their imaginary balance sheet. So, the Bank has £300 Billion to play with. They then buy government gilts and bonds from the market but not from the stock market, initially from the banks. This allowed the banks to offload their bonds to the Bank of England for cash which they then lent out at very low rates. Which they did and caused the UK to come out of recession and return to a near full employment buoyant economy in very little time.

Latter QEs bought bonds straight from the stock market which artificially has kept interest rates low, bond and other asset prices high. We really should be at base rate 3% if it hadn't been for QE. QE rescued us from financial meltdown or depression but we've been wallowing in a *"drunken haze and heaven knows we're miserable now"*. (The Smiths – *Louder than Bombs*)

It has done the job it was planned for but now we must go cold turkey.

Cold turkey is an expression for those addicted to drugs or alcohol suddenly having to stop them. There are repercussions, sweats, headaches and depression.

Stopping and then reversing QE will have dramatic effects. We're stopping it after our last bout following the Brexit referendum but the USA stopped a while ago. The Eurozone is still at it.

Stopping means the market must buy all the bonds released rather than the Bank of England. Virtually all of the government bonds issued by the world's top ten richest countries have been absorbed by central banks.

Simply this will push up the rates on these bonds. Think about it, with the Bank no longer buying them at whatever the interest rates were, means the markets must. This means institutional investors here and abroad must soak up the supply, but their appetite is not there. Therefore, to entice them interest rates will go up, Simple.

The next stage is the reversal of QE which the USA is starting now. This means the Bank selling all the bonds they have in the coffers into the market. Supply massively increases, bond prices will soar.

Couple this with Governments around the world still financing their budget deficits (we still have a massive deficit), the only option is to issue new bonds. These hit an over supplied market so what do they do? Issue them at higher interest rates. Already the US Fed's rate has hit 2%

We won't get hyperinflation, but we will get higher interest rates.

This combined with tighter monetary conditions will cause currencies will grow stronger to entice the inflow of money from abroad

Inflation? Now that's another story

Did I also mention that QE has artificially held assets high such as bonds, shares and house prices? This could be a bubble about the burst. Probably the Stock Market will tank first but I don't think house prices here in the UK will except inflated areas such as London, the South East and a few towns. Supply of housing is so limited and takes time to increase, demand will maintain prices as they are. We'll probably have a trickle upward but below inflation, so prices will lose in real terms but the threat of negative equity won't reveal itself. Just many years of motionless grown. But then again as the old adage goes *"a home is for nesting not investing"*

**Paul Archer** is the founder and Managing Director of Archer Training Ltd and helps financial services firms develop their advisers in the skills needed to beat the future fintech robots.

Do LinkIn with Paul at www.paularcher.uk

# Education, education, education

By **Tony Catt**, Compliance Consultant

I have read some interesting articles recently regarding education for advisers and these have raised some very interesting issues.

For many years, other than internal company licences for products, there were no formal qualifications for advisers. In the early '90s, the Financial Planning Certificate was introduced. Whilst the exams were quite basic, I passed them all in I one sitting, there was quite a cull of advisers who could not pass those tests. My thoughts about those advisers were "if you cannot pass those tests, what on earth are you telling clients?"

> "More qualified advisers are more likely to be able to give good quality, rounded financial advice.

Then level four diploma in financial planning became the standard when the Retail Distribution Review came into force at the start of 2013. This was a major step up and again there was a cull of advisers. But this level of exams was bringing advisers nearer to the level of qualification of accountants and solicitors, although still well below.

More recently, the introduction of the Statement of Professional Standing (SPS) has meant that advisers need to prove that they have undertaken training, theoretically to "gap-fill". This is to cover aspects of financial services that the advisers would normally not encounter in their normal practice. Some may argue, if an adviser is not going to use that, why bother? But if you consider holistic advice, then it does make sense.

Over the years, I have found that more qualified advisers are more likely to be able to give good quality, rounded financial advice.

The Chartered level of qualification has been the gold standard for some time. Although, it seems that the numbers of adviser holding this level of qualification has tailed off over the past couple of years. But I would expect this level to become the ticket to the disco for advisers in the near future. So we fast forward to 2018.

Recently, the Financial Conduct Authority (FCA) and the Chartered Insurance Institute (CII) have created a re-assessment test for advisers with the level four diploma. The test has been put together because only a few large firms test their advisers' knowledge on a regular basis, and many advisers have never been retested since they originally passed the test.

While use of the test is voluntary, the regulator has warned it may force advisers to take it if deemed necessary. However, I feel that it would be a good idea for this to be made part of the SPS renewal process. Perhaps even to the extent that the SPS cannot be awarded until the test is passed.

Another issue that has been raised recently is the need for advisers to remain up to date with their qualifications and also movements in regulation. I passed my G60 in 2003, 15 years ago. This allows me to be considered as a "Pension Transfer Specialist". But is my knowledge up to date. The AF3 exam was brought in some years ago and the AF7 Pension transfer Advice test was brought in a couple of years ago. Perhaps I ought to consider taking these exams to ensure that my knowledge is still up to date.

However, would these new tests cover the recent introduction of the Appropriate Pension Transfer Analysis (APTA) including Transfer Value Comparator (TVC)? This is going to come into force into force on 1st October, but I wonder how many pension transfer specialists are really familiar with these new rules and how to apply them.

It all comes back to advisers having up to date knowledge to allow them to provide the most accurate advice to their clients.

# Operational resilience

A number of high profile data breaches have put operational resilience at the top of the regulatory agenda this summer. **Richard Whittington**, Product Manager at Unicorn Training, takes a look at what that means for you and your firm.

> "The biggest thing I took away was firms are still focusing on technical resilience and not thinking about the human aspect

TSB, Ticketmaster, British Airways, Dixons Warehouse – you don't need it spelling out what all of these huge businesses have had in common this year.

But while these might be the latest or most high profile corporations to have their reputations go through the ringer after massive data breaches or systems failures, they are not the first and guaranteed they won't be the last.

That is why this summer the Bank of England, Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) published their joint discussion paper on an approach to improve the operational resilience of firms and financial market infrastructures (FMIs), for which the discussion period closes in October.

This paper reinforces the need for firms and FMIs to develop and improve response capabilities so that any wider impact of disruptive events is contained. It states the speed and effectiveness of communication with the people and institutions most affected, in particular customers, should be at the forefront of every firm's response.

Its key message is simple – no longer is it 'if' this happens to you, but 'when' and how are you prepared for it?

Shortly after the publication of this paper I joined an extremely well attended UK Finance webinar, where both the Bank of England and FCA introduced the topic of operational resilience.

The biggest thing I took away was firms are still focusing on technical resilience and not thinking about the human aspect, despite the fact some of the most headline-grabbing failures have highlighted concerns around single person dependency, staff resilience and reliance on small or sub teams not as 'gold-plated' as the 'A' team.

Additionally, when 90 per cent of all successful cyber security breaches rely on human error (Verizon 2015 Data Breach Investigations Report) it is astonishing that the torch continues to be shone on the technology not the people, when the concept of operational resilience is so enmeshed with risk management and 3LOD.

In this age of accountability and culture, and with the Senior Managers and Certifications Regime leaving no hiding place from the regulator, the mindset that IT can solve everything on its own has to change. After all Senior Managers are only as informed as the teams they trust to report to them.

By this time next year we will know how firms will be regulated on operational resilience. But that doesn't mean you should wait for the final report to consider the training implications, as with 'the speed and effectiveness of communication' so explicitly referenced in the discussion paper, the human aspect will be central.

Inevitably T&C will play a key role in all of this.

First and foremost training will be required as to what operational resilience actually is across all levels, from frontline staff to senior managers, at every firm.

Cyber resilience is a huge part of operational resilience, yet recent UK Government research showed only 20 per cent of organisations provide cyber awareness training for their staff. Accordingly, staff should be given the skills, awareness, knowledge and confidence to make the right decisions in the face of growing cyber threats.

GDPR and cyber resilience are also inextricably linked, so mitigating risk through embedding a firm-wide culture of good data protection behaviour is fundamental.

As our partners AXELOS Global Best Practice (a joint venture between the UK Government and Capita plc) attest, you need to help your people become your greatest information security asset. That comes down to effective training rooted in relevant, digestible and impactful content that delivers real behavioural change.

AXELOS RESILIA® Frontline suite of cyber security awareness training includes courses on protecting information, safe device use, managing online risks and keeping safe online, while to support this firm-wide education, we are consolidating our risk management and 3LOD training into new operational resilience content.

Then there is the chain of command and knowing you have competent (even certified) teams and/or individuals within the business that can step into the breach to, as the discussion paper states, contain the ‘wider impact of disruptive events’, whether that be a significant data breach or a major systems failure.

For example, where does the information you will need to create competency assessments currently sit? Is it offline on paper forms, online or a mixture of both? If it is online does it sit on different systems across HR, compliance and L&D? What are your onboarding processes around GDPR and cyber resilience for new joiners? How do you identify and fill knowledge gaps and log and report on individual activity?

Especially in the world of challenger banks and new fintech start-ups, teams are often small and staff turnover can be rapid. So how do you make sure critical knowledge isn’t lost from the business? What succession planning policies and procedures are in place so that ‘single person dependency’ doesn’t become a business-threat should a key person leave the firm, be off sick or on holiday?

The SMCR underlined the need for firms to have robust performance management and workflow systems in place, where recording, file checking and reporting against your T&C scheme is as effective and accessible as possible. Whatever the new regulation around operational resilience ends up being, it will need the same.

So when, not if, the unthinkable does happen to your firm, how are you prepared?

# Unravelling the complexities of IFRS9

**Fitch Learning** takes a closer look at International Financial Reporting Standard 9 (IFRS() and how it is reflected in the reports and accounts of banks and corporates – making suggestions about how advisers and analysts can unravel some of its complexities.

> "As with most complex financial subjects, seeking an answer to your questions to IFRS 9 on Investopedia will only take you so far

### What is IFRS9?

IFRS 9 is a new international accounting standard on financial instruments that came into effect on the 1st January 2018. It applies to both financial institutions and corporates, requiring them to take a forward-looking approach to raising a credit loss provision (or impairment allowances) for potentially bad loans.

Under the previous accounting standard (IAS 39), firms actually had to incur a loss before they could act. In other words, a default had to occur before a loss provision could be recognised. However, even AAA-rated firms carry a probability of default.

As such, financial institutions and corporates may now require a loss provision to be recognised against their risk exposure under the new IFRS9 – even though there is no default at the reporting date. In effect, showing these loss provisions in the accounts is like putting money aside for a rainy day.

### The complexities of IFRS9

The key changes in IFRS 9 for banks and similar financial institutions revolve around both the classification of financial assets and the application of an expected credit loss impairment model. What this means is that the classification of financial assets is not only based on the business model test, but also the nature of cash flows. The 'principles-based' nature of classification means that the same asset may be classified differently by different firms.

The provision for bad loans must now be reflected in a firm's financial statements based on the expected credit loss model (as opposed to an incurred loss experience).

There are nuances and challenges around applying this new model, especially when considering forward looking macro- economic information, simply because it requires estimates and judgements.

In terms of recognising the level of impairments of a financial asset, IFRS 9 uses a three-stage approach. Here, the amount of expected credit loss/loss provision is based upon whether or not the risk of an asset has increased significantly since the inception date. Where there has been a significant increase in credit risk, full lifetime expected credit losses are provided for, even though the asset is not actually credit-impaired.

## A simple example of applying IFRS9

Imagine a company has a gross loan of £100 and yet there is a possibility it might pay out only £90 due to the risks involved.

A loss provision needs to be raised based on the probability of default and is deducted from the income statement. The balance sheet shows the net loan amount after the deduction of this loss provision.

**The 3 Stage Expected Credit Loss (ECL) Model**

| Stage | Stage | Stage |
|---|---|---|
| If the credit risk of holding an asset has not increased then it is reported in the accounts as an unexpected annual loss | If the credit risk of an asset has increased significantly then the risk needs to be reported over the lifespan of the loan. | This is where an asset turns into a credit impaired asset. Once again, the credit risk must be reported over the lifespan of the loan and interest revenue is calculated based on amortised cost. |

In order to understand and analyse a bank's financial statements for example, it is important to get to grips with how the three-stage expected credit loss model is applied. It is also crucial to understand the simplifications and practical expedients that could be used for smaller portfolios. In addition to classification and impairment changes, hedge accounting has also been made more 'principles-based'.

As with most complex financial subjects, seeking an answer to your questions to IFRS 9 on Investopedia will only take you so far: simple definitions are unlikely to help you conduct a thorough analysis of any firm's books.

## Scenarios around the application of IFRS9

Let's imagine a couple of scenarios. Say you are analysing a financial institution that has originated loans and that these loans are grouped into two types of portfolio:

- The first types of loans are those with standard terms. These are held to maturity and comprise a combination of both fixed and variable rate loans.
- The second group of loans also have standard terms. However, they are generally securitised after their origination

The question here is how would an entity classify these different types of loan under IRFS9? Additionally, how will the expected credit loss (ECL) impairment model be applied? We also need to consider what judgements and estimates may be required to apply the ECL model in the scenario above.

In another scenario there might be uncertainty around the macro-economic factors which impact IFRS 9 accounting. Let's say you are scrutinising the financial statements of a bank which applies the three-stage ECL model to a portfolio of retail loans.

Say some of the loans within the bank's portfolio are at variable interest rates, what happens to the level of the loss provision if the Bank of England raises interest rates? How do you work out the impact of this change in interest rates on the movements between the three stages of the ECL model? Would there be a movement to Stage 2 if there is good quality collateral? And as an analyst, how do you measure the credit loss provision or assess the sufficiency of current levels?

## The risk of not understanding how IRFS9 is applied

The two relatively common scenarios above highlight some of the complexities around IFRS 9 reporting. Only by really understanding what the figures mean will you be able to fully comprehend how IFRS 9 is reported in a firm's financial statements.

By not dedicating the time to understanding the nuance and complexities around how IFRS9 is applied in the financial statements, you run the risk of misunderstanding an entity's financial position.

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# Getting insurance people ready for IDD

**Ian Jerrum** from Searchlight Insurance Training

'I love deadlines', *Hitchhikers Guide* author Douglas Adams once remarked. 'I like the whooshing sound they make as they go by."

Insurance providers, under ever-fiercer regulatory scrutiny, can't afford to be so blasé. In the world of insurance deadlines tend to bring a sense of dread.

So it was that, in December last year, many insurance people breathed a sigh of relief on hearing that implementation of the Insurance Distribution Directive (IDD) would be put back from February to October this year. But regulatory deadlines (delayed or otherwise) always come round in the end.



By the time you read this, IDD Day will have come and gone. Some firms will have been ready. Others will still have some catching up to do. We can easily infer this from the fact that we're still getting plenty of bookings for training preparing for IDD after the deadline has passed.

One of the key aims of the EU's IDD regulations was to ensure that the interests of customers, large or small, would always be adequately protected. Another was to promote healthy competition within the EU. It's hard to say exactly how Brexit might affect that second aspect of it over time. But IDD is upon us, and UK firms, distributing insurance, must now comply.

The Insurance Distribution Directive aims to avoid misunderstanding or confusion on the customer's part, by insisting that providers need to be clear whether they're intermediaries or 'undertakings' (i.e. risk carriers).

They must also be absolutely clear (clearer, even, than the politicians who so often, and so falsely, claim this virtue) whether they are offering a personal recommendation – and whether they're acting purely on the customer's behalf or on that of the 'undertaking'.

Insurance advisers must also disclose any potential conflicts of interests, such as holding capital or voting rights in an insurer with whom they are placing business, whether they are offering 'fair and personal' analysis, whether their recommendations are restricted to a certain panel of insurers, and whether they have contractual requirements to place a certain amount of business with particular insurers.

Insurance intermediaries must also disclose the nature and source of any remuneration that they and/or their employees receive in return for placing the customer's business with a particular risk carrier. They must also explain clearly and comprehensibly their precise reasons for making a particular recommendation.

None of this – nor any other of IDD's many provisions (into which we clearly don't have space to delve here) – is a million miles away from what is essentially just good practice in the market already. But the net is clearly drawing tighter around those who aren't best serving their customers' interests.

One upshot of the new regulations that's currently keeping us busy, here at Searchlight, is a renewed enthusiasm among insurance providers for continuing professional development (CPD).

Recognising, with impeccable logic, that you can't get good advice from someone who isn't a good adviser, IDD's authors have introduced a new stipulation that all UK insurance distributors now need to ensure that their staff complete a minimum 15 hours' training and CPD annually.

In an ideal world, of course, they would all be doing this already. But it's a competitive market out there for insurance providers, and many have seen ongoing staff training as a suitable corner to cut. That calculation will now have to change.

The FCA has been clear that, under the new rules, customer-facing staff will need to gain knowledge of, the products they are selling, the structure and workings of the insurance market (including its legal aspects), basic financial competence, assessing customer needs, claims handling, complaints handling, and an awareness of the ethical dimensions of the business, including treating customers fairly and avoiding conflicts of interest.

Only a cynic would suggest that a sudden surge of renewed interest in the training we offer on topics like these is simply the outcome of regulatory intervention. But something has certainly concentrated minds out there.

Whatever its causes or motivations, it's hard to argue with the proposition that better trained insurance advisers can only be good news for customers and providers alike. And if it helps sell a few extra training hours, who am I to quibble!

# The wonder of words

By **Len Horridge** from The Skills Exchange

We spend a great deal of our time training people about the power of communication and how to improve their own communication. To be honest, almost everything we cover for companies, and there is a lot, has communication at its core. It's therefore a massive topic but I'd just like to scratch the surface and look at the things you are now reading but are quite often over-looked: words.

Of course, words are not everything. Indeed, you will have all seen the bit of research carried out in the 1950's that suggests that, when it comes to communication, only 7% is made up by what we say, the other big bit (I'm and English man, not a Maths man) is made up of tone and body language (38% and 55%). Hopefully you have seen this as it's an important though often misused bit of research (done by using Positron-emission tomography as if you didn't know) which can be incorrectly high-jacked.


As a word pedant (is there any other type??) I'd like to challenge this research (as many have) but, when I do think about it, I tend to broadly agree. It ain't what you say it's the way that you say it, as Bananarama once so rightly said, I suppose. 't'say it's mathematically accurate, as I put a lot more store on words myself, but, thinking in general, I do feel it's about right. Though the "research" that shows that 10% of conflicts are caused by differences of opinion and 90% by using the wrong tone of voice maybe pushing it a bit, but maybe not too much, judging by the fall-outs in our house.

So, do words matter? Well, I'm biased but, yes. And if you want to test this, just ask anyone what they call a bread cake and you'll see from their agitated response how individual words can cause an interesting reaction. Or ask about what an alleyway is, for that matter (a tenfoot, a ginnel,a jinnel, a snicket, a jigger, the back passage, etc., please send your favourites on a stamped addressed envelope to our Editor) and you'll see a similarly agitated response (it ran for two weeks on *The Times'* letter page earlier this year).

Words do make an impact and we need to be aware of the impact of the words we use.

There's been interesting research recently that shows how we word sentences has a real influence on people and their responses. For example if you tell people "This has an 80% chance of success" you tend to get a very positive response from them. However, if you tell them that "This has a 20% chance of failure", which is the same thing, people tend to focus on "failure" and shy away from the solution as they think it's going to fail. Simple but true (and something known to advertisers, politicians and hypnotists for many, many years).

People respond to positive words and negative words.

And it's very useful to be aware of this when dealing with customers and staff (or just people) to make sure that you sound more positive than negative when you need to be (especially in coaching and feedback, focus on the positives, not the negatives). You may think "Isn't this just spinning things?" but it isn't, it's being as positive as you can in a realistic manner for the right outcome.

Consider these two responses:

**Without positive language:**

"No, I can't get you that product until next month; it is back-ordered and unavailable at this time..." which is quite negative.

**With positive language:**

"That product will be available next month. I will place the order for you right now and it will be sent to you as soon as it reaches our warehouse."

I'd prefer to hear the second one.

We've always known about this. Back in 2000 Jonathan Edwards finally (finally?) won a gold medal in the triple jump (how much better does that sound that the "hop, skip and jump" it used to be called?) was approached by the (rather negative) on track reporter (who must have been British) and asked "Does this compensate for losing the Gold Medal in Atlanta?" to which a pumped up Edwards replied (rather than punching him in the face) "I didn't lose gold, I won silver." That shows you the power of positive words. Though he slipped into negative ways some months later in a European event when, having fouled every jump, he decided to give in.

"I'd already made up excuses in my mind: I was tired, it was cold, it's a young man's game. I'd pretty much given up." He then told himself he was world champion, was a gold medal winner, was Jonathan Edwards, a winner and he settled talked to himself, and, of course, won the competition with his last jump. Such is the mind of a positive champion. Like tightrope walking.

> "First rule of tightrope walking? Don't look down. Second rule? *"I never try to walk, I succeed. I succeed before even putting my first foot forward"*

First rule of tightrope walking? Don't look down. Second rule? "I never try to walk, I succeed. I succeed before even putting my first foot forward." Philippe Petit, tightrope walker, check out the documentary on his 1974 walk or the drama *The Walk* with terrifying visuals at the end (if you don't like heights, that is).

(As Yoda said, "No. Try not. Do or do not. There is no try." Yes, it's fiction but we like it.)

In our business life, when we want to convince people, when we want to convince ourselves, the more positive the better. So, let's avoid "Could, if, maybe, can"... and replace them with "WHEN, will, must, solution, time, need"... sounds clichéd but clichés are clichés because they are mostly true. (Did you notice I didn't write "if"? in the sentence above?).

In an age when it seems we teach wordplay less than we ever did, when we spend less time focusing on the importance of words and having a lexicon to be proud of, when spell-check is the default setting for people, when we lean on IT to do our grammar checking for us, those who have a control and understanding of words have an extra string to their bow (and, no, I'm not going to try to explain Trump here, you'll be happy to know, though I do therapy sessions around what's going on there if required).

Of course, please don't forget visuals and tone. You need to look for congruence when you communicate, and that, if you don't know the word (and why should you?) is "agreement or harmony; compatibility" or, simply put, making all three match your intended message, but, just for a change, think about your words.

You know it makes sense.

# What will the 'new directory' mean to your firm?

By **Vince Harvey** from Compliance Cubed

In July the Financial Conduct Authority (FCA) proposed creating a new Directory to help consumers and firms check the status and history of individuals working in financial services. Many see this as an improvement on the original proposal that post-SMCR only senior managers would be included.

The new directory will now include all those who hold Senior Manager positions requiring FCA approval and those whose roles require firms to certify that they are fit and proper and will include mortgage advisers for the first time. It will include details of where they work, what roles they hold and what type of business they are qualified to do.

> "The obligation will be to report this information no later than the end of the individual's first business day performing the relevant role.

When announcing the proposal, Jonathan Davidson, Executive Director of Supervision (Retail and Authorisations) at the FCA, said:

"We've listened to feedback from firms and consumers about the importance of being able to check the status of financial services staff. Introducing the Directory will make it easier for people to be confident they can find the right people to deal with.

"Today's publications are all about making sure that consumers can interact confidently with financial services professionals by setting clear standards for the behaviour of those individuals and making available information about their fitness and propriety."

The hope is that the directory will be user friendly, practical and easy to understand – it is expected, for example, that consumers will be able to search by location to find local advisers. Importantly it will show the history of advisers which will limit the ability of 'bad apples' to move around without leaving a trail.

The SMCR requirement for regulatory references will reinforce this message: it will no longer be acceptable for firms just to confirm job title along with start and end date. If there are regulatory issues or questions as to someone's fitness & propriety, then these will have to be disclosed to the firm proposing to recruit an individual. Additionally, whether there are any regulatory sanctions or prohibitions against individuals will be shown on the register.

Apart from senior managers who will still be subject to individual approval, many people in client facing roles will require their employing firm to certify them. The new directory would mean that firms have to report certain information on these people, including any appointed representatives. This will not be to the same level of detail as currently required for authorisation and the firm won't have to wait for approval. The obligation will be to report this information no later than the end of the individual's first business day performing the relevant role.

When an individual ceases to perform a role covered by the directory, the firm is required to update the directory no later than one business day after they have left their role.

As usual when a new rule or procedure is introduced, the FCA have reminded firms that failure to comply could leave a firm open to enforcement action. T&C or compliance teams will need to work closely with their colleagues in HR (wonder how many people reading this are saying to themselves all those roles are mine??). In the recruitment process there will no longer be a delay between recruitment/induction and approval – I'm sure no one currently uses that gap to get any last bits of paperwork sorted.

One major challenge will be ensuring that robust records support the enhanced information in references. I anticipate fees to legal advisers rising, at least initially until firms have a pattern which they can use to provide the information without leaving the firm open to legal claims from departing employees. Some firms will be reviewing their tools for assessing fitness and propriety such as annual declarations and meeting observation tools to ensure that they provide evidence of the points required in a regulatory reference.

Anticipate specific questions such as 'Has the firm concluded that the person was not fit and proper' and 'Was any disciplinary action taken against the individual in regard to conduct rules'. The FCA's template goes on to include:

> Are we aware of any other information that we reasonably consider to be relevant to your assessment of whether the individual is fit and proper? This disclosure is made on the basis that we shall only disclose something that:
>
> (1) occurred or existed:
>
> (a) in the six years before your request for a reference; or
>
> (b) between the date of your request for the reference and the date of this reference; or
>
> (2) is serious misconduct.

Is your current approach sufficiently robust?

# FCA data and complaint handling review; a new approach to complaint handling is required

**Nick Baxter** from Baxters Business Consultants

> "Successful complaint handling processes really embrace 'root cause' analysis to fully understand the issues that generate customer dissatisfaction

Although over 3,000 firms are required to submit complaints data to the FCA the number of complaints financial service firms receive is still staggering and increasing. The total number of complaints reported by firms in each six month period is in excess of 3.5 million and the last reported quarter showed a 13% increase on the previous six month period (not all of that increase can be blamed on a PPI rush before the deadline). Against this back story it is not surprising that complaints are receiving an increasing focus within FCA thinking.

The FCA has recently published the findings in respect of a review of complaint handling by Non-deposit Taking Mortgage Lenders ['NDTMLs'] and Mortgage Third Party Administrators ['MTPAs'] and these re-confirm that more work needs to be done in managing complaints. All financial firms should review the FCA findings as the results relate not just to the sectors initially investigated, but to all regulated firms. The far reaching recommendations go beyond the headline demand to stop treating complaints as a 'tick box' exercise and require a change in how complaints are managed by regulated firms.

When looking at complaint handling processes, the missing link is often the connection between the collected data and the various implicated departments. It is rare to find an issue that causes complaints from customers that doesn't cross many departments and business functions. Successful complaint handling processes really embrace 'root cause' analysis to fully understand the issues that generate customer dissatisfaction. One could pick dozens of quotes from the leaders of successful businesses explaining the unhappy customer should be a businesses greatest source of learning. To really get to the 'root cause' of the issue firms need to embrace this thinking and break down the silo mentality that often exists between departments within the same firm. Firms who are able to engage the whole business in improving the customer journey benefit from positive customer outcomes, whereas the firms who treat complaint handling as a regulatory burden rarely benefit from the resource expenditure as well as risking regulator fines. Achieving such engagement requires positive leadership from the senior management and boards and it's only when positive complaint handling becomes part of the culture of the firm that the benefits are seen to have a positive effect on the business 'bottom line'.

Despite broadly positive results there are areas where the FCA findings require firms to re-focus.

The remedial areas, where immediate improvement is required, include;

- ❑ a re-appraisal of complaint procedures and processes
- ❑ making more effective use of management information and root cause analysis (rather than producing MI for MI sake),
- ❑ ending 'tick box' and inflexible complaint handling processes (which the FCA describes as often leading to poor consumer outcomes)
- ❑ learning from determinations by the Financial Ombudsman Service

The ongoing success of complaints handling processes requires the full embracement to two key FCA themes 'Treating customers fairly' to make sure complaints are assessed fairly, consistently and promptly and good quality systems and controls to allow staff to identify and record complaints correctly and accurately.

**Nick Baxter** is a Partner with Baxters Business Consultants. Baxters Business Consultants is a business consultancy offering training, marketing and expert witness services within the lending industry

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# Meeting the needs of the 'Accidental Manager'

## By **Fiona Macaskill** from The Credit Services Association (CSA)

There have been two very interesting articles recently, one in the *Harvard Business Review* (HBR) and another in the *Financial Times,* about the quality of 'management', and how under-trained and under-valued managers are invariably behind poorly performing businesses.

Most of us, I am sure, are aware of the Peter Principle, as outlined in a book written almost 50 years ago by Dr. Laurence J. Peter. In it, he describes the following paradox: if organisations promote the best people at their current jobs, then they will inevitably promote people until they're no longer good at their jobs. In other words, organisations manage careers so that everyone 'rises to the level of their incompetence.'

Many of us, similarly, will have seen the Peter Principle in action, even if we were not necessarily aware that the phenomenon had a 'name'. If we take my own industry, and the world of debt collection, the skills that make an individual the best collector on the collections floor, for example, do not necessarily translate into the skills that are required to make them the best collections manager. Promoting them to a level of incompetence only means you lose a top performing collector to gain a poor performing manager.

This becomes a challenge, namely whether to reward a top performer with a promotion, or rather promote the worker that has the best skill sets for a managerial position. And sometimes, of course, that means recruiting from outside of the business, which can be incredibly de-motivating for those already there and with their eye on the top prize.

The article in the HBR makes this precise point: the best engineer doesn't make the best engineering manager, and the best professor doesn't make the best dean. The principle applies in any industry or sector but the outcome is always the same.

Businesses have long struggled with the Peter Principle and looked for alternative ways of rewarding staff, principally through enhanced pay. Studies have found that businesses with the strongest pay-for-performance also choose and promote the best managers, especially when it came to sales. Staff did not feel that their careers were in any way 'blocked' by 'failing' to reach a management level, neither did it impact their ability to earn more money.

Promotions, however, are not simply about pay. They satisfy a much broader desire to be recognised, and so the challenge is not so easily solved simply by throwing money at it. Another way of addressing the challenge is by providing future managers with the training and support needed to take the first steps onto the managerial ladder.

The *Financial Times* makes reference to a group known as 'accidental managers', a term coined by the UK's Chartered Institute of Management. The CIM is concerned that too many employees are promoted to managerial roles with little or no preparation. To give some idea of the size of the problem, it believes that as many as three million current managers are there by accident rather than design, and are promoted simply because they are good at their existing job.

> " To give some idea of the size of the problem, it believes that as many as three million current managers are there by accident rather than design

So what are we doing to prepare the next generation of manager, and in turn support a more qualified and professional workforce? Again, if I look at my own industry, our Association is addressing the challenge with dedicated leadership and management courses, starting with our Level 3 Award, Certificate and Diploma which has specific units focused around leading a team. Our Level 5 Diploma in Compliance Risk Management also provides a clear progression route for future managers in a specific area of competence and equips candidates with the management skills required to develop a compliance strategy and manage the compliance team accordingly. The CSA also sits on the Register of Apprenticeship Training Providers (RoATP) as a Main Provider and currently delivers a Level 3 Team Leader Supervisor apprenticeship in addition to a number of management qualifications through to Level 6.

We will not be alone in looking at this challenging issue. I am sure that all of us in our respective industries recognise the need to create training and development programmes that equip our people with the skills and the competences as managers to take them all the way to the top. My wish is that in the future, it will be no accident that the top performing businesses and most rewarding working environments will be led and created by a new generation of professionally supported and qualified manager.

# Pragmatic and practical or disparate and dangerous? The opportunities and perils of SMCR

By **Emma Howell** from Worksmart

Like many of you reading this, I have been doing the rounds at several SMCR events focused on the extension of the Senior Managers and Certification Regimes of late and have picked up (as well as delivered) some useful insights into the good and the bad experiences across the banking sector and the similarities or otherwise of the effect it will have on the wider market.

I thought it would be useful to pull some of these lessons learned into a practical summary of some of the most common areas of concern. After all, we're all busy people, right?!

> "Think of SMCR as an opportunity to review your governance arrangements and how you manage the competence and culture within your organisation

### Know why you're doing it

I've heard a number of analogies on governance and accountability, not least of which likening it to the armed forces or the mafia. In both cases, a failure to comply can lead to grim and untimely death. Fortunately, nobody is going to die as a result of SMCR, but it shouldn't be taken lightly. Regardless of your firm's shape or size, if you have senior managers and certified personnel the way you manage the regime can influence not just the organisation's performance of its obligations and the market's reputation and stability but the careers of those subject to the regime. Culture and individuals' attitudes towards their roles and responsibilities to both the firm and its customers is at the heart of the regime and should form an integral part of your implementation and BAU approach.

### Expect the unexpected

When identifying your population for SMCR, be prepared to review and realign your supervisory models and really think hard about who is going to be "captured" under the regime. In the early days of planning in the banking sector, we engaged in discussions with a large retail bank. In our first meeting they had identified that they had 2000 certified colleagues but by the second meeting that had doubled to 4000! An extreme example I know, but it demonstrates just how important it is to understand and interpret the rules correctly and accept that it's a living thing. The more you learn the more you'll adapt.

Consider carefully the Certification Functions that apply to your organization and who is captured as a result; we hear of a lot of firms who are thinking hard about the influence of colleagues based abroad and elsewhere within group organisations for instance. Also think about your management and supervisory structures; if you currently have a situation where colleagues are managed by one person and supervised by another, don't forget that both manager and supervisor will need to be subject to the rules of Certification.

### Be realistic – Don't throw the baby out with the bath water

Think of SMCR as an opportunity to review your governance arrangements and how you manage the competence and culture within your organisation, but don't be tempted to start from scratch! Let's face it, the majority of regulated firms already have numerous processes and systems in place for ensuring their people are the right ones and are doing the right thing. Look at the various activities you already manage across disparate IT systems, Excel spreadsheets or outsourced services and think. Think about where your gaps are. I'm a strong believer in "if it ain't broke don't fix it" so focus on fulfilling the missing elements and working out how you are going to evidence that you've done it in a clear and consistent manner.

### Make your life easier when audit comes calling

Look at your Day 1 implementation with BAU in mind and through the eyes of both your internal audit team and the regulator. If they appeared on your doorstep tomorrow, how quickly would you be able to get your hands on accurate MI that demonstrates that you've carried out your obligations and that you can hand on heart say you've done everything you can to ensure an individual is fit, proper and competent for the role they carry out. This is where dedicated SMCR systems can really add value, driving robust processes and workflow and pulling together information from multiple sources to create a single point of truth and MI that you can rely on. The ability to centrally store and produce a dossier of supporting evidence (in whatever form that takes – documentation, video, minutes, background checks, testing outputs etc) alongside the headline MI is an absolute gift and its value shouldn't be underestimated!

**Use technology to help you before, during and after implementation**

Not only can technology be a godsend in the ongoing management of SMCR, but it can add real value in helping you with mapping your governance arrangements. The bulk of effort on an initial SMCR implementation typically happens ahead of technology being a consideration. We are however now seeing a shift, with our clients adopting the software early to utilise its drag and drop modelling capabilities to design a governance structure with built in capability to identify gaps in allocation of responsibilities, committee memberships and more. Don't underestimate how potentially dynamic and changeable your structure might be – consider the impact of joiners, leavers, role changes etc. We heard from a medium sized bank recently who had submitted over 30 revisions of the Governance map to the regulator in the two or so years they have been subject to the regime – along with hundreds of related bits of evidence, attestations, applications and validations. Don't underestimate all the modelling and maintenance required when the new regime settles into BAU.

Be sure that your supplier can evidence a strong SMCR client base and is willing to let you get hands on with the software before signing on the dotted line – if they push back, there's usually a reason!

I was heartened to hear the FCA's Head of RegTech speak at a conference recently on the progress the regulator is making in its pilot for automated reporting. We await the outcomes, but the potential to streamline the firm's MI with your submissions to the regulator is exciting and is something to keep abreast of in the coming months, especially considering possible changes to the FCA register and the potential that firms could find themselves responsible for updating it.

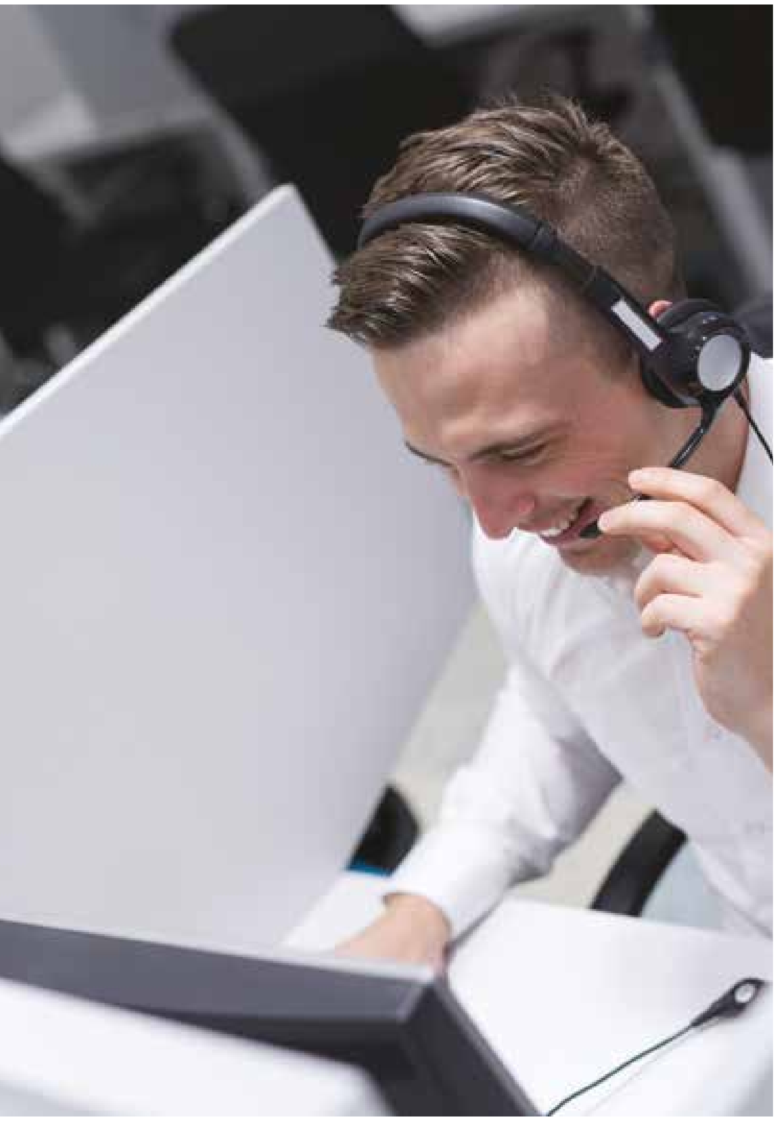
**Don't procrastinate**

The number one lesson from the banking sector has been not to underestimate the amount of time and effort is involved in preparing for SMCR. I have heard anecdotes, further evidenced by our own experiences, that on average an SMCR project takes somewhere in the region of 12 months – but, it's a project that shouldn't ever end. Despite the December implementation dates, Individual Accountability is for life, not just for Christmas!

# 20 call centre coaching tips

By **Paul Archer** from Archer Training

> “Have a policy of shutting down email from 10am for all coaches, that way you can swarm over your people and conduct side by side coaching, which is what you should be doing.



**Paul Archer** is the founder and Managing Director of Archer Training Ltd and helps financial services firms develop their advisers in the skills needed to beat the future fintech robots.

Do LinkIn with Paul at www.paularcher.uk

To achieve a culture of regular coaching being the way we work around here, here are 20 tips to help you in your busy call centre environment:

1. Have a policy of shutting down email from 10am for all coaches, that way you can swarm over your people and conduct side by side coaching, which is what you should be doing.
2. Be clear on the coaching that will work for individual agents. You can use learning styles. For example, activist agents will respond well to side by side coaching as they are more than likely to come out with quick actions and responses. Pragmatists will like this too. Reflector agents will cringe with the rapidity of the side by side so will prefer the pre-recorded playback sessions in privacy so they can think through how they can improve. Theorist types will also like this, but will want to have access to the calls beforehand. You could get them to choose their best and perceived worst one to analyse, otherwise ensure you use intelligent software to choose the calls for you. Don’t spend time trawling through the whole lot, use technology to help you here.
3. Rather than just one agent listening to their pre-recorded calls, encourage a small group to listen to them and all to add comments and share best practice. Allow each agent to complete your best practice checklist as they listen to the calls. Then you facilitate an empowering session.
4. Have a “Caught you doing something great” emblem to plant on the desktop. One client of mine bought “Wow” lollypops – the large versions – and gave one to an agent when they did something wow.
5. Have a lucky dip bin for great performances. Inside the bin will be booby prizes as well or ones requiring a forfeit.
6. When doing side by side coaching, keep the feedback sharpish and precise. Use the session to work on a theme or encourage your agent to suggest a theme before the session starts.
7. Feedback is mostly needed with side by side coaching. Don’t do too much of the “How would you do that differently?”, you can leave that for your recorded call coachings.
8. Get a routine going with your agents. Allow them to expect lots of coaching from you. Alternate it with side by side coaching followed a few days later with some recorded coaching, some engagement Q&A type coaching and then back to some side by side. Get a routine going.

9. Skills development is a fine outcome of coaching but use your side by side coaching to get an appreciation of the non-skill based performance inhibitors. Try to understand the real challenges they're under, that'll build empathy.
10. In your recorded call coaching sessions, allow your agent to run the call best practice checklist themselves on their actual call before giving you feedback.
11. If you're dealing with a low performer, attempt to pick more than a couple of calls to analyse and coach on, the more the better.
12. After every coaching session you must have the magical three outcomes. WHY is the acronym – what, how and you. Your agent should know what they need to do, how they can get there and what you and the business can do to support them. If they don't know these, then you'll have to spend time GROW-ing them.
13. Use the GROW model by all means, but be aware that it was never designed for a call centre environment. It was originally designed for tennis players and athletes to help them achieve their goals. A tip is to start the GROW model at R = reality, by providing feedback or self-discovered feedback on performance. That way your agent is aware of their current performance where a goal can evolve to improve it.
14. Always, always, always do coaching after any form of assessment. Even if it's billed as a Q&A type observation, empower these people to do a little bit of coaching afterwards. Never leave observation and assessment in isolation otherwise it'll get a "police" type reputation.
15. Ask agents what kind of coaching and development they would like. The type, the duration, how else can you support their skills and development. Naturally your coaching outcomes must be beneficial for the agents otherwise they just might say "none please".
16. Have best practice meetings for 5 minutes each morning and evening to share best practices and great performances. Stand up and let different agents run them for you.
17. Get your call recording software to burn calls onto a CD or SD Card, as many as will fit on, and get in the habit of listening to these on your way home or whilst in the gym. The habit of listening to lots of calls will help you to determine how your agents are doing and what ways they can improve.
18. Have your call best practice checklist which contains the process plus all the soft areas needed to perform a great call. Also have your playbook which holds every technique, strategy and method which brings the call to life. Like a best practice bible. This would need to be added to continually from observations and agents' new ideas.
19. Have a No PC day once a week so you get to surge over your agents all day.
20. Have a balanced scorecard approach for your metrics and measures. Learn to distinguish between lead and lag. Lead measures are those that'll help you judge how the agent is doing and get in some coaching to improve things. Lag measures are after the event, and although coaching may help, the event has happened. A Balanced Scorecard approach could use 4 measures:

# Am I an information giver?

**Julia Kirkland,**
Partner in FSTP

> "I am confident that most of you wouldn't think to yourself "I wondered if they have been assessed as competent to give me this information'

Imagine you are sitting in a large auditorium waiting for a Portfolio Manager from a large Asset Management firm. He or she is coming to bestow upon you all the wisdom they have about their shiny new fund and why your entire client base should buy it. I bet you think "well, they have been managing billions of assets so far and done a pretty good job, this has got to be worth listening to". However, I am confident that most of you wouldn't think to yourself "I wondered if they have been assessed as competent to give me this information'!

Imagine now, you are a large charity waiting for the Marketing/ Sales Director of an Asset Management firm to come and discuss their solution for running your money in a segregated portfolio during a beauty parade. You expect him/her to explain how they will manage risk, how the asset class blend will be managed, how they will keep you up to date with developments and the charges that will be applied. Again, would you as the charity be thinking "who has assessed this individual as competent to provide this information?"

Captured in both these scenarios is the challenge of "Information Givers".

RDR highlighted the need for those advising to be qualified to Level 4. Of course, those managing money and not advising have been required to be qualified to level 3 since 2001, but grandfathering for those who entered the market before 2001 still exists. This means there are dozens of Portfolio Managers out there who have no professional qualification and those not advising or managing are not required to have any qualification. However, embedded within the T&C sourcebook TC 1.1.1B since January 2018 is the criteria for the knowledge and competence of all staff giving information as set out by ESMA;

- ❑ Understand the key characteristics, risk and features of those investment products available through the firm, including any general tax implications and costs to be incurred by the client in the context of transactions;
- ❑ Understand the total amount of costs and charges to be incurred by the client in the context of transactions in an investment product, or investment services or ancillary services;
- ❑ Understand the characteristics and scope of investment services or ancillary services;
- ❑ Understand how financial markets function and how they affect the value and pricing of investment products on which they provide information to clients;
- ❑ Understand the impact of economic figures, national/ regional/global events on markets and on the value of investment products on which they provide information;
- ❑ Understand the difference between past performance and future performance scenarios as well as the limits of predictive forecasting;
- ❑ Understand issues relating to market abuse and anti-money laundering;
- ❑ Assess data relevant to the investment products on which they provide information to clients such as key investor information documents, prospectuses, financial statements, or financial data;
- ❑ Understand specific market structures for the investment products on which they provide information to clients and, where relevant, their trading venues or the existence of any secondary markets;
- ❑ Have a basic knowledge of valuation principles for the type of investment products in relation to which the information is provided.

All of this is a challenge for our colleagues in Asset Management, many of whom had little or no formalised T&C policies. What we do know is that the FCA as part of its supervisory visits post MiFID are asking "How have you assessed your information givers as competent and how are you going to do this annually?" Why focus on this amongst all the other MiFID II related changes? Because similar to the transaction reporting requirements it's easy to measure – you either have the evidence that you have done it or you don't.

# Fulfilling the feedback loop

By **Jane Pitt** from RedTree Training

Nowadays it feels like everyone wants your feedback. You order a sofa and you are requested to provide your feedback on the ordering process; you take a call from your bank and they want feedback on the adviser; you return from your holiday and they want to know 'how was it for you?'. We all do it…at the end of our training courses, we ask for feedback. Whatever your view is of 'happy sheets', they still exist, and clients still love the comfort they get from that initial review on how the learning was received. But what do we do with all that feedback?

I was recently shocked (yes shocked) by the response I was given to that question when I asked it of a big red tour operator. I had taken 20 minutes of my precious time, and frankly time that should have been spent elsewhere following my return from a 10-day break in the middle of a contract, to complete their online feedback. It asked me to rate a series of questions, as well as a need to add comments before I could proceed to the next question. Now, as you've probably already guessed, and especially if you had read any of my other articles, I am not shy of giving my point of view – always constructively I'd like to add but I am happy to tell anyone what I think if they ask. So, I dutifully completed their survey and hit the submit button expecting to get a response given the feedback I had offered. A week went past…nothing….10 days went past…nothing….so I decided to use the power of social media to get a response. Within four hours of posting a 'very disappointed' comment, I had a message asking me to provide more details. So, my feedback didn't get a response but a posting on social medial did? That's not the worst of it, once a representative finally agreed to speak with me, they told me that it is not their normal practise to follow up on the feedback directly with the reviewer; feedback was only used for discussion internally. How then do I know that my feedback has been noted and even better, acted upon? And if it wasn't, then what was the point of me taking the time to complete the feedback?

My experience then got me thinking about how I use the feedback I receive on my training courses. I, like lots of other trainers, have a tally up of the ratings so I can report on a learning evaluation score; I even pick out a range of positive and negative comments to share with my stakeholders but what actions do I take to complete the 'loop'? The word 'loop' implies there is a continuous circle, so to me that would imply I need to take some form of action in order to demonstrate what I have done to address learners' comments – negative or positive. There has been much written recently on the importance of providing a feedback loop to demonstrate a learning culture within a company, so what is the impact on the learner if we are collecting the feedback but don't complete the loop by not responding? Well in short, it is probably the same as I feel about the big red tour operator. To get a response I had to submit a complaint. I didn't want to complain; I just wanted to offer my 'feedback' as I was asked to do, and in my opinion, by complaining it meant that they missed the point as they went straight on the defensive and were trying to prove each of my points as incorrect.

Is this how learners feel? Do we force our leaners to 'complain' so that we complete feedback loop and even when they do complain, we defend our point of view rather than listen to the message? If we do, then there could be lots of disgruntled learners out there. So, what can we do to help prevent this and close the loop?

❑ **ASK PERMISSION FOR FURTHER CONTACT**
Most feedback is collected anonymously so if a delegate offers a particularly insightful piece of feedback, ask their permission to contact them to discuss it further after the training course or if they will agree to you passing on their details to your stakeholder so that they can take the discussion further. Not only will this mean that you can gather more information, but it should also have a positive ripple on the other delegates as others become aware that you do actually act upon their feedback.

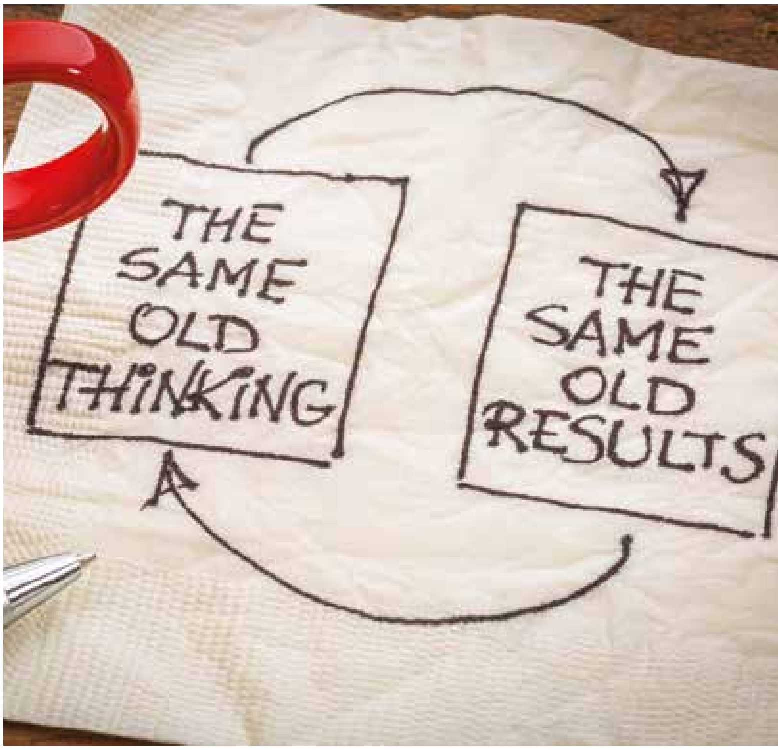
❑ **COLLATE THE INFORMATION**
Take the time to collate all the data from the 'happy sheets'. Being able to compare all the data on one page, typically on a spread sheet, makes it easier to identify and track trends in the feedback.

❑ **CREATE A WORD CLOUD**
You can use apps to do this for you or simply read through the collated feedback picking out key words. Again, you are seeking trends, so you may be looking to see if the same words are repeated or are the expected words reflective of the message you are trying to convey.

❑ **INDENTIFY YOUR ACTIONS**
What are you going to do with all this information? I like to summarise my findings on one page or one slide which includes:What you did i.e. at a high level the training aims/objectives/content
i) What we learnt i.e. what the feedback told you
ii) Proposed actions

❑ **COMPLETE AND COMMUNICATE**
Once your stakeholders are on board, plan your time to complete these actions. Be visual in your actions and take the time to communicate them with the reviewers so they are kept informed of progress.

> "There has been much written recently on the importance of providing a feedback loop to demonstrate a learning culture within a company




❑ **COMPLETE THE LOOP**
Offer feedback collectively to the learners, as well as individually where appropriate, on the outcome of actions taken. Make this feedback easy to read, possibly using the same one slide format but this time changing the 'proposed actions' to 'actions taken' so that it is clear on how you have addressed their comments.

By completing these steps, you may not be able to engage every disgruntled learner but at least they will be able to see that their feedback is listened to, and where appropriate, action is taken as a result. As for me, the big red tour operator won't be booking my holidays again – a shame, as I quite like their 'countdown to the big day' notifications.

# Keep your business out the spotlight: an effective triage for DB clients

**John Reynolds** from Expert Pensions

> “ Is it *truly* non-advised, educational, balanced, and recorded?

Recently, one of our PTS clients contacted us to say that they'd just had an FCA visit – and all was good. Interestingly, the one piece of remedial action required was improving the recording and reporting of their triage process to ensure it was recorded and that it was, in fact, non-advised.

It looks like the FCA are aware that many firms don't have an audited process for their triage, which allows clients to choose advisers, rather than advisers to choose clients. As explained in the FCA's consultation paper CP18/7, "*Even if a client tells a firm about their personal circumstances, if the firm wishes to avoid giving advice it should not comment at the triage stage on whether they should consider a transfer based on this information*".

It is true that some firms do not look at personalised information at triage, and provide generic, balanced, factual information as part of an educational process. However, some firms may be tempted to treat triage as a client screening process, finding out what they can about the client and CETV to give an indication on whether the adviser thinks the transfer is a goer or a not, and deciding if/how to proceed on this basis.

With personalised information being discussed, the adviser could easily stray into providing advice – either to transfer, or to remain in their DB scheme. This therefore presents a huge risk to firms taking this "personalised" approach to triage.

Providing an indication to the adviser of whether the transfer is a goer or not is *not* the point of triage. We believe that the FCA wants PTS firms to be clear about what they are offering clients through their triage service, *prior* to them undertaking regulated financial advice. Is it *truly* non-advised, educational, balanced, and recorded?

There are huge benefits of a triage service, because it puts you in front of educated, informed clients who understand the basics of the advice process, the risks involved in transferring, and that there will be a fee for the advice given. It de-risks your business, saves you time, and minimises the potential for future complaints as only those who understand and accept the risks of transferring their pension are going to be engaging with you. Additionally, you will have evidence that the client understood what they were doing when they transferred.

We believe triage should involve not only balanced, educational explanations of pension transfer concepts, but also some sort of test or quiz to prove that clients definitely understand. Otherwise, some potential clients may just nod along, not really listening, because their mind is already made up – they *know* they want to transfer their pension because Dave from the pub did it, and he says it would give better death benefits. And what's best for Dave is best for me, surely?

So, how can financial advice businesses implement triage? In short, the options for firms are either to take responsibility for providing an in-house triage service, or outsource triage to a specialist triage provider.

While doing nothing is also an option (remember that triage is not mandatory) we would suggest this leaves your advice business open to huge risks compared to companies who *do* offer a triage service. But more than this, triage is about providing the best consumer outcomes – you will be dealing with the clients who want and value your advice, with evidence that they understand what they're doing and the risks involved with transferring their pension.

Offering your own in-house triage may be an option for some firms, but we believe that very few will have the expertise or time to implement this efficiently. What are the time and financial commitments involved in training your staff sufficiently to educate clients adequately – without straying into advice – in a completely balanced and unbiased way, and ensuring the process is fully recorded?

Pension provider Royal London conducted a recent survey on adviser firms' triage processes. It showed that more than two out of every three advice firms have a triage process for potential transfer clients. However, what was startling was that some firms reported no clients deciding to transfer post-triage, compared to more than 90% at other firms. This huge spread suggests that firms implementing their own effective triage is probably much trickier than some may think.

For many firms, outsourcing to a specialist triage provider will be the most cost-effective and business-efficient option. Expert Pensions Consulting offers a comprehensive triage service for clients comprising a series of short videos, PDF download supplements, and a short quiz. On completion, you as the Adviser get a PDF confirmation that can be added to the client's file as a file note.

In short, Expert Pensions Consulting really does offer a great way of helping to ensure your PTS business is kept out of the regulatory spotlight, via what we believe to be the most comprehensive, client-friendly, recorded triage in the UK.

# 12 reasons why

You may busily be preparing for the introduction of the Certification Regime. In the following list **Jeff Abbott**, our Editor has prepared a list of the most common traps companies fall into and struggle with in the introduction of an effective response to the regulations.

Insurers come into scope of the regulations on 10 December 2018 with remaining financial services companies following a year later. Plenty of time to get things done?

1. Procrastinate – you keep putting matters off in the belief you have other priorities to address and underestimate how much work needs to be done before implementation.
2. You assume that an SPS will confirm FITness. It will not.
3. You assume your performance management process will confirm competence. It may not.
4. You assume you can embed the code of conduct using e-learning alone.
5. You design your certification approach in a silo.
6. You fail to check your dashboards are aligned 100% certified and customer outcomes problems persist.
7. The SMF responsible for Certification remains in the background.
8. You fail to measure the right mixture of KPIs (Leading, lagging etc)
9. You fail to document policy, process and procedures clearly
10. You assume you can confirm competence without standards and evidence
11. You fail to ensure the people confirming FITness are competent to do so
12. You adopt the "King's New Clothes" approach by assuming a senior manager is competent, after all – they are senior!

For all the Relevant Authorised Persons (Bank, Building Societies etc.) you may feel that you have everything under control. Are you comfortable in answering the following questions?

- ❏ How has the SMF responsible for Certification established oversight of their responsibilities
- ❏ What monitoring controls and reporting have been established
- ❏ What quality controls have been established in respect of aspects that have been delegated
- ❏ Detail the sign off processes that have been authorised in respect of FITness assessments
- ❏ How you have addressed the key general rules relating to the criteria listed in FIT 1.2.1B
- ❏ How your processes embrace and support Company Culture, Values, Behaviours and the Code of Conduct

# Auto-enrolment compliance; can we trust ourselves to be good?

By **Henry Tapper** from First Actuarial

I like to tease the *Financial Times* journalist Jo Cumbo that she can trust no-one because of her heritage! Jo is Australian and this blatantly xenophobic comment is based on a British prejudice that Australians find compulsion acceptable as compliance is in the blood. A second prejudice, that the British can trust one another, falls into the same category as the phrase "it's just not cricket".

Neither cricketers or Brits can be trusted not to cheat and Australians are not just a bunch of third generation criminals.

And yet…

The Australian Superannuation system compels savings behaviours and demonstrates gross inefficiencies while the British auto-enrolment system, relies on nudge and honesty – and appears to be working very well indeed. Could we cope with a mandatory system – I suspect the answer is "no", would the Aussies cope with auto-enrolment – I don't know. My innate xenophobia prevents me proceeding down that track!


**Auto-enrolment compliance relies on trust!**

The Pensions Regulator has recently published its *"Auto-Enrolment; Commentary and analysis: April 2017-March 2018"*. These are the highlights.

1. At the end of March 2018, more than 9.5 million workers had been automatically enrolled into a **workplace pension**. 1.1 million employers had completed their declarations of compliance. Only a year earlier it was half a million employers.
2. The proportion of UK staff in a **workplace pension** is 84%, up from 77% last year. Total amount saved in workplace pensions in 2017 was £90.3 billion, up from £86bn last year.
3. In 2017, the Regulator received 90 whistleblowing reports alleging an employer was trying to induce a worker to opt out of the **workplace pension**. Of those, 53 resulted in cases
4. The number of cases opened by the Regulator to investigate possible breaches of AE rules by employers more than doubled to 4000 in 2017. being created for further investigation.
5. Between April 2017 and March 2018, the Regulator used its formal powers on 102,497 occasions, a 52,429 increase in the use of its powers from 2017. The number of compliance notices issued rose from nearly 34,000 last year to nearly 61,000 this year
6. The number of £400 Fixed Penalty Notices issued when an employer fails to comply with a statutory notice for failing to meet its AE duties doubled to 28,864 in 2017/18 from 12,181 the year before.
7. The Regulator said initial data indicates that employer compliance with the first increase in contributions (2% to 5%) has been "very high".

Jo Cumbo, commenting on Twitter – summarises the situation.

- ❏ Employers self-certify compliance with their workplace pension duties.
- ❏ The Regulator does not check each individual employer to see if this is true.
- ❏ The Regulator (700 staff) is not resourced to do this.
- ❏ There are more than 1m employers who have declared compliance.

We are left to draw our own conclusions as to whether the Pension Regulator's approach is fit for purpose. The implication is that there is not enough regulation to go round.

**Is Auto-Enrolment compliance sufficiently resourced?**
Certainly, Jo Cumbo is not alone in suggesting that it mightn't be.

Recent research from PensionSync, suggests that large amounts of the data recorded is recorded wrong and that some mis-collection of funds and even mis-claiming of double tax-relief is going on.

Certainly, we know that there is systemic non-claiming of HMRC incentives for those on low-earnings who are auto-enrolled into net-pay schemes and get no incentive (despite it being part of the deal).

I would divide non-compliance into the categories of the confessions

**Ignorance**

Some employers and payroll officers aren't very good and many providers assume they are.

**Weakness**

It is easy to allow bad practice to persist, for fear that exposing it – will lead to trouble, both to the whistle blower and the employer

**Own deliberate fault**

There is a steady stream of employers who deliberately lie about auto-enrolment and set out to keep money in the company, rather than in their employee's pension pots.

TPR's regulation is – to me – proportionate to my perception of the problem. Most non-compliance is through ignorance and incompetence, some is through weakness and should be whistle-blown and a small part is deliberate.

Any sensible strategy from the AE enforcement team ought to aim at educating the ignorant, empowering the whistle-blowers and coming down with an iron fist on employers who steal from staff.

In my opinion, this is what TPR are trying to do. The numbers of people they are finding in these categories is small, the issue is not in their method, but as to whether sufficient resource is being allocated to dealing with these three issues.

**How much is enough?**

We yearn for perfection. Actuaries, pension administrators and regulators have yearned for GMPs to be reconciled and equalized for decades. We know that had everyone levelled up initially, the cost of putting things to a median state today, would never have been incurred. It is cheaper to do things right first time, and in the case of GMPs – it would have been cheaper to have produced a simple system that gave everyone full shares.

No doubt we will look back at the initial stage of auto-enrolment with its various contribution basis', phasing and self-certification of compliance as equally over-complex. And yet, most payrolls see AE as BAU and most employers now count pension costs as part of their financial model.

Were we to seek perfection, we would look at all the consultants we have employed and agonize over whether we should have included them. We could look again at our pro-rata allocations against AE periods and we could try to unravel the complex contribution histories to ensure that there were no winners or losers – but absolute compliance.

TPR could audit on this basis. The cost of regulation could outweigh the benefit of increased compliance and the cost of increased compliance could prevent employers ever contributing beyond the AE minima to staff.

> “Large amounts of the data recorded is recorded wrong

Regulators talk of proportionate regulation; they know that resources are finite. There is an efficient frontier out there between enforcement and engagement. The more that TPR can encourage engagement, the more efficient that frontier becomes.

**The British philosophy of "natural compliance".**

To my mind, natural compliance (engagement) beats enforced compliance every time.

We have in auto-enrolment something of a success story, even with the employers for whom pensions has become a compulsory part of business life for the first time.

There is a natural link between work and pensions, it's in the title of the department and it's in one of my favorite synergies "work is boring, pensions are boring".

But boring is good, just like exercise and not smoking weed or tobacco. Boring is good because it leads to exciting later. Deferred gratification is something we all think is good, especially when we know that getting old is tough!

I will continue to applaud the Pensions Regulator, as I think Jo Cumbo is doing. We could treble the compliance teams in Brighton, but would we cut breaches by 2/3 – or make auto-enrolment more of a success? – I doubt it.

The Pensions Regulator is in a good place on auto-enrolment; it's good – not perfect. Philosophically – I think it's good enough for now! Practically, I think it's good enough for now.

We are learning to trust auto-enrolment and that is the first step for 10m of us – for whom pensions have been – till now – a rich person's play thing. To fulfil on auto-enrolment stick, the workplace pensions have to deliver; that will require a new level of compliance and a new order of trust.

# The road to success

## By **Andy Snook** from Performance Evaluations

Probably like many of us in Training and Competence I have spent much of my time working with colleagues who are already experienced professionals already in the firm or experienced joiners from another firm. So when I was offered the opportunity to work with young people starting their Financial Services career through a comprehensive training programme I jumped at the chance to experience their road to success as an End Point Assessor (EPA).

The Education and Skills Funding Agency (ESFA) offer a growing number of apprenticeship standards creating opportunities in Financial Services to not only become qualified through the programme but also to attain a recognised accreditation of competency in the selected role.

As a professional assessor I'm really pleased to see that there are a lot of young people either joining the industry or progressing their career through the various programmes that are available such as individual standards including administration, compliance, para-planning and financial adviser as well as the longer term opportunity to progress from one standard to another.

For those of you not familiar with apprenticeship standards these are programmes usually lasting between twenty-four and thirty-six months during which the apprentices (we refer to them as learners) undertake a series of validation criteria ranging from industry examinations through to building a substantial portfolio evidencing their accomplishments. The learner's firm will sponsor the programme which includes both on the job training and external support from a training provider.

The sheer amount of work involved is astounding, but then many of the learners will have not been too long out of higher education and therefore more accustomed to working for and sitting examinations than most. For example an apprentice para-planner will need to sit at least four CII examinations to attain the Level 4 certificate. Then they need to construct their portfolio for their final assessment in the programme which will include a lot of evidence drawn from their day to day work. And of course they also have to do the day job as well.

The apprenticeship standards cover a range of learning outcomes set out in three categories for Knowledge, Skills, and Behaviours. The learners' portfolio can consist of written or project work, performance reviews, Continued Professional Development, witness and reflective statements, case studies and professional conversation records. Witness statements are made by somebody other than the learner who has observed the leaner do something. Reflective statements are made by the leaners themselves and are similar in nature to the reflective statement made in a CPD entry but have to include additional evidence i.e. photocopies, screen prints etc. This is on top of studying for, attaining and including the relevant qualifications in the portfolio. The training provider will collate everything (a considerable amount of paperwork) and when everything is ready the entire portfolio is sent to the EPA who will then check and grade the leaners evidence of accomplishments against the standards as a final assessment, and award them with their certification.

The role of the EPA covers a variety of T&C and compliance skills such as file checking, regulations, monitoring, observation, conversation and feedback. The EPA has to check each piece of evidence to ensure they meet the set criteria against the standards, and there has to be more than one piece of evidence. Recorded professional conversations need to be reviewed. For some standards a professional conversation is carried out between the EPA and the trainee to verify or clarify elements of the trainees' portfolio, however this is by telephone or skype as the EPA does not meet the learner. Written interim feedback may be given by the EPA where there is insufficient or missing evidence but the EPA cannot tell the trainee what to do, only what is needed. The whole process relies on a three way communication set-up between the learner, the training provider, and the EPA.

There are benefits for all involved. The learner gets a recognised accreditation of competency in the selected role. The sponsoring firm gets a huge amount of assistance from the training provider in getting the learner into a qualified position. The training provider gets credit for successful outcomes. The EPA gets to employ their skills and knowledge against a variety of cases, and give something back to the industry as a whole.

Some might, I suppose, put forward a case for the lack of credibility for so young a financial adviser, at least from an experience perspective and also how clients might react, for example how would a sixty year old client with half a million pounds to invest feel if the adviser was in their early twenties? Certainly the case could be accepted for lack of field experience. However there are many advisory positions that don't require meeting clients, and certainly the learners won't lack technical ability whilst building experience, if that's the route they choose to go.

Whatever your thoughts these learners are the industry's future, and in my personal opinion a hugely worthwhile investment by all involved. So why not get involved yourself?

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