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T-C NEWS

COMPETENCE • EXPERTISE • PROFESSIONALISM

JANUARY 2019

SM&CR Planning – 5 things you wished you knew, but didn't know you did not know!

By Carl Redfern from Redland Business Solutions



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How your business can limit the potential disruption of Basel IV
By Fitch Learning

Is my FD lying? The role of financial oversight in financial services
By Phil Ingle from Phil Ingle Associates

The solution to the dissolution of training departments
By Paul Archer from Archer Training

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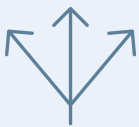


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Happy New Year. Welcome to the January edition of T-CNews. The Senior Managers and Certification Regime is now underway for Insurers. This leaves 11 months to issue their first certificates of FITness for all Certification Functions. Solo regulated firms will join the regime in December this year but our message is clear to all these firms – start now! Articles in this edition will help you understand why there might be far more to do than first anticipated. There are many other aspects to think about this year too. Dealing with vulnerable customers, Treating Customers Fairly, Accessibility to Learning are all topics that we think will be of interest to you. Enjoy.

Jeff Abbott

Your Starter for Ten

Big Quiz of the Year: 2018 – Questions

1. Former Russian operative Sergei Skripal and his daughter were poisoned in which English city?
2. Which famous physicist, the focus of *The Theory of Everything* passed away in Cambridge in March 2018?
3. Which film about a giant, extinct shark species debuted at cinemas around the world in August?
4. In May, which member of the Royal family married American actress Meghan Markle in a ceremony at Windsor Castle?
5. France won the World Cup, but which English player received the Golden Boot for his 6 tournament goals?
6. Greece and the Republic of Macedonia agreed on a deal to add which word to the latter's name?
7. *One Kiss* by Calvin Harris and which female singer ended the year as one of its highest-selling singles?
8. In December, Mary Poppins returned to the silver screen portrayed by which English actress?
9. Which German tennis player defeated Serena Williams to become the 2018 Wimbledon women's champion?
10. Which man won Best Actor at the 2018 Oscar's ceremony for his portrayal of Sir Winston Churchill in *Darkest Hour*?
11. The 2018 Winter Olympics took place in Pyeongchang in which East Asian country?
12. In October, which G20 nation became the second in the world to nationally legalise marijuana for recreational use?
13. Which American rapper went double platinum with his April album *Beerbongs & Bentleys*?
14. Which social networking site was caught up in a scandal after it was revealed to have been secretly sharing personal information with political consultancy firm Cambridge Analytica?
15. In May, President Trump announced the United States would be unilaterally withdrawing from its nuclear agreement with which Middle Eastern nation?
16. In March, which major fast-food restaurant was forced to close many UK branches due to a shortage of chicken?
17. Which athlete - the first in history to record a sub-4 minute mile – died in March 2018?
18. At a referendum in May, Ireland voted to repeal a ban on which medical practice?
19. Russia, Kazakhstan, Azerbaijan, Iran and Turkmenistan sign an agreement on territorial claims to which inland sea, the world's largest?
20. In November, New Caledonia voted to remain an overseas territory of which European nation?
21. Borobi the Koala was the mascot for which sports and athletics games, held in Australia's Gold Coast?
22. In January, the inhabitants of which US state received a false warning of an incoming ballistic missile attack?
23. Which British Formula 1 driver for Mercedes won his 5th World Championship?
24. In February, controversial leader Jacob Zuma resigned as president of which country after 9 years in power?
25. Which Croatia and Real Madrid midfielder was the recipient of the 2018 Ballon d'Or?
26. *Black Panther* was the first film to be shown in which country, who re-opened cinemas for the first time since 1983?
27. November 11th 2018 saw the 100th anniversary of the armistice in which major worldwide conflict?
28. Which team beat the New England Patriots 41-33 to win the Superbowl LII?
29. Which former US President (the 41st, from 1989-1993) died at the age of 94?
30. In August, a road bridge collapsed in which Italian city, killing 44 people?
31. In September 2018, the Supreme Court of which major South Asian country decriminalised homosexuality?
32. Debuting in April, *Infinity War* was the third instalment in which series of Marvel superhero movies?
33. In November, NASA's InSight probe successfully landed on the surface of which celestial body?
34. What name was given to the third son of the Duke and Duchess of Cambridge, born in April of this year?
35. The Gilets Jaune movement led to widespread civil unrest, predominantly in which European nation?
36. In June, Donald Trump became the first US President to meet the leader of which reclusive and aggressive Asian nation?
37. In August, which company became the first to achieve a market value of over \$1 trillion?
38. Which (not strictly European) country won the 2018 Eurovision song contest in Lisbon?
39. Which country this year officially changed its name to eSwatini?
40. Jamal Khashoggi was murdered inside the Saudi consulate in Istanbul; but for which American newspaper did he write?
41. Which Canadian rapper spent 8 weeks at the top of the UK singles chart for his song *God's Plan*?
42. *Solo* was a spin-off from which popular long-running sci-fi movie series?
43. Earlier this year, 12 youth football players and their coach had to be rescued from a cave after heavy rainfall in which south-east Asian country?
44. Which rugby nation ended the year as the 2nd highest ranked team, after a Six Nations Grand Slam and a home victory over World Champions New Zealand?
45. In April, which animated TV series passed *Gunslinger*'s 635 episodes to have the highest episode-count of any in history?
46. On December 18th, which man was sacked as Manchester United manager, once again in his 3rd season at a club?
47. Which Youtuber is currently the most-subscribed-to on the site, after a long battle with Indian media company T-Series?
48. Kenyan runner Eliud Kipchoge set a new world record over which running distance?
49. Andrew "Freddie" Flintoff and Paddy McGuinness were announced as new presenters of which popular motoring show?
50. In May, which singer's music was removed from Spotify after sexual abuse allegations?

Introduction to AF8



John Reynolds from
Expert Pensions

“There are three assignments you need to complete within 12 months from the date of enrolment (up to 3000 words each).”

The CII's level 6 pension exam, AF3 Pension Planning, from April 2018 was superseded by AF7 Pension Transfers and AF8 Retirement Income Planning.

That shouldn't really be a surprise: sourcing evidence from FAMR 2018, of all the regulated advice given in the last 12 months, 67% of the advice was related to pensions work. It's a key advice area.



Expert Pensions have been providing comprehensive support for “pensions” exams since 2010. Most recently, we supported the CII AF7 since its launch in October 2017 and we're now doing the same for the CII AF8 coursework, launching in January 2019.

The key thing to know about AF8, is that it is assessed entirely via coursework. There are three assignments you need to complete within 12 months from the date of enrolment (up to 3000 words each).

According to the official syllabus, the singular learning outcome for AF8 is for candidates to be able to advise clients on income planning approaching and during retirement, including later life.

With concepts such as financial objectives, estate planning, taxation, cash flow modelling, risk profiling, asset allocation, vulnerable clients, and investment risk all featuring in the syllabus. It's fair to conclude that this is (very much like the AF7 exam), not just a technicians' technical qualification, but is a practical, pragmatic assessment of the ability to provide sound retirement income planning advice. In particular, the coursework structure allows for critical analysis of the subject matter being tested AND requires the ability to give sound recommendations.

We have heard it described as “the coursework version of the AF5 exam”. But, really it's rather than specifically a “pensions” exam, it's more of an “at retirement” or “later life” financial planning exam, assessed by coursework (done within 12 months).

Upon completion, you will be rewarded with 30 Advanced Diploma (level 6) credits.

This would be an excellent way to get 30 credits toward your Chartered status or, indeed by a key part of your CPD requirements for the year?

Our pensions support does not end there. We also have our Drawdown and Retirement Income Proposition Masterclass, aimed at Chartered Financial Planners who want a strong technical and

practical refresh of drawdown and retirement investment propositions.

Flexi-Access drawdown, like Flexible drawdown, allows unlimited withdrawals with no GAD restrictions; pensioners have the complete flexibility to start, stop, increase, or decrease their income at will.

Today, drawdown offers a means of taking a variable income, the potential for long-term capital growth, tax-efficiency, and flexible, attractive death benefits.

People are living longer, and retirements could be as long as 40 years or more. Drawdown offers the ability to meet evolving financial needs and objectives over these unprecedented new time horizons.

Over time, there has been a shift from complete inflexibility and the requirement to buy a guaranteed income for life, to complete flexibility and the ability to draw as much or as little as you want, whenever you want, from your pension fund. It's impossible to know how drawdown will evolve in future, but given its popularity, it would seem that drawdown in some form or other is here for the long-term – and being expert at drawdown will open up a huge opportunity.

The Masterclass comprises video tutorials, PDF downloads, and a quiz to test your understanding, to provide you with 4 hours of high quality online Structured CPD. The practical and technical aspects of capped/flexi-access drawdown, death benefits, and retirement income investment portfolios are all carefully examined – including the use of smoothed funds, ratio analysis, and more.

This is essential viewing for any drawdown-focused adviser and links back very neatly to the AF8 exam. I know there will be a lot of advisers who will want to become chartered and access CPD at the highest level in the “at-retirement” space’.

Our CPD masterclasses and AF8 exam support do just that for those who want to develop their expertise at the highest levels.

The Senior Managers and Certification Regime – it's all about the preparation

From **Helen Dean**, Head of Technical Services, Thistle Initiatives

“An individual undertaking a Prescribed Responsibility needs the appropriate level of authority, experience, skills and knowledge

As everyone in the industry will be well aware by now, the Senior Managers and Certification Regime (SM&CR) for solo regulated firms comes into effect from 9th December this year, bringing with it new responsibilities for staff at pretty much every level of the business. The good news is firms have time to think through the implications of the regime, consider what changes and new procedures they may need to put in place and ensure they are fully prepared well in advance of the deadline.

As a reminder there are three key parts to the SM&CR; Senior Management Functions (Senior Managers), Certification Regime and the Conduct Rules. In this article we are concentrating on one part of the new regime, Senior Managers and, in particular, the responsibilities which a Senior Manager might hold and what firms need to think about when allocating responsibilities.

Under the new regime every Senior Manager will be required to have a Statement of Responsibilities (SoR). A SoR must set out what a Senior Manager is responsible and accountable for; it will have to be submitted when a Senior Manager is being approved and where there is a significant change to their role.

Duty of responsibility

The SoR is an aspect of the regime which, in our view, requires particular thought and preparation.

Why? Well, in part, this is because the new regime introduces the Duty of Responsibility – under FSMA every Senior Manager has a Duty of Responsibility. In its guide to the SM&CR for solo regulated firms, the FCA explains what this Duty means:

“If a firm breaches one of our requirements, the Senior Manager responsible for that area could be held accountable if they didn't take reasonable steps to prevent or stop the breach.”

So, where an individual accepts a particular responsibility, they are also accepting this Duty.

Which means the firm and the individual need to be confident that the Senior Manager has the right skills and the right level of authority to direct and control affairs and that there is an adequate infrastructure in place to provide sufficient oversight. Among other things, this could include having relevant MI which tells a story, with context, so the Senior Manager has adequate information available on which to base an informed view.

The Statement of Responsibilities (SoR)

Depending on what category a firm falls into (Core, Enhanced or Limited Scope), more or fewer Senior Managers will be captured by the new requirements. As the Core category will cover by far the largest number of solo regulated firms, we're focusing on the regime as it applies to them.

Current Approved Persons in Core firms will, by and large, automatically convert to Senior Manager Functions as part of the transition process and, in most cases, a SoR won't have to be submitted as part of the transition, nevertheless every Senior Manager must have a SoR and it must be kept up to date.

In order to complete a SoR, a firm will need to decide what Prescribed Responsibilities and what other key responsibilities sit with each Senior Manager.

Prescribed Responsibilities are those which the requirements stipulate can only sit with a Senior Manager; among other things these include responsibilities for the Senior Managers Regime itself, the Certification Regime, the Conduct Rules, countering the risk of financial crime, etc.

An individual undertaking a Prescribed Responsibility needs the appropriate level of authority, experience, skills and knowledge. They are taking personal responsibility for one or more of these key issues and can be held personally responsible for the firm's failure to comply.

In addition, a Senior Manager's SoR will explain what other responsibilities they hold. This could be anything not covered by their Prescribed Responsibilities; the FCA expects this will usually cover business functions and activities for which the individual is accountable, for example, sales, customer service, information technology, etc.

Why responsibility isn't always clear

During the course of our work, we sometimes see issues in the way in which firms allocate responsibilities, the most common include:

- ❑ Everybody on the Board being collectively responsible – the FCA is not expecting that Prescribed Responsibilities will be shared (except in very limited circumstances) so, for example, if you currently have the entire board sharing responsibility for countering the risk of financial crime, this is very unlikely to be acceptable in future. Now is the time, then, to decide who will be responsible for what, why they are a suitable individual and to make sure that they have an adequate infrastructure on which to call.

- ❑ One person being responsible for too much – guidance in SYSC is that a firm should avoid allocating such a wide range of Prescribed Responsibilities to one individual that “they are not able to carry out those responsibilities effectively”. We do sometimes see situations where, in practice, one senior individual in a business directs and take decisions on a very wide range of matters. This has two implications: a) is the individual responsible for too much? and b) are they exercising practical control over a responsibility which might actually be formally allocated to someone else?
- ❑ A lack of clarity as to who is responsible for what – firms not having formally discussed and documented where responsibilities sit and, at times, confusion as to what sits with whom. We've been in meetings where such misunderstandings have led to the situation where one senior staff member has turned to another and said: “I thought that was your area, not mine” – fortunately such an occurrence is very rare these days, but it can still happen.

Even if your firm is clear about where current responsibilities sit, you will still need to consider the additional Prescribed Responsibilities which will apply to your business and to formally allocate these. In our view, it is prudent to take the opportunity that the SM&CR provides to revisit where accountabilities lie and to ensure that skills, authority, experience – and appetite – all match.

The FCA's Consultation Guidance, GC18/4, covers SoRs and Responsibilities Maps (the latter applies only to Enhanced firms) and includes questions for firms to consider when completing the Statements. We'd recommend that firms 'dry run' completing SoRs and see what, if any, issues this exercise throws up.

Make starting SM&CR a New Year's resolution

As the dust of IDD and GDPR is beginning to settle, this New Year feels an appropriate time to start SM&CR discussions, to consider what training, if any, might be needed and to put processes in place to strengthen oversight if required. This should help to ensure that everyone affected has a proper understanding of the implications and is fully in agreement with their role, well in advance of the December implementation date.

If there are any barriers to allocating responsibilities appropriately, particularly the Prescribed Responsibilities, it will be far better to identify these sooner rather than later while there is still ample time to address any issues.

Of course, the allocation of responsibilities is just one element of the SM&CR and firms will have to consider other key areas such as:

- ❑ Regulatory references and criminal record checks;
- ❑ Identifying Certification staff and developing an internal certification process to ensure initial and ongoing suitability;
- ❑ Understanding the Conduct Rules, identifying to whom these apply and being able to roll out training which will ensure that staff understand what they mean to them;
- ❑ Implementing a Conduct Rule breach reporting process.

Plus, additional requirements for Enhanced firms, such as Responsibility Maps; additional Prescribed Responsibilities; Handover Procedures and an 'Overall Responsibility' requirement.

So, we're not suggesting that dealing with the issue of allocation of responsibilities means the job is done, far from it, but it could be a very useful first step in making sure your business is fully prepared for the new regime.

Is my FD lying? The role of financial oversight in financial services

By Phil Ingle from Phil Ingle Associates

BHS, Carillion, Tesco, and Patisserie Valerie. Which to be clear, are all organisations where the finance director has not been found to be lying. However, they are all examples of actual or alleged financial oversight shortcomings.

What do financial services firms have in common with these organisations? At first sight if you are not in retail, construction, or cake shops then from a financial services perspective you may feel you have very little in common. However, the one area which undoubtedly is in common is that financial oversight in your business – as with every business – is also conducted by human being.

The use of the word oversight alongside financial could be seen to be slightly unfortunate. The Cambridge Advanced Learners Dictionary and Thesaurus defines oversight both as “a mistake made because of a failure to notice something” and “responsibility for a job or activity and for making sure it is being done correctly”. Naturally good oversight would be concerned with the latter, while the headlines are grabbed by the former. A review of the FCA Enforcement in this area reveals a few situations where their Principles for Business have been breached, especially Principle 3 (Management and Control), and 4 (Financial Prudence). A focus on Principle 11 (Relations with Regulators) may be a function of people displaying a lack of oversight. And then not wishing to bring this to the regulator’s attention.

Alongside these principles, the values which individuals are expected to uphold illustrate human behaviors required for oversight and can be seen in for example the CISI Code of Conduct, where individuals are tasked to be honest open, transparent and fair. The Code also shows in a general form what type of behaviors live out these values.

While there is no formal definition from the regulators of exactly what comprises good financial oversight, I would suggest that its purpose could be summarised as managing business issues which may cause future cash flow problems. It is cash flow which will keep a firm or indeed any business alive, and circumstances which threaten cash flow is what is most likely to bring a firm down, possibly even before the negative effect of reputational damage.

Much of the focus of financial oversight is on factors which are internal to the firm, or the internal handling of issues which originate outside it. Internal financial controls must be seen to be both robust, aligned with its operational systems and procedures, but above all have the behaviours of the firm’s staff closely aligned with them.

An obvious potential issue is that of internal fraud, and a recognition that this is not merely a failure of internal process, but usually a failure of human behaviour. The causes of such behaviour have been seen to be many and varied, and Donald Cressey’s Fraud Triangle Theory usefully highlights the pressures and incentives, alongside the opportunity and rationalisation which individuals find. To this must be added the constant threat of phishing for data, and even suspected cases of sleepers being put into firms as employees by organised crime, either to assist an act of fraud or to deliver information which will enable others to commit it. Systems, processes and procedures alone will not prevent this: it is the observation of human behaviour in response to these which is most likely to identify potential and actual fraud instances.

Responsibility for problems within a firm must start from the top, and there may lie problems too. Carlo Rotta quotes in her book “*A Short Guide to Ethical Risk*” potential problems with those higher up the organisation:

“The higher the individual is within the company hierarchy, the better he knows internal controls and the better he can elude them. In fact, the greater the power he has over the people who have to operate these controls and the easier he can abuse his power to avoid these same controls.”

“A sample of 100 companies from different countries who were victims of fraudulent activity, in 11 cases the culprit was the CEO, whereas in 60% of cases fraud was perpetrated by senior managers and board members, and to include Middle Managers the percentage of cases goes up to 86%.”

It may not just be the FD who is lying!

Financial issues should be readily identified within a firm’s business and especially in their regularly monitored management information. There is unlikely to be a shortage of data in any organisation these days, but this can bring with it problems of a different nature. Common issues with financial management information can include having inadequate levels of data which are purely quantitative and without qualitative analysis, having simply too much data or too many reports. Some items can remain in reports even once their use has become irrelevant. There may also be a lack of timeliness, and a natural inclination to choose measures because they are easy to measure, rather than those most relevant to the financial risks.

So, what are the best ways of ensuring good financial oversight? These could be summarised under two simple words: culture and conduct. The

regulators have been increasingly concerned about inappropriate cultures across financial services, for example as mentioned by Tracy McDermott from the FCA in July 2015:

“And it is increasingly evident that culture and conduct are two sides of the same coin. Good conduct – hedging that conduct risk – relies on cultural change and can’t happen without it.

Senior leaders have responsibility for espousing the correct culture and behaviours. While we’ve seen encouraging signs, and certainly lots of commitments, it needs to be about changing outcomes.”

This also neatly points out where the responsibility for culture lies, while leaving out the sometimes enormous job of getting it right, and keeping it that way.

Good conduct is closely related to culture and is similarly evidenced by behaviour. One example of behaviour required for good financial oversight is the importance of asking challenging questions within a business, not just at board meetings, but in a timely and appropriate form of communication. When reviewing enforcement notices in this area, I am struck by the number of occasions where email communication is sent, but inadequately responded to and no further action taken. One of the questions which the FCA highlights in its paper *“Five Conduct Questions – Feedback April 2018”* asks “how do you encourage the individuals who work in front middle back office control and support functions to feel and be responsible for managing the conduct of their business?” They also ask, “how does the board and ExCo gain oversight of the conduct of business within their organisation and equally importantly how do they consider the contact implications of the strategic decisions that they make?” Some of this must fall within the questions and asked, answered obtained, and actions taken and evidenced not just at Board level, but across the firm.

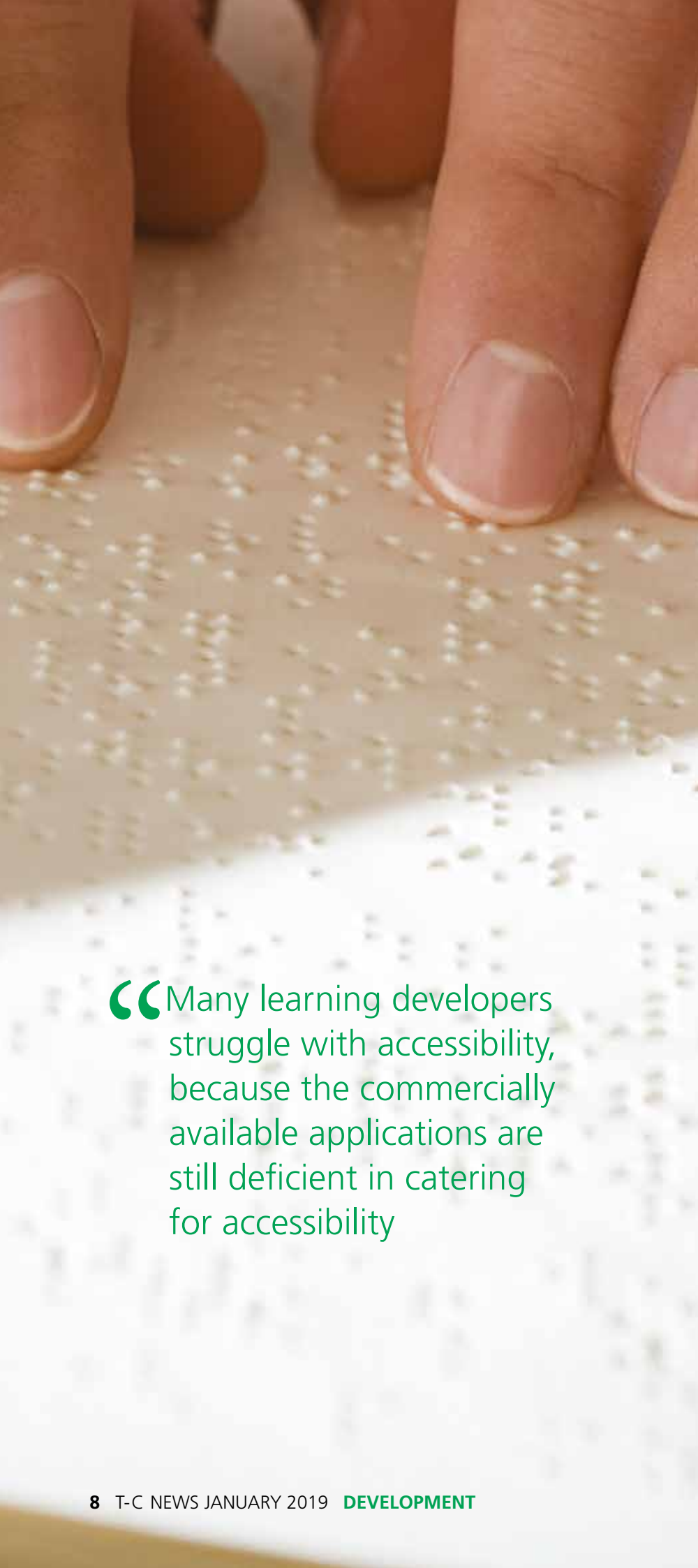
They have been numerous examples of financial oversight in the sense of “a mistake made because of a failure to notice something“, and I would have hoped that we would have learned enough from previous mistakes by now. But I am not optimistic. Good financial oversight needs not just the sight, but the challenge of mistake and bad behavior, and preferably at an early enough stage. To quote Sherron Watkins formerly of Enron Group in 2001:

“I think there are difficult moments of truth when leadership is tested. And if these moments are not faced honestly, if the hard decision is not made at that point, it becomes next to impossible to return to the right path. Once you start to rationalise, you’re stuck.”

All of which will not prevent the finance director from lying, although such instances are thankfully extremely rare. But I hope this does provide the inspiration to professionally challenge an issue when – and not if – you come across one.

“Responsibility for problems within a firm must start from the top, and there may lie problems too





Making digital learning accessible for all

By **Simon Truckle**,
Head of Consultancy,
and **Vivek Dodd**, Chief
Operating Officer,
Skillcast

As companies become more mature about the use of digital learning for engaging employees, their priorities are shifting from visuals and animation to more fundamental features, such as personalisation, adaptive content and accessibility – in terms of catering for both devices/form factors and people of varying levels of disability. It's this latter aspect of accessibility that we will explore in this article.

Making your service accessible is a requirement in the UK under the Equality Act 2010 (see <https://tinyurl.com/y7zgd898>), and yet until recently, this has not been a high priority for corporate training buyers. For years, the solution has been to provide a word/PDF version of the content as the 'accessible' alternative. Although this may provide the bare minimum of compliance with the law, it results in an extremely poor learning experience for those who need to use it. It also exposes a common misconception about accessibility.

Disabilities are diverse! It sounds obvious, but is often forgotten. Accessibility is commonly stereotyped and oversimplified. In relation to online content, it evokes an image of a user requiring a screen reader.

“Many learning developers struggle with accessibility, because the commercially available applications are still deficient in catering for accessibility”

This is wholly incorrect. As the World Health Organisation says:

“Disability is not just a health problem. It is a complex phenomenon, reflecting the interaction between features of a person’s body and features of the society in which he or she lives.”

It is also important to understand that a disability can be temporary, as in the case of someone who has fallen off their bike and broken their dominant hand. As a quick check, we ask our learning developers to try navigating the digital courses that they make without using their dominant hand!

Catering for differing abilities

Understanding that there are many diverse disabilities leads us to consider how we can cater for all these learners. A good approach is to create personas and design to those. For example:

- ❑ Harry has cerebral palsy and navigates via voice-recognition software
- ❑ Seema is completely blind and relies on screen-reading software
- ❑ Jo is dyslexic and struggles with blocks of text and certain colour combinations
- ❑ David is partially sighted
- ❑ Shafiq has broken his fingers and cannot use his mouse

By focusing on the persona or person, we can ensure that we design a learning experience that works, but this doesn’t mean that we want to develop a different version for Harry, Mel, Jo, David and Shafiq. That would be impractical and detrimental for users, who’d have to wade through a complicated selection.

Universal design

The solution lies in creating content that works for all learners. In 2018, we’ve moved on from providing separate accessible versions to creating content that’s still rich with interactivity, but is also fully accessible and enjoyable for all learners, regardless of their abilities or reliance on assistive software.

Getting this right is not easy. It requires learning developers and SMEs to think out of the box, and there are many challenges to overcome. Just with the screen-reading software, there are many different apps, which all work in slightly different ways. The content must be designed and tested to meet the behaviours of those tools. To cater for those with some difficulties, it’s necessary to consider what browsers are being used and how they render content. All of this requires a great deal of research, testing and cooperation.

However, ultimately, the end result is incredibly rewarding. In our experience, courses that are designed for all are hugely appreciated for their intuitiveness and engagement by learners who have no disability.

Keeping it interactive

A common risk with the universal design approach is that developers give up on interactivity in a bid to cater for all personas. There is a tendency to go for the lowest common denominator and remove all the ‘bells and whistles’ that engage the learner. That’s wrong and unnecessary.

If you prioritise accessibility as well as interactivity from the outset, it is possible to write storyboards and design exercises and scenarios relevant to your audience that provide great learning engagement while being fully accessible.

Accessible templates

Many learning developers struggle with accessibility, because the commercially available applications are still deficient in catering for accessibility. This leads to a poor learner experience, imperfect accessibility, browser incompatibility and huge cost overruns.

To build amazing content that’s accessible while keeping the costs down, we have taken the approach of building interactive templates that conform to accessibility standards. The templates are flexible and

constantly developing as new ideas come up with each project. Reviewers – especially those with some disability – have a key role to play in this process. Feedback from learners on what works well is invaluable, as are any thoughts and ideas of ways in which they would like to present the learning.

Getting senior management buy-in

Building digital content that’s universally accessible requires an investment in building templates as well as upskilling the development team, although, over time, accessible content should be no more expensive to build. It also requires resetting expectations and raising awareness in your organisation. For this, you need buy-in from your senior management from the outset.

At Skillcast, we’ve been fortunate to work with clients, such as Barclays, who have a publicly stated ambition of becoming the most accessible and inclusive UK bank and FTSE company (<https://tinyurl.com/ycqrqvqd>). Such companies have a passion for accessibility and a commitment for testing, refining and advancing the case for accessibility.

However, we see signs that universal design is becoming the new standard for accessibility in all digital learning. Many corporate clients say that this is not just the right thing to do under the law, but also important for the success of their training and compliance initiatives.

There are an estimated 3.8 million people with some disability in the UK workforce today. Many with disabilities such as colour blindness or dyslexia do not declare their disability out of fear of discrimination, so that number is probably higher. Companies that demonstrate inclusivity in their learning are likely to outperform in every aspect of their business - from their reputation and employee well-being to their sales and bottom line.

Filling the compliance gap

By **Fiona Macaskill**, Head of Learning & Development, the Credit Services Association

Well-designed and properly-enforced regulation plays a vital role in improving the way markets work for the benefit of business, employees and citizens. It helps to support sustainable growth, enhanced trade and increased investment, as well as improving social and environmental outcomes.

It is well recognised that the regulatory climate is a key contributor to the creation of a positive and supportive business environment whilst also assuring public and environmental protection. It is no surprise, therefore, that the Government, through Office for Product Safety and Standards (OPSS) within the Department for Business, Energy and Industrial Strategy (BEIS) is a major supporter of increased learning and development in regulatory affairs, and in particular supporting a new generation of Regulatory Compliance Officer.

“This is where the new Level 4 Apprenticeship Regulatory Compliance Officer comes in, and fills a much-needed gap



Early champion

The CSA was an early champion of Apprenticeships, and quick to recognise a need in the market for a new level of compliance training. While it already had a Level 3 qualification in regulation and compliance for those working specifically in the financial services sector, and a more senior Level 6 qualification for a similar audience, there was nothing in-between. Neither, as it happens, was there any mid-level qualification for those outside of the financial service environment.

This is where the new Level 4 Apprenticeship Regulatory Compliance Officer comes in, and fills a much-needed gap. We refer to it internally as ‘The poachers and gamekeepers course’, for it is designed both for people who work for the regulators and individuals within firms that are themselves regulated, bringing them together within the same classroom. It can lead to some healthy debates and sharing of ideas and challenges, and ultimately leads to a better

understanding of one another’s position, and more collaborative ways of working.

The CSA has been an integral part of the Trailblazer Group from the very beginning, supporting a drive to a new quality standard. We saw ‘compliance’ as being a logical development of the extensive work we had been doing in other areas such as credit control, collections and risk. In the early Autumn we tendered for a contract to deliver Regulatory Compliance Officer Apprenticeships to OPSS and were successful in that tender, to our obvious delight. It serves as an endorsement for all of the hard work we have been doing up until now.

Blended learning

The contract is for 24 Apprentices who will be based in OPSS offices Teddington and Birmingham. Learning is divided into 14 units, looking at such vital areas as risk assessment models and methods, evaluating how a compliance system and controls fit into the business planning cycle, and working within an organisation’s policies, procedures and the law. It also covers ways of collecting and analysing management information (MI), identifying and explaining relevant statutory codes, and the all-important ways of measuring success. It also looks at some of the ‘softer’ skills around managing individuals and teams, communicating in difficult circumstances, and effective ways of taking difficult decisions.

This is a new Apprenticeship standard which has been sponsored and promoted by OPSS from its inception. Those on the course will receive their training in a number of different ways with a ‘blended’ approach that includes workshops, e-learning, structured workplace learning, and projects. Project plans are now underway and we anticipate that the first Apprentices will start in January 2019. We are also looking at how we can add further value by delivering additional training to other members of staff in OPSS who are currently outside of the Apprenticeship programme but who could benefit from further support and insight.

The Level 4 Regulatory Compliance Officer Apprenticeships continues to go from strength to strength, appealing to organisations as diverse as an international airport operator to a well-known media brand, and every point in-between. It also appeals to the public sector, and supports the Credit Services Association’s desire to promote industry best-practice and commercial ambitions that allows us to invest further in future training and development.

If you would like to know more about the Level 4 Regulatory Compliance Officer Apprenticeships, or indeed any of the Apprenticeship training that the CSA provides, contact Fiona.macaskill@csa-uk.com.

Training in a year of multiple regulatory deadlines



Ian Jerrum from Searchlight Insurance Training

“Brexit – in whatever form it finally arrives – seems certain to throw up a raft of new compliance issues

For our clients in the general insurance sector, 2018 was blessed – or burdened, depending on your viewpoint – with an unusually generous helping of regulatory change. Workshops and online courses on three major regulatory strands - GDPR, IDD and SM&CR - were in high demand throughout the year.

It's not just insurance providers, of course, who've been focusing on data protection issues. But the coming into force of the General Data Protection Regulation (GDPR) on 25 May 2018 was certainly a landmark for this sector.

Insurance providers have traditionally held and processed huge amounts of personal information on their clients – not always in an especially disciplined fashion. The process of putting the necessary systems, processes and policies in place to comply with the new legislation has been quite an adjustment for some firms.

A second major landmark on the general insurance regulatory landscape in 2018 was the EU's Insurance Distribution Directive (IDD). This replaced the previous Insurance Mediation Directive and aims to better protect the interests of customers large and small. Originally slated for implementation on 23 February 2018, IDD was then put back until 1 October. Sighs of relief were duly heaved. Demand for related training grew stronger than ever.

IDD requires insurance providers of all kinds to be fully transparent on the basis of their involvement in the insurance sales process – and on any remuneration they receive in consequence of that involvement. Intermediaries must clearly explain the rationale for – and disclose any factors that might influence – any recommendations they make.

Aside from training on the detail of the regulations themselves and how to prepare for compliance, IDD has also fuelled a big uptick in demand for CPD. On the assumption that you're unlikely to get good advice from anyone who is not a good adviser, the IDD's authors stipulated that all UK insurance distributors' staff must complete a minimum 15 hours' training and CPD annually.

Specifically, depending on their precise role, under SYSC 28.2.3, customer-facing staff are now required not only to know about their own products but also to understand the structure, workings and key legal aspects of the insurance market, to have basic financial competence, be able to effectively assess customer needs,

understand their firm's claims handling process along with complaints handling procedures, and to have an awareness of the ethical dimensions of the business, including treating customers fairly and avoiding conflicts of interest.

The third key piece of regulation affecting businesses in 2018 was the Senior Managers & Certification Regime (SM&CR), which replaces the Approved Persons Regime, widely seen as seriously deficient in the wake of the 2008 financial crisis.

Amongst the aims of SM&CR were: encouraging a culture in which staff at all levels take personal responsibility for their actions, ensuring they and their employers clearly understand where responsibility lies in any given situation, and embedding personal responsibility into the functions of board members and other senior staff.

SM&CR came into force for insurance firms regulated by both the FCA and PRA (i.e. underwriters/insurance carriers) on 10 December. Those regulated solely by the FCA (typically brokers and intermediaries) have the best part of another year in which to prepare themselves. Although it's worth bearing in mind that, if past experience is anything to go by, the 11 months from early January to the end of November will soon pass by - and it's never too soon to start preparing! Dual-regulated firms should by now have identified those members of their staff requiring certification and provided appropriate training for them and for their senior managers.

Helping insurance brokers prepare for SM&CR will no doubt keep us busy during the coming year. As will catering for the insurance sector's newly revived enthusiasm for CPD. There are other regulatory changes looming on the horizon. If nothing else, Brexit – in whatever form it finally arrives – seems certain to throw up a raft of new compliance issues with which we'll all need to contend.

We may not soon see another year that's quite so busy on the compliance training front. But, just as commercial lawyers can sleep soundly at night in the confident expectation that people will not all suddenly wake up one day and agree about everything, providers of training on insurance regulation can be fairly sure that – one way or another – there'll be plenty to keep them busy for the foreseeable future.



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How to conduct a FIT assessment

By **Tony Catt**,
Compliance Consultant

The Senior Managers and Certification regime (SM&CR) was introduced in 2015 and has been in force for banks, building societies, credit unions and PRA-designated investment firms (Relevant Authorised Persons) since March 2016.

The implementation date for solo-regulated firms is 9 December 2019, subject to commencement regulations to be made by HM Treasury. The FCA also confirms a one-year transitional period for some aspects of the regime. However, the arrangements for Senior Managers and Certification Staff (except for the certification process) must be in place by 9 December 2019, and the Conduct Rules will apply from then to all Senior Managers and Certified Staff.

These new rules will increase the importance of the application of the Fit and Proper Test for Employees and Senior Personnel. More onus will be placed on firms to undertake the tests.

Firstly, firms will want to ensure that people appointed to undertake certain functions are fit and able to do the job. Firms will be setting out the Duty of Responsibility of their Senior Managers and need to be confident when allotting specific duties to individuals.

Secondly, the appointees will also want to be sure because in future they can be held personally responsible if things go wrong in their sphere of influence. The job holders will need to be vigilant to ensure that their Duties of

Responsibility are reasonable and manageable.

FIT applies to:

- ❑ A firm (including an SMCR firm);
- ❑ an applicant for Part 4A permission;
- ❑ an EEA firm or a Treaty firm that wishes to establish a branch into the United Kingdom using EEA rights or Treaty rights;
- ❑ or apply for a top-up permission;
- ❑ an approved person performing an FCA controlled function;
- ❑ a candidate for an FCA controlled function;
- ❑ a certification employee performing an FCA certification function; and
- ❑ a person whom an SMCR firm is proposing to certify to perform an FCA certification function.

The purpose of FIT is to set out and describe the criteria that:

- ❑ an SMCR firm should consider when:
 - assessing the fitness and propriety of a candidate whom the firm is proposing to put forward for approval as an FCA-approved Senior management Function (SMF) manager;
 - assessing the continuing fitness and propriety of a person approved to perform the function of an FCA-approved SMF manager, including for formulating an opinion about whether there are any grounds on which the regulator could withdraw the approval given to that individual to perform that function;
 - assessing the fitness and propriety of a person whom the firm is proposing to certify to perform an FCA certification function; *and*
 - assessing the continuing fitness and propriety of a person whom the firm has certified to perform an FCA certification function; *and*

- ❑ the FCA will consider when assessing the fitness and propriety of a candidate for a controlled function, including a designated senior management function, and may consider when assessing the continuing fitness and propriety of approved persons.

In assessing whether a person is a fit and proper person to perform an FCA designated senior management function or an FCA certification function, an SMCR firm must have particular regard to whether that person:

- ❑ has obtained a qualification; *or*
- ❑ has undergone, or is undergoing, training; *or*
- ❑ possesses a level of competence; *or*
- ❑ has the personal characteristics;

required by general rules made by the FCA.

The FCA will have regard to a number of factors when assessing the fitness and propriety of a person to perform a particular controlled function.

In the FCA's view, the most important considerations will be the person's:

- ❑ honesty, integrity and reputation;
- ❑ competence and capability; *and*
- ❑ financial soundness.
- ❑ In assessing fitness and propriety, the FCA will also take account of the activities of the firm for which the controlled function is or is to be performed, the permission held by that firm and the markets within which it operates.
- ❑ An SMCR firm assessing the fitness and propriety of staff being assessed under FIT should consider:
 - ❑ the nature, scale and complexity of its business, the nature and range of financial services and activities undertaken in the course of that business; and
 - ❑ whether the candidate or person has the knowledge, skills and experience to perform the specific role that the candidate or person is intended to perform.

An SMCR firm is reminded that, in assessing a candidate for a position within the management body of the firm, the firm should ensure that the management body, as a collective, possesses adequate knowledge, skills and experience to understand the firm's activities.

“The SM&CR should put an end to management passing blame or simply pleading ignorance when things have gone wrong

Summary

So FIT guidance is providing a basic set of considerations and some structure to firms to help with the appointment of approved persons and senior management.

It is interesting that this guidance is needed as, surely, it is the application of common sense to only appoint people into a role that they are able to perform.

Another side of this equation is that the appointees need to undertake their own due diligence to make sure that the duties that they are being allotted are manageable and reasonable.

The SM&CR should put an end to management passing blame or simply pleading ignorance when things have gone wrong. That has to be a good protection for consumers.

The solution to the dissolution of training departments – Some radical ideas to transform your corporate learning

In this article, **Paul Archer** from Archer Training shares with you why traditional training departments are expiring since they deliver training and development in a manner not suited to the future. He then gives you a blueprint that can help you find the solution to ensure you develop your people in this full employment world.

Who is responsible for developing advisers? The fabled training department. They're almost extinct now. Large firms are making the company training officers redundant and relying on online learning methods. After all firms like page turning eLearning; advisers deplore them. Ask them if you're in doubt.

No, training departments that we grew up with have long gone or are on death row. The solution is to empower sales managers to do this. Moreover, the FCA should make this a requirement of the T&C sourcebooks. Here's how.

Gamification

A buzzword and one many in this industry chuckle. Why would our serious financial advisers even contemplate gaming when it comes to the severe issue of self-development? Because it's the modern way. Let me explain and show you how to do it:

Create the right environment for self-development

Modern learners don't engage in "sheep dipping" anymore, the days of sending everyone on the same workshop have long gone. This "just in case" style of delivery has its origins in the days before the internet where the trainer or tutor ran a course of instruction because the only other place was in a book. It was easier to create a structured class for tech people, just in case they needed it. So the usuals came out for everyone to attend.

Learners now desire just in time learning. When they need to improve their knowledge or skills because their current job requires it, they learn it. Focused and motivated learners only acquire what they need. They watch YouTube videos, Ted talks, read a book, review a blog, listen to a podcast or audiobook or seek a mentor who can coach them.

I've taken care of my self-development since 1995. Each year I determine my learning goals and do it. I spend my own money, I listen to podcasts ferociously, watch YouTube and Ted videos, read a book a month, listen to audiobooks in the gym, attend masterclasses and conferences (usually in London). I own my development and haven't been sent on a training course for over 30 years, thank goodness.

Modern learners need and desire to take control so let them

Once you've accepted the principle of ownership, you have to let your people get on with it. You can't force purchase on them, but you can inspire them and create a corporate environment to set them up for ownership. Make sure you do all the general motivation scene-setting:

- ☐ Career paths for everyone, if they want it
- ☐ Access to development if they want it
- ☐ Allow time for development
- ☐ Make the job exciting and enjoyable
- ☐ Ensure your supervision style is right, give them challenges, allow them space to breathe
- ☐ Involve them in decisions, trust them, empower them

Gamify the learning

Drop the term as it inspires a wrong first impression. People might think you're devaluing it. Just take the principles of game playing and adopt them in your learning strategy. My son Lewis has played games on computers and Xboxes at a very early age and is addicted to them. Games offer:

- ☐ Excitement and variety
- ☐ Real-time feedback on his successes
- ☐ A visceral visual experience
- ☐ Acknowledge of success
- ☐ Varying levels of intensity, achieve success and you move up a level
- ☐ Play whenever you want

Here's how you can gamify your development in-house

Design your progression. One client of mine had four levels of progress in their Sales Academy – Bronze, Silver, Gold and Platinum – and outwardly encouraged salespeople to climb these.

Determine how to progress. This is the part you'll have to think about. How does a salesperson go from Bronze to Silver? You could figure out promotion based on:

- ❑ Competencies attained, for example, an understanding of a primary sales process, how to build rapport
- ❑ Behaviours mastered such as completing the CRM on time
- ❑ Knowledge gained such as a necessary qualification
- ❑ KPIs attuned to according to company standards, excellent customer feedback

You'll need to assess them somehow, and that might be a presentation of their gains at a conference or meeting. Line managers deal with this not trainers and reward them accordingly with a badge of distinction and promotion to Silver. You may also cross their palm with some silver, so to speak, in the form of a pay rise or monetary bonus, I would.

With each level set out, the next step is to curate their learning opportunities.

Curate the content

This is a significant role for learning professionals. Curate, maybe create as much as you need for the learner to attain the learning they need. They'll be motivated to pick what they want from your library. You can curate:

- ❑ Videos and podcasts from experts
- ❑ eLearning modules but not 1990's click to read antiques
- ❑ Online PDF books
- ❑ Access to YouTube and Vimeo on corporate systems and the ability to access the internet in its entirety – trust them. They do the learning on their own devices anyway; corporate networks are always behind the spec needed. It has always been that way. Back in 1995, I had the internet at home way before my company took to it. Nothing has changed in this respect.
- ❑ Twitter updates on sites searched and curated for learners, new blogs, podcasts
- ❑ Workshops that are available
- ❑ Conference live sessions with experts and trainers.

- ❑ Put everything on a learning management system so they can access everything 24/7 home or at work but don't use this just as verification and audit tool to see that they completed the annual sheep dip for manual handling or health and safety at work.
- ❑ While on the "don'ts" – don't shadow people or job rotate. Shadowing the top performer is the worst thing you can do for someone on Bronze. It's a cop-out for the sales manager who hasn't the time to coach, annoys the top performer who isn't a coach and just wants to get on with selling. Job rotation is totally unproductive for the business.
- ❑ Invest in some AI – automated intelligent software – that can crawl the web hoovering up content for your learners to use, advertise this on Twitter or email alerts to your learners. You do not need to reinvent the wheel, but you may want to make it easier for your learners to search for what they need to move to Platinum.

“Why would our serious financial advisers even contemplate gaming when it comes to the severe issue of self-development?”

Field coaching

Invest in training for all managers and help them to develop into first-class field coaches. Learners will need to help with their learning. Where to go, how to consume knowledge, motivation and encouragement, on the job feedback and development...just in time. This element is essential don't forget it. Managers will have their gamified progression anyway, so may it easy for them to learn how to coach.

Broker Case Study

Below here's an example of a mortgage brokerage and how they gamified their learning:

Level	Knowledge	Skills	Attainments
Platinum	<ul style="list-style-type: none"> R05 (Protection) and R07 (Advanced Mortgage) 	<ul style="list-style-type: none"> Influencing Presentations Advising Protection Resilience and self-motivation 	<ul style="list-style-type: none"> R05 and R07 Pass
Gold	<ul style="list-style-type: none"> Equity Release and later life market 	<ul style="list-style-type: none"> Working with vulnerable clients Advanced Rapport building Time Management 	<ul style="list-style-type: none"> ER1 Pass
Silver	<ul style="list-style-type: none"> Understanding the mortgage market and competition 	<ul style="list-style-type: none"> Advisory Skills Prospecting skills and referrals 	<ul style="list-style-type: none"> CAS Status confirmed
Bronze	<ul style="list-style-type: none"> CeMAP 	<ul style="list-style-type: none"> Factfinding and exploring needs Disclosure 	<ul style="list-style-type: none"> CeMAP Pass

Knowledge is Power

By Andy Snook from Performance Evaluations

The phrase “Knowledge is Power” is often attributed to Francis Bacon, the English philosopher and statesman who used it to describe the way to enlightenment and a better world. Two hundred years or so later another statesman, the third American president, Thomas Jefferson, also used the same phrase in correspondence referring to the creation of a learning facility in a key state. Move forward in time another two hundred years to today and the same phrase can be used to describe what the Financial Services industry is all about. Knowledge.



Knowledge in our industry is acquired from learning about products, processes, rules, regulations, principles, and best practice. Most importantly, it comes from our customers. In return, knowledge for our customers comes from ourselves through how we interact with them, how we show them ways to achieve their goals and aspirations, or how to resolve issues they may have. And through this knowledge, we have the power to enlighten and help our customers.

We acquire knowledge of our customers through documenting their financial circumstances through the completion of a financial questionnaire, otherwise known as a fact find. This is the foundation document for our records, although additional information may be added at a later stage. Since we are required to demonstrate “Know Your Customer” the fact find must be as comprehensive as possible. From a T&C perspective, my starting position when undertaking assessments of a meeting between an adviser and a customer, or through reviewing the contents of a file, is that although we know our customer, the question is just how well do we know our customer?

The compilation of a comprehensive fact find is fundamental to making a recommendation, and is an essential skill that must be demonstrated by the adviser, who should ask for information, challenge that information, probe for more information, and above all capture that information. However, the reality is that it is so much more than a box-completing exercise.

I was recently asked to describe what a fully-completed fact find would look like. My response was “When you have completed the fact find and you have no more questions to ask”. In other words it’s not what you know, it’s what you don’t know. That’s quite a strong statement, so let me give an example. A fact find might contain only hard facts such as the provider name and current valuation of an investment the customer has made. That’s fine. We know they have an amount of money invested. But what we don’t know is when they invested it, or how much they originally invested, or what funds they have invested in. Now there could be a number of reasons for this. The adviser might simply be focusing on the area of financial planning that the customer wanted to see them about. Perhaps the customer couldn’t remember? Some customers may not wish to give some information if they don’t perceive that a particular aspect of their financial circumstances may have a bearing on another. Or was the adviser not competent at getting down to the finer points, particularly the soft facts. We could find this out with the customer’s written

permission, providing the adviser has decided that this might be relevant. There are also other soft facts that the adviser could have acquired, like why did they make the investment, and what do they expect from the investment, growth or income, or perhaps some other reason such as debt repayment or the purchase of something.

Why, you might ask, would we want this information when we're talking about say, the customer's retirement planning? Well, if the adviser knew what funds the customer is invested in, and these did not reflect the customer's agreed risk profile, this might lead to an additional area to discuss. If the adviser knew that the customer had made the investment to fund the purchase of a holiday home in retirement this might help whatever recommendation the adviser makes for cash lump sums in their retirement planning. Unfortunately, it's very rare that I see a fact find that I would consider to be fully completed, and when they're not, there is a good chance that the adviser is missing an opportunity. Knowledge is power.

“Unfortunately, it's very rare that I see a fact find that I would consider to be fully completed

We use a term “Holistic financial planning” which refers the summarisation of the fact find and making either recommendations or suggestions across all areas of the customers' financial planning. But is the fact find truly holistic? Has it just ticked boxes? A truly holistic fact find means that all areas have been covered and all questions have been answered. Personally, I like the Oxford English dictionary definition “Characterized by the belief that the parts of something are intimately interconnected and explicable only by reference to the whole”, which means the fact find needs to be fully completed.

In every aspect of our lives we are either given knowledge or we acquire knowledge. Much like the old adage “If it isn't written down it didn't happen” for recording information, so then “If you don't ask you don't get” must be true for fact finding.

Sometimes Training and Competence can be treated as a tick-box exercise. But this is an area where T&C can really add value. Like Francis Bacon and Thomas Jefferson we too can offer enlightenment and the creation of learning where we identify that advisers are not being truly holistic, and furthermore we can demonstrate that through the acquisition of knowledge they have the power to provide a wider service to the customer and also to pick up additional revenue.

Something to consider for 2019?

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SM&CR Planning – 5 things you wished you knew, but didn't know you did not know!

By **Carl Redfern** from Redland
Business Solutions

“It is therefore essential to engage with and educate Senior Managers, particularly those who are sponsoring the SM&CR programme



To paraphrase the famous quote from Donald Rumsfeld (Feb 12, 2002).....
“... as we know, there are **known knowns**; there are things we know we know. We also know there are **known unknowns**; that is to say we know there are some things we do not know. But there are also **unknown unknowns** – the ones we don't know we don't know.... And ... it is the latter category that tend to be the difficult ones.”

In this article I will highlight some of the things that may qualify as ‘unknown unknowns’ within the Senior Manager and Certification Regimes, often referred to as SM&CR, or sometimes, Accountability.

This regime is being extended to include all (almost) financial services Regulated Firms on 9th December 2019, a little less than a year away. This extension has become known as Accountability II, because the regime commenced for Banking Firms in March 2016.

Insurers also transitioned into SM&CR, under Accountability II, with effect from 10th December 2018 and they now have until 10th December 2019 to assess and issue Certificates to all of their staff identified as subject to the Certification Regime.

In a recent analysis, at a mid-sized firm, they identified over 100 policies or processes that needed to be reviewed or created in order to comply with Accountability II, including employment contracts, appraisals, disciplinary processes, recruitment, supervision, competence assessment etc.

Incidentally, T-C News has published a lot of articles over the last few years about SM&CR, sharing insight and clarifications about the impact of the changes and the interpretations of the rules..... As an ‘open question’ to Jeff, perhaps it may be useful to publish a summary of some of them and allow people to request ‘back issues’? (From Editor (Jeff) – All previous articles can be accessed via the web site www.t-cnews.com)

I will cover each of the 5 topics some more detail below.

1: Time and Risk

The real issue here is a slight challenge to Mr Rumsfeld's erudite phrase in that, I think he missed out the most ‘difficult’ category of knowledge –

namely, the **‘Think you Know’** category!

Many banks subject to Accountability I, were certain how their governance arrangements worked until they tried to write them down, sign them off and publish them to the regulator. It was only then that they tried to review, re-document and potentially revise them and found it was a much more complex and time-consuming task than they had anticipated.

At a recent SM&CR briefing, FCA were asking “what can we do to promote early engagement with Accountability II from Chairs and CEOs of Solo Reg Firms?” They are concerned that despite trying to ease the burden of conversion for firms, by proportionate rules and automating a lot of the transition, with so many firms being affected (47,000) they need to mitigate the risk of ‘last minute’ confusion and failure.

The issue is that complying with Accountability II, looks at first sight, like ‘business as usual’ but for most firms it will be more difficult and take a lot longer than expected.

The second element of this is ‘Risk’. By which I mean the **‘Attitude to Risk’** of the Firm and its Senior Managers (not the risk of not complying).

Although many of the new rules of SM&CR are clear and absolute, for example, Senior Managers must have a Statement of Responsibility, a lot of what should be included on that Statement is subjective and contextual. There are also many rules, for example, the definition of ‘employee’ under Accountability II, which will require interpretation within the context of your business, there is no single ‘correct’ answer.

It is therefore essential to engage with and educate Senior Managers, particularly those who are sponsoring the SM&CR programme in order to define an appropriate ‘Tone’ and ‘Approach’ to tackling these questions. What will be the decision making forum within your programme for some of these choices?

In summary: Time and Risk

- ☐ It will be more difficult and take longer
- ☐ Senior Managers need to be fully engaged and educated in order to set the project’s ‘Tone’
- ☐ ‘Attitude to Risk’ of the Firm to the SM&CR programme is critical to timely decision making

2: ‘Below the Line’ regulation

This is a developing new challenge for many firms. One consequence of the new Accountability Regime is that it gives the Regulators significantly more flexibility over how they set the rules. Obviously, most rule changes are driven via the time honoured ‘consultation paper’ followed by feedback and Final Rules.

However, under Accountability, firms are being obliged to clearly define and document exactly who is responsible for everything in their firm. This ‘sea change’ gives the regulators the opportunity to mandate changes in behaviour, without having to change the underlying rules.

As an example of this, consider the FCA’s focus on ‘Cyber Security’. In a speech back in 2016, Nausicaa Delfas, Director of Specialist Supervision stated that

“... we expect ‘a security culture’, driven from the top down – from the Board, to senior management ... by this I mean senior management engagement and responsibility ...”

Under Accountability II, where Senior Managers must have documented Statements of Responsibility (SoR), even in a Core Firm, which of your Senior Managers will have ‘Cyber Security’ defined on their SoR?

There is no Prescribed Responsibility for Cyber Security, it is not part of any Senior Manager Function for a Core Firm (it is included within SMF24 for Enhanced Firms) but it is clear that FCA expect it to be clearly allocated to a Senior Manager, in all firms.

Similarly, the recent speech (19th Dec 2018) by Christopher Woolard, Executive Director of Strategy and Competition at the FCA, about ‘Speaking Out: Diversity and Inclusion’ made it very clear

“... How a firm approaches diversity and inclusion tells us a lot about its culture. And the way firms handle non-financial misconduct, including allegations of sexual misconduct, is potentially relevant to our assessment of that firm, in the same way that their handling of insider dealing, market manipulation or any other misconduct is ... Non-financial misconduct is misconduct, plain and simple ...”

This speech does not reflect any change in the rules of Accountability or other piece of regulation but it clearly does clarify FCA’s expectations of behaviour, making it clear that Firms must prioritise these issues with some rigour. If I was writing Statements of Responsibility for my Senior Managers, I would carefully consider whether to include responsibilities for Diversity and Inclusion and / or Speaking Out policies etc.

These are both good examples of where FCA are expecting changes in behaviour by Firms and staff, without specific changes in rules or regulations – this is what I mean by ‘below the line’ regulation and it is increasingly being used, as a tool, by both FCA and PRA.

In summary: ‘Below the Line’ regulation

- ☐ Be aware that it is happening
- ☐ Develop strategy and policy to read everything and spot when it occurs
- ☐ Consider all publications from regulators with an ‘impact on Accountability’ lens

3: Some of the ‘Hard Bits’

This is a simple list of the some areas of the rules that will be complex and challenging on most businesses. There is not enough room to cover these aspects in detail in this article but I would be more than happy to discuss these elements further, please

feel free to get in touch. In addition, several of these complex areas are covered in Jeff's 'Certification' workshop, which I would recommend.

1. Client Dealing Function (note: FCA Regulatory Update on this function Dec 2018, commitment to further consultation in 2019)
2. Territoriality
3. Definition of Employee under SM&CR
4. Certification and Trainees and SPS
5. Significant Management Function
6. No Gaps Rule under CERT
7. Fitness and Propriety and Integrity
8. Certification and Multiple Legal Entities



In summary: The Hard Bits

- ❑ Ensure your plan identifies those that are relevant to your business
- ❑ Use a collaborative team (HR, Compliance, Legal, etc.) to work through the issues and impact
- ❑ Get Senior Managers on engaged early with clear decision and escalation processes

4: BAU, Maintenance and Change

Remember that the regulatory deadlines for SM&CR are commencement dates, not end dates. This may sound obvious but it caught many Banking firms out!

Many of the updated policies or processes will also have implications for BAU. Firms should focus on the 'target operating model' – specifically how and most importantly who will own these changes going forward?

Many banks found that there was a lot more frequent change to Responsibility Maps and Statements of Responsibility than they had expected (one bank I worked with update their Map 12 times in the 1st year and made more than 200 updates to SoRs, across 20 Senior Managers). The major challenge was that once the project team had stood down, much of the specialist expert resource moved on as well and the new 'operational' teams did not understand SM&CR well enough to cope.

On a specific point, the staggered deadlines for the elements of the regime caused issues in many

firms. By the 9th Dec 2019, Solo Regulated Firms, need to identify all Senior Managers and write their SoRs, they also need to identify their Certification population.

Although the Certificate assessments don't need to be completed for a further 12 months, Movers, Leavers and Joiners to that CERT population will need to be managed from commencement. Again, this caught out many banks, who thought they need not worry about the Certification Regime for a year.

In summary: BAU, Maintenance and Change

- ❑ Ensure transition to BAU is planned out, including transfer of necessary expertise
- ❑ Think through 'operating model' implications and work out who owns what, going forward
- ❑ There will be more 'change' than you anticipate

5: Legal Entities

The SM&CR regimes apply at the Legal Entity level. This can create some complexity for Firms who have multiple entities within their Group.

At the 'governance' level, Senior Managers roles across the Group will need to be clearly defined and accurately documented in multiple Statements of Responsibility, without creating any gaps, overlaps or confusion. This can be much more difficult than it appears at first glance.

However, the Legal Entity question becomes even more complex for Certification staff, who act in roles across multiple entities within the Group. For many banks and indeed, more recently, Insurers, being able to define the links between staff, their roles and disparate Legal Entities proved very difficult, with many HR systems just not holding the necessary records.

If you have multiple entities within your Firm (Group), start to tackle these questions early in your plan.

In summary: Legal Entities

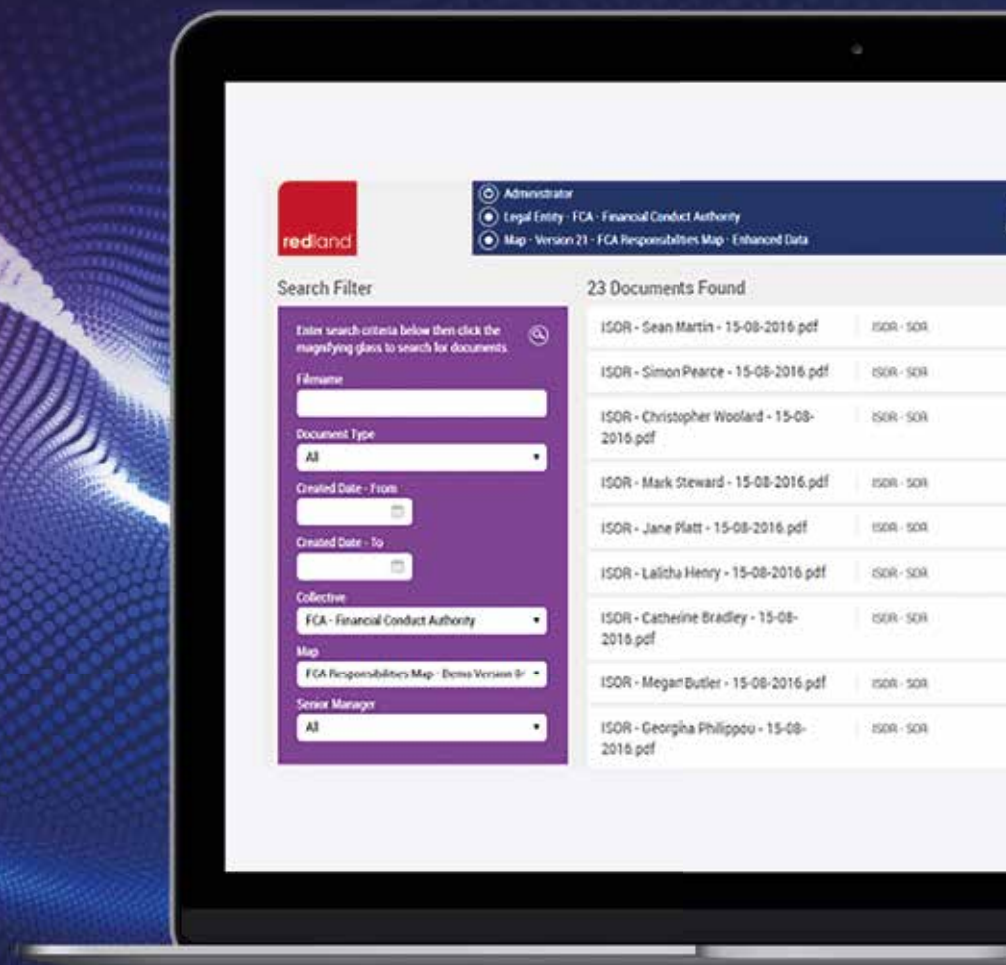
- ❑ Review and clear up any 'redundant' permissions and authorisations (both firms and staff)
- ❑ Address any 'structural' questions within the Group early on
- ❑ Review existing record keeping and systems to find any existing, useful, 'golden source' of records

It is thought that the term 'Unknown Unknowns' was first coined back in 1955, by two American psychologists, Joseph Luft and Harrington Ingham, who used it within their analysis technique. Donald Rumsfeld, in his memoir, cites NASA administrator, William Graham, as first using a variant of his classifications back in the 1990s.

I hope that this article provides sufficient to reclassify some of the SM&CR Unknown Unknowns, as Mr Rumsfeld so clearly said... "it is this category that tend to be the most difficult!!!"

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How your business can limit the potential disruption of Basel IV

By Fitch Learning

“Not understanding these changes early on means your company runs the risk that it doesn't understand these new and increasingly prominent risk measures, which could mean miscalculating the risk attached to a counterparty.

Referred to as the most comprehensive reform package in the history of Basel regulation, your company will undoubtedly want to limit the disruption of Basel IV. With key changes already afoot, there are certainly opportunities to get ahead of the game. Here we take a look at what is changing and what you can do to prepare...

Picture an administrative clerk sitting at a desk. Now imagine a pile of paper that protrudes seven metres upwards from this administrator's inbox... at an estimated 35,000 pages long, this is how high the banking regulation of the EU would stretch. And at an average reading speed, it would take 32 weeks to get through...

Lessons from the financial crisis mean that this is not due to shrink anytime soon. Once the general idea that something can always go wrong is introduced into regulation, it raises even more questions. As such, the next round of extensive Basel IV changes suggests that, if anything, changes are opening up a bit of a Pandora's box.

The two key areas of change

Following the official implementation of Basel III in 2017, the key changes were around two key elements: *methodology and type of risks*. Concerning *methodology*, it used to be very simple: there was a table that banks could use to apply to different instruments. So if you wanted to take the risk of sovereign bonds into account, you simply looked it up in this table. Now however, formulas have become the norm and transparency has somewhat disappeared.

Pandora's box has been opened...

Introduce the idea that something could go wrong and it opens up all manner of potential future regulatory developments. What used to be very transparent risk areas – such as *methodology and type of risks* – are becoming less transparent and require more and more attention from companies.

The *type of risks* have also evolved. Going right back to Basel I, the only real concern for banks was credit risk. Now, as we approach Basel IV, there has been an increase in type of risks and in addition to credit risk these now include:

- ❑ Market risk
- ❑ Operational risk
- ❑ Liquidity risk
- ❑ Counterparty risk

Needless to say, the amount of work and data has increased exponentially during Basel III, and it looks set to rise as part of the Basel IV developments. Pandora's Box has undoubtedly been opened and it is throwing up more and more considerations around calculating risk.

The knowledge of this has sent some into confusion. Getting to the bottom of exactly what is happening is one of the more general concerns, which has raised so many other questions: do you need to hire consultants, for example? Thankfully, with 2022 a way off yet, and the direction of Basel IV changes already coming into clearer view, there is an opportunity for your company to get a decent head-start.

The ongoing evolution of 'liquidity' and 'counterparty' risk

As an example, let's look specifically at the evolution of the more recent additions to Basel regulation: liquidity and counterparty risk. Following Basel III there are now two types of liquidity that need to be accounted for. These are 'liquidity coverage ratio' (LCR) and 'net stable funding ratio' (NSFR). In addition, there was the 'credit valuation adjustment' (CVA) in terms of counterparty credit risk. Although they are new additions in the last round of Basel changes, banks are already used to quantifying and comparing risk in these areas.

But financial regulation is like an active yeast – it continues to grow and evolve. And both 'liquidity' and 'counterparty' risks are evolving at quite the pace – to the extent that there are some new aspects that have come about that now seem extremely likely to form part of the Basel IV changes in 2022 – even though they are not formal regulation today.

Liquidity future example

One notable example of a potential Basel IV change is the introduction of intra-day liquidity.

LCR and NSFR are focused on future liquidity projections over one month and one year. But as the name suggests, intra-day liquidity is focused on the present, and looks set to become an important element of risk accounting.

Counterparty future example

Current counterparty regulations only require banks to use CVA as the measure. This is evolving quickly and other adjustment measures are becoming more and more important. They include:

- ❑ Debt value adjustment (DVA)
- ❑ Funding valuation adjustment (FVA)
- ❑ Capital valuation adjustment (KVA)
- ❑ Margin valuation adjustment (MVA)

Previously, the focus was around the counterparty defaulting, and cash flow exchanges between banks happened every three months in what was often little more than a handshake.

Many things can go wrong and this must be reflected – the risk of the devaluation of an underlying instrument (FVA) for example. There are also extra costs around instruments to be considered. As such, valuation adjustments have started to become much more comprehensive and look set to become part of Basel IV.

Stay one step ahead...

The pace of regulatory change following the financial crisis has aroused confusion and concern. Regulation has become more complex and the level of accounting has become deeper and deeper. Consequently, the next round of Basel changes is set to trump any previous changes.

Not understanding these changes early on means your company runs the risk that it doesn't understand these new and increasingly prominent risk measures, which could mean miscalculating the risk attached to a counterparty. But being ahead of the game – and foreseeing some of the forthcoming changes – allows for businesses to be more prepared and could save a significant amount of hassle in the future.

At Fitch Learning, we offer a training course that is designed to keep advisors and analysts a few steps ahead of forthcoming Basel changes. Each course is delivered by individuals with a practical understanding of the subject.

Find out more here.

<https://www.fitchlearning.com/bank-capital-adequacy-under-basel-iii>



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Learning the lessons of history



Julia Kirkland,
Partner in FSTP

“ Well it does mean that those working in CRAs, who provide the rating to the funds and investment vehicles that we encourage clients to invest in, will be subject to the same level of regulatory scrutiny and FCA fees as the rest of us



I watched the film “*The Big Short*” again in the run up to the festive period. On my own, as I couldn’t entice anyone in the house to watch the story of how close we came to moving back into the Stone Age.

It’s very powerful and I highly recommend it. One of my favourite scenes is when the Fund Manager, Mark Baum, visits S&P to try and understand why they won’t downgrade the ratings on mortgage backed securities and collateralised debt obligations (CDOs), despite the defaults rates of mortgages breaking all the historic levels. The S&P representative admits that if when approached by the banks, they don’t give their instruments AAA rating, the Banks will simply go to another organisation and they will lose the fees paid.

Of course, this is a dramatisation of history and in reality, we all trust we are a long way from these dark days.

Why is this of interest today? Well, an unintended consequence of Brexit (there I said the B word), was a page I found when preparing a round up of regulatory activity in 2019. Come the exit day of 29th March, the FCA will become the UK regulator of credit rating agencies and CRA need to advise the FCA if they intend to offer services to the UK markets from exit day. N.B if there is an implementation period after Brexit, the change will be delayed until the UK is fully out but will still need to happen.

Does this impact us in retail markets? Well it does mean that those working in CRAs, who provide the rating to the funds and investment vehicles that we encourage clients to invest in, will be subject to the same level of regulatory scrutiny and FCA fees as the rest of us. Which means that they too, will be subject to the SMCR regime when implemented in December 2019. I took a look at the 27 page notes to completing the conversion document and couldn’t help but think it may be a

bit of leap for organisations which have historically been on the edge of our regulated world looking in but significantly impact it. Section of the guidance include;

- ❑ Ownership structure
- ❑ Corporate governance
- ❑ Financial resources for the performance of credit rating activities
- ❑ Staffing and compensation
- ❑ Issuance and review of credit ratings
- ❑ Conflicts of interest
- ❑ Programme of operations
- ❑ Outsourcing

Uncannily like the preparation others are now undertaking as their SMCR projects.

I am not suggesting for one moment that CRAs will be unable to complete the application successfully and fully comply, but use it to highlight the absolute directions of travel. All FCA regulated firms have to be properly run, irrespective of the activities they provide to financial markets and the clients they service. Organisational clarity and the management of the firms’ risks and potential conflicts have to be carefully orchestrated and effectively managed to avoid the near absolute collapse that we witnessed in 2008. Individual accountability will capture the Senior Managers of all firms, is not Brexit dependent and requires significant planning to incorporate it as the firms “living and breathing” BAU post December 2019.

That is the questionnaire

By Len Horridge from
The Skills Exchange

“Do you know you don’t look like that? Or sound like that?”



No, it’s not another Shakespeare reference (keep up at the back or at least read some old columns of mine to make sure I’m not repeating myself) but, instead, a reference to the many self analysis questionnaires we use on our training.

Of course, such things are useless.

First, we are the wrong person to fill out such a questionnaire (which I will now refer to as a “thing” as I can spell “thing” first time) just like we are the wrong person to assess our own abilities. Just think of how you think you think you sound when you speak; most people hear themselves and say, hey, I don’t sound like that but, guess what, yes, you REALLY do sound like you sound when you hear yourself in a recording. Honest. Awful, isn’t it? No, that’s you, you just don’t want it to be you.

And those unflattering photos? No, not those... well, they may be unflattering but are a better depiction of who you are than the vision of beauty held in your imagination.

(You hear yourself inaccurately, through your skull. Everyone else gets us perfectly. And, no, I look more like Jeremy Kyle than George Clooney in reality just not in my head.)

So, getting you to complete a thing about your own behaviours is akin to asking a certain President to be modest about himself and expecting that to happen. In other words, it’s going to be inaccurate.

But we insist on using them in training. Why? Well, they waste a bit of time, give me a bit of a rest and... no, not really (that was a writing joke), they are good as a starting point to open up a discussion, especially if there are a group of people in the training who already work together who can comment on their colleagues based on their experience and can therefore share their views on behaviours.

But they, “things” that is, and their results are only a starting point.

The findings are not water-tight or accurate, partly for the reasons above and for other reasons, for example, the time of day you fill it in, whether you fill it in with work or your private life in mind, whether you fill it out honestly, etc.

Which led me to wonder why we still use them.

One point is that people always seem to find them useful and interesting and, if carried out correctly, they are a great tool to make people think and, hopefully, become more aware of themselves.

I heard an interesting explanation about this from a Myers-Briggs expert recently, which came when I

was thinking of ditching these “things” altogether. The expert pointed out that they always point out to clients that their very detailed assessments should be taken with a pinch of salt (I’ve always found them quite good and very detailed) as, once somebody had completed a questionnaire “thing” and got feedback, they normally changed behaviours anyway, making the findings almost redundant. Which made me realise that “things” are often the best way of learning, even if you learn that these things shouldn’t be taken as accurate.

The key to learning in the area we operate is often is awareness. Just that. And these “things” help that as they are personal and, if researched and the trainer is experienced enough to give feedback to the group and individuals, they normally have 70%-ish accuracy at least.

What conclusions can take from this?

- ☐ Questionnaires take up training time (this isn’t true)
- ☐ They give trainers a rest (also not true, if anything, they make them work harder)
- ☐ They prove that people are inquisitive. I try to use at least one per one day of a course (and often use 3-4) and nobody, but nobody, has ever dismissed the results completely (apart from the delegate who broke his pen in anger at being told again that he was aggressive, which he shouted out, proving, maybe, that the finding was more correct that he thought. He was the exception that proved the rule to me.)
- ☐ They are a useful starting point; only that, though
- ☐ Results should be taken with a pinch of salt; delegates do not have an objective view of themselves, they may fill this out differently at a different time of day and, as we now know, once they have filled it in, they have almost automatically changed their behaviours anyway. And that’s a good thing.

Questionnaire things, eh? I like them.

How about you? Circle “Always, Sometimes, Hardly ever or Never” in the box opposite...

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INDUSTRY NEWS

FCA detail consultation process regarding Senior Managers and Certification Regime: Client Dealing Function

The Senior Managers and Certification Regime (SM&CR) commenced for banking firms in March 2016 and commences on 10 December 2018 for insurers, and on 9 December 2019 for solo-regulated firms. Since we published the policy statement to extend the SM&CR to insurers, we understand that uncertainty exists on whether administrative functions would be in scope of the Client Dealing Function in the certification regime. The Client Dealing Function covers roles that include dealing in, or arranging investments with, retail and professional clients. It also includes individuals giving financial advice in relation to designated investment business, or acting in the capacity of an investment manager. We have listened to the feedback we have received on this issue and in response we will consult on clarifying the scope and make final rules before December 2019, ahead of commencement for solo-regulated firms.

Interim arrangements

In the interim period between 15 November 2018 and the commencement date for the rules clarifying the scope of the Client Dealing Function, we will accept that the following parts of the Client Dealing Function do not include employees who perform solely administrative functions.

Those parts are rows (1)(b), (2)(b), (3) and (4) of the table in our Handbook defining the activities falling into the Client Dealing Function. That table is currently to be found in rule 5.2.45 in chapter 5 of the Senior Management Arrangements, Systems and Controls Sourcebook and, from 10 December 2018, rule 27.8.19 of that Manual. This will apply to banks' current implementation of the certification regime and to

insurers' implementation of it after 10 December 2018. It will also be relevant to solo-regulated firms' preparations for the certification regime.

After our consultation

Once our consultation is complete, we will:

- ☐ clarify what is required of firms in this area, *and*
- ☐ provide information on any transitional measures that may be needed for firms to adjust their approach to roles that are relevant to the Client Dealing Function

CII relaunches website

We've revamped our website to make it easier for members and wider stakeholders to find relevant content more quickly and easily. Features of the new site include;

- ☐ Introduction of more intuitive navigation
- ☐ Improved search and browse functionality to access relevant content
- ☐ Mobile-friendly responsive design
- ☐ Improved visual design reflecting our new brand identity
- ☐ Refined content focused on relevance and accessibility

The new design includes the introduction of a **news & insight** section, for staying on top of changes in the profession; and a **learning content hub**, for learning and professional development needs. These sections will be updated regularly to ensure members receive the most up-to-date content and information.

Further development will take place across phase two of the project, including the development of an improved member search, Recognition of Prior Learning (RPL), the MyCII area and Events section.

These improvements provide the foundation on which further phases will build, with the objective of giving members improved functionality and greater personalisation.

This modernisation is part of a broader suite of activities underway within the organisation that contribute to its strategic manifesto

commitment of becoming a more modern, relevant and diverse professional body.

Off the scale workloads and out-of-touch senior management Identified as key causes of financial services staff stress and mental ill health, says CISI survey

by Lora Benson

Only 46% of those working in financial services would feel confident about speaking to their manager about mental ill health, according to the latest CISI survey.

The Chartered Institute for Securities & Investment (CISI) is the professional, not-for-profit body for those working in wealth management and capital markets, with a global membership of 45,000. Respondents were asked how confident they would be talking to their manager at work if they felt they were suffering from stress, anxiety or depression, with 3,686 respondents reflecting a survey of both CISI's online community supported by a survey of its members*.

Of those, 23% said they were "unsure" and 31% said they were "not confident" talking to their manager.

It is the largest response obtained in the shortest amount of time compared to any other survey ever run by CISI before, showing the strength of feeling on this issue in the finance profession.

Many respondents to the CISI survey chose to leave anonymous comments, some indicating the financial services sector they worked in. We believe some of the comments are disturbing and touch on topics which may resonate across the world of work: lack of trust in HR departments and managers, work-life balance, underfunding of the NHS for mental health support, challenges faced by women in the workplace and bullying. Long working hours and the pace of activity during the working day is a theme which is continually reported by respondents. But while ONS data shows that we in the UK work the longest hours in Europe, on average we produce 16% less than our EU counterparts.

What are your priorities?

By Jane Pitt from RedTree Training

I'll take a bet with you that your initial response whenever this question is posed is 'my family'. If you are then asked to rank your top three priorities, I would hazard a guess that you would still rank your family first, then either your friends or work, followed by an interest or a hobby. If that's so, then where do 'you' fit into your list of priorities?

I would say that I am a person who is extremely clear on my priorities, but it may shock you to learn that **I** am at the top of my priority list. As the head of any team, be it a family team or a work team, failing to recognise ourselves as a priority can result in us being less useful than we originally intended. We often spend so much effort spinning plates and keeping others happy that ourselves and our wellbeing is put to the bottom of the pile. For some reason, we can often think that making ourselves a priority is self-centred.

This thinking can often be inadvertently reinforced by the approach that is taken during our individual meetings with our Line Manager. By using One to One Meetings to focus on getting a status update, it can appear that there is more interest in how a project is progressing, how a computer system is performing or the size of a backlog rather than a desire to discuss how you are getting on. Conversations during appraisals can often be no better when the focus is on grading you against a series of behavioural statements, rather than discussing what leads you to react in a certain way. And as I was told the other day, sadly some Line Managers only 'do the fluffy stuff' when the employee raises a wellbeing issue.

The impact of failing to recognise a wellbeing issue in yourself or an employee can be catastrophic. Think that's a little dramatic? Even without quoting any figures about the cost to our economy of days lost to 'stress', I would still use the same word to describe the effect. Think for a couple of minutes in terms of the before, during and after the 'catastrophe'. In the run up to the event, there are some typical precursors. A person may become less engaged, less motivated, less productive and more prone to making errors. This can lead to tensions within a team and the Line Manager ends up having to spend more time 'managing', not only the person but the whole team, and less time leading. During the event, the team will be a person down but there are likely to be some residual issues that need to be addressed. This could be sorting out the individual's mistakes, but the event could be leaving the rest of the team feeling unhappy. The Line Manager has to increase the time spent motivating their team to regain their engagement or risk seeing them leave. Even when the person is well enough to return, their reappearance can have an impact on the revised team dynamics. All that said, we have not even considered the personal impact of a wellbeing issue. The lasting effect of any mental health problem

can be lifechanging. With the focus that mental health is finally receiving, we hear daily about how individuals have had to completely rethink their world after suffering a problem that effected their long-term wellbeing. Still think be number one is self-centred?

“ If we want to be viewed as a priority, we have to demonstrate that we believe it too

If we want to be viewed as a priority, we have to demonstrate that we believe it too. I am a great advocate of the old adage 'actions speak louder than words.' Not only do I make my priorities clear verbally, I also act to reinforce this. For example, when I am under pressure to complete a piece of work, I cancel ALL other social events – and I mean all other events. My focus during my work day remains on achieving the task in hand and not organising which restaurant I will be dining at that evening. I will also refrain from discussing the latest shenanigans on Love Island. Boring I know, but as much as I like to know the latest gossip, my actions would do little to reinforce any verbal account of my current work load. The little time I then have left, I can spend on things that I know I need to do to maintain my wellbeing under this level of pressure, without feeling guilty as I will know I have given the tasks in hand my undivided attention. Initially, this may all sound a little extreme but, in my case, it is amazing how much my family will now do to ensure I get to my twice weekly yoga class as they are very aware of the impact that has on me being a 'happy mummy' (as they put it!). Demonstrating your priorities is essential if you are to gain buy in from colleagues and family.

During your One to One Meetings, don't wait for your Line Manager to ask how you are feeling – tell them! Simple but you'd be amazed how many times we forget we have a voice. When agreeing your goals for the forthcoming year, think about building in a wellbeing goal. After all, a goal can be as simple as 'taking a 20-minute walk at lunchtime three times a week consistently for 90% of the working year'. It is after all still specific, measurable, achievable, realistic and timely, and it can be evaluated and reviewed. This simple action reinforces your 'I am a priority' message.

Still uncomfortable with being the main priority? Well in the words of a direct speaking mentor following a rather virtuous conversation about how I was coping with my current high work load 'you're no bl@*dy use to anyone if you're not functioning!'

Vulnerable customers

By Unicorn Training

With the FCA set to announce new guidance on identifying and supporting vulnerable customers, and uncertainty around Brexit having a yet unknown impact on the nation's finances, 2019 is set to be a big year for vulnerability. So is your firm and staff ready to spot and act on the red flags in customers' best interests?

Put yourself in a customer's shoes. You have just been made redundant, your family relies on your income and your confidence is shot to pieces. How easy would you find it to pick up the phone and tell a complete stranger that you need help?

What would be your fear? That you might be seen as a bad customer? There could be adverse consequences for disclosing that information? How the person you are talking to is going to react? What they are going to say? Are they going to be empathetic, especially if you become emotional?

It is enough to make you not want to make the call, isn't it?

In June, the FCA's 'The financial lives of consumers across the UK' report found that half of the UK's adult population showed characteristics of potential vulnerability. That equals more than 25 million people who are at risk of becoming vulnerable.

Yet a recent survey published by equity release lender, More 2 Life, showed more than 80 per cent of advisers said there was a need for greater education and additional resources to help spot vulnerable clients.

That is a pretty big disconnect between people who could need help and people who feel confident about recognising and acting on it.

The Money Advice Trust has welcomed the regulator's focus and momentum behind vulnerability, but insists it is not a challenge the sector can file under 'done'.

"In 2019 firms will need to be able to react quickly to what the new guidance says so they can train their staff effectively and adhere to what the FCA says is best practice," explains Richard Whittington, Product Manager, Unicorn Training.

"It is about giving staff a toolkit. Staff must be able to identify if a customer is at risk of becoming vulnerable and know what to do about it. They also need to know what to say, and how to say it, if they are dealing with an individual whose circumstances have changed. The key is to know your customer and to ask the right questions."

Spotting vulnerability

The FCA has defined vulnerability as, "Someone who, due to their personal circumstances, is especially susceptible to detriment, particularly when a firm is not acting with appropriate levels of care."

The More 2 Life survey suggested mental health was the biggest red flag they looked for, followed by

low literacy, numeracy and financial capability. But, there may be other indicators too, for example, that someone's account activity has altered.

Richard insists vulnerability does not always have to mean a negative change in circumstances either, with a family's level of outgoings changing due to the happy addition of a new member also potentially increasing their vulnerability.

He continues: "The worst example of bad practice is not knowing about a vulnerability. If a staff member does not ask the right questions, or bother to find out what the circumstances are of the customer they are dealing with, then, as a firm, you are never going to know about a potential vulnerability. If you do not know about it you cannot use the tools at your disposal to help that individual out."

Opening the door

If spotting vulnerability is one skill firms need to embed in staff, how to deal with customers revealing vulnerability is another.

The stigma of asking for help can be crippling. So, whether a customer interaction is face-to-face, over the phone or via one of the digital communications tools firms are trialing, such as Live Chat or WhatsApp, firms need to make it easy for customers to disclose information in a safe, non-judgmental environment with empathy.

"We talk about regulations and best practice," Richard remarks, "But how do staff put that into practice in reality? It is so important for them to have the practical skills that can be applied in any vulnerability situation."

With the Brexit uncertainty not going away any time soon, Unicorn have witnessed an uplift in interest in their 'Enhancing the Experience for Vulnerable Customers' courseware alongside 'Treating Customers Fairly' and 'Conduct Rules'.

The course examines what the regulator's expectations are of firms, and, most importantly, enables staff to work through practical case studies to help them consider situations that may arise and how they take a conversation forward to a fair and positive conclusion for the customer.

Richard concludes: "As hard as these things are, you want customers to have a positive experience. You want them to feel they were talking to someone who asked them relevant questions and who wanted provide the help and guidance to point them in the right direction."

"That comes down to really good training and staff not only knowing your firm's policy, process and procedures but being able to apply them in the best manner."

2019 is set to be the year that has arguably never been truer.

Re-focus on Treating Customers Fairly



Nick Baxter from
Baxters Business
Consultants

“If there was any doubt that treating customers fairly remains firmly on the agenda TR18/5 should dispel that myth.

FCA Management of long-term mortgage arrears and forbearance [TR18/5] requires a re-focus on Treating Customer Fairly.

The FCA recently issued its findings following the thematic review into the management of long-term mortgage arrears and forbearance. As we move to an environment where family finances might come under pressure the FCA findings are timely. Although, the FCA arrears and forbearance thematic review was originally announced in the FCA's 2017/2018 business plan, the timing of the output focuses minds when read in conjunction with the Bank of England's 'disorderly Brexit' stress episodes. These anticipate a reduction in GDP, an increase in unemployment, an increase in inflation, a 30% reduction in residential property values and an interest rate peak nearly as high as those seen during the global financial crisis. Such stress tests should not be labelled as part of 'project fear'; they should be considered as part of the prudent management of our economy with the recommendations from the FCA dovetail into firms planning.

It would be easy for many regulated entities and individuals, who are not directly involved with arrears management, to have missed the conclusions on the assumption that they did not apply to them. However, the opposite is true. Many of the issues identified by the FCA translate into other areas of a regulated business and, therefore, TR18/5 should be considered by all approved persons. If there was any doubt that treating customers fairly remains firmly on the agenda TR18/5 should dispel that myth.

Which findings translate into other areas of business? In my view, there are the main highlighted areas that should flow into all areas of regulated business.

☐ Incomplete record keeping:

The FCA found examples of customer case file notes that held insufficient information. Surely, the old mantra, "if you can't prove you said what you say you said, you didn't say it", has not been forgotten. The same mantra also

should apply to record keeping, if files don't show relevant information that was asked for or obtained – then it wasn't asked for or obtained! A further 'downside' of incomplete records is customers often receive the same request for information or documents on multiple occasions, which usually leads to disengaged customers,

- ☐ Inconsistent handling of vulnerable customers: Firms need to produce and follow clear guidelines. Where guidelines are not clear or where guidelines are not followed there is a risk that customers suffer inappropriate outcomes.
- ☐ Narrow quality assurance processes: Quality assurance [QA] programmes are often limited to a narrow range of criteria and the review process too often only monitors a limited percentage of files. In assessing whether QA processes are fit for purpose firms should a) consider the size of any QA sample to ensure the review is reflective of actual performance and b) consider a broader 'end to end' analysis of the customer interaction.
- ☐ Barriers to effective engagement: The FCA noted that too often customers are required to complete complicated forms with little assistance from the firm. Firms should carry out a 'root and branch' review of the forms they require customers to complete and the level of support they provide to customers.

More than a decade may have passed since the FSA launched the "Treating customers fairly – towards fair outcomes for consumers" and we may be regulated by a different regulator now, but the focus on fair outcomes has not diminished – nor is it likely to in the future.

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

What does T&C have to do with asset allocation?

By Vince Harvey from Compliance Cubed

“ There is no right answer but there should be some indication of the need for balance between getting more information and making a decision



I occasionally still hear the idea that 90% of investment returns are due to asset allocation – generally from those who promote passive investment strategies. William Sharp devised the ‘Efficient Market Hypothesis’ to argue that share prices reflect available information and expectations. As I write the stock markets around the world are undergoing significant volatility which we’re told is being driven by uncertainty. Information and expectations would appear to be quite fluid at the moment.

If Sharp was correct, then there is little to be gained from selecting individual investments in the hope of identifying mispriced assets. Investors would be better advised to choose an appropriate asset allocation and invest in a well-diversified portfolio of passively managed funds.

However, this is only part of the picture. While asset allocation provides a broad strategy through which investment managers can determine the mix of assets by type, sector and region to hold to generate return in line with investors’ risk profiles and investment objectives, stock selection can be seen as the tactical way in which the asset allocation is achieved.

The key for our purposes is to consider both components of an investment strategy as they require separate and distinct methodologies.

Asset allocation involves looking at historical data to identify how different types of investment react to market conditions. Generally, the starting point is that the ratio of equities to bonds is driven by attitude to risk with an 80/20 split being seen as ‘quite aggressive’ whereas 30/70 would be ‘cautious’. There is further scope to refine this model by considering size or geographical location – smaller companies in emerging markets offering a different prospective return to investment in a large cap business in a developed economy.

A further refinement of the asset allocation model is to look at other asset classes to increase diversification such as property, infrastructure and other so-called alternative investment classes.

Stock selection is the consideration of which specific holdings to put into each element of the portfolio. This where a more detailed analysis and comparison of alternatives is required and the ability or confidence to make a decision can be more challenging.

So what are the key skills for an investment manager? My research has identified five:

1. Analytical skills – the ability to look beyond the headlines and consider the impact of events. Looking to identify meaningful trends amidst the noise.
2. Decision making – having the confidence to make informed choices based on facts and to do so in some situations under pressure as market conditions evolve.
3. Strong communication – being able to explain decisions and present conclusions in a way which inspires confidence. Part of this will be around the ability to build good relationships.
4. Time management – there is always going to be more information that could be obtained but balancing that with the need to act is a skill.
5. Initiative – good investment managers are always on the lookout for opportunities rather than waiting for something to land in their laps.

At the underground station this morning one of the staff had put up a thought for the day from Thomas Jefferson: “I’m a great believer in luck, and I find the harder I work the more I have of it.” That may well be a pointer for skill number six.

Our challenge in the world of T&C is to identify ways in which we can assess these skills and assist in their further development where necessary. Investment performance against benchmark may well be a key indicator that gets us involved – generally when things aren’t going well.

Given that there are so many variables to consider we can look at the five key skills and design tools to assess an individual’s behaviour. I have used ‘explain to me’ exercises where observation is not possible or practical.

The starting point will be to ask the investment manager to set out their investment philosophy and elaborate on his or her views of the key themes in the current economic climate. Identify a fund which has recently been added to a client’s portfolio and ask the investment manager to talk through the process by which it was selected. Does this match with the way they described their philosophy?

For the third skill you may choose to talk to some of the advisers with whom they work: how clear are they in explaining investment strategies and specific holdings to their peers and where applicable to clients? I remember one adviser explaining to a client before the investment manager joined the meeting that it wouldn’t be entertaining, but the investment manager really knew what he was talking about. Clarity is more important than amusement.

Time management is a subject on its own but from your observations you will get a feel for how well the investment manager does. In your assessment you may wish to ask about how they decide when they have enough information to make an investment decision. There is no right answer but there should be some indication of the need for balance between getting more information and making a decision.

Finally, we have initiative. In the ‘explain to me’ scenario, rather like job interviews, you could ask for examples where the investment manager has come up with an alternative asset allocation or stock selection. The discussion should demonstrate what triggered their thought process and how that developed. Of particular interest is how they involved other people before decisions were made.

Overall what you are trying to assess is whether there is a structured approach to investment decision making which is likely to lead to positive client outcomes. In 2018 this may well have been losing less than the market but over the long-term positive returns and client objectives being met with an appropriate risk profile would be the expectation.

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What is the “net-pay anomaly” and does it matter to UK pensions?

By Henry Tapper, Director from First Actuarial

UK government spending on pensions and top-up benefits for pensioners amounts to 5.9 per cent of GDP – and this figure is projected to increase to 6.3 per cent over the next half century. In addition, the Government also spends another 1.8 per cent of GDP on tax relief which is designed to encourage people to save. Incidentally, this still puts us considerably behind the levels of state spending seen in other EU countries, and demonstrates that there is no crisis of sustainability in our system.

These tax reliefs represent a considerable state investment towards retirement saving and should in theory reward and reinforce the kinds of actual saving behaviour we wish to encourage. But are they doing the job that is needed? Three areas must be examined.

Firstly, do these tax reliefs actually work as incentives? Is there evidence that they encourage people to begin to save, or to save more? Or would the people who receive them have chosen to save in any case?

Secondly, do these reliefs incentivise the right people into the right forms of saving? Do they have any positive effect on those people who are currently under-saving for their retirement? And do they encourage people to save into vehicles which are appropriate for their needs?

And finally, is the distribution of these incentives fair? To what degree should wealthier individuals benefit from incentives compared with others on low and average incomes? How far, if at all, should we be concerned that 55 per cent of tax relief goes to the 2.5 million higher rate taxpayers who make up only around 10 per cent of taxpayers?

The system by which pension saving incentives have been distributed over the past 50 years has remained consistent. People get an incentive to save when they contribute (tax relief on contributions), an incentive to remain invested (tax-free growth) and a further incentive at claim (a quarter of money saved can be drawn without tax and all pensions are paid without liability to national insurance).

There is one area where this consistent approach has not been adopted, it is in the payment of Pension Tax-relief at Source (PRAS). When Stakeholder Pensions were introduced in April 2001, non-tax payers were able to claim tax relief at basic rate even if they were not paying tax - so long as their pensions administrator claimed on their behalf. This is the relevant statement from HMRC

A member making a contribution to their pension scheme will get tax relief at the relevant basic rate. The amount paid to the scheme is treated as

having had an amount equivalent to basic rate tax deducted.

The scheme administrator claims the basic rate tax relief from HMRC and adds it to the pension pot. This applies whether or not the member pays tax.

For example, if the relevant basic rate was 20%, and a member wants to make a £100 contribution they'll only need to pay £80 into their pension scheme. The scheme administrator reclaims £20 from HMRC and puts this into the scheme making up the pension contribution to £100.

<https://www.gov.uk/guidance/pension-administrators-reclaim-tax-relief-using-relief-at-source>

The payment of tax relief where no tax is paid only applies to PRAS, it does not apply to “net pay pension schemes”. This has created an anomaly – known as the “net pay anomaly”.

Net pay schemes grant tax-relief at contributions by deducting contributions from someone's gross pay. This grants immediate tax-relief in full to anyone paying tax but gives no tax-relief to those not paying tax.

To begin with, the grant of tax-relief to non-tax payers was confined to contract based schemes but things got more complicated when occupational schemes were allowed to operate using PRAS. NEST decided to use PRAS, some mastertrusts – most notably People's Pension allowed employers to choose between PRAS and “net-pay”.

The complication became even greater once auto-enrolment got underway. Originally it had been seen as very unlikely that anyone would contribute into an occupational pension if they paid no tax so the “net-pay anomaly” wasn't an issue. But auto-enrolment changed that. People are swept into contributory pensions whether they were tax-payers or not.

This is because while originally the Government set the minimum income threshold to be auto-enrolled in line with the nil-rate tax band, the threshold has not been increased and the nil rate band has. This has opened up a gap into which the low paid fall. From April 2019, the AE threshold will remain at £10,000 but the starter rate for paying income tax will increase to £12,500. The gap between the two will increase to £2,500. Importantly – it is not just people who consistently earn on a periodic basis above the AE trigger, but people who occasionally earn more than £833 pm or £192 pw who get triggered into saving. It is possible to postpone the event – but it takes a very vigilant payroll officer to postpone every time it happens and once someone is “in” – it is not possible for an employer to get them “out”.

It is reckoned that the net pay anomaly could affect up to 1.2m pension savers.

So, the number of people potentially caught by the net pay anomaly is increasing. It should be noted that all Government pensions operated under net pay and the anomaly means that those in defined benefit pension schemes but not paying tax are being denied the Government Incentive just as those in net pay workplace schemes operating under net pay. Most large occupational DC plans are net pay, they include some master trusts - NOW Pensions, the Pensions Trust and Smart Pensions for instance, as well as single employer schemes such as Whitbread.

The net-pay anomaly is not only wider in scope but deeper per individual. This is because personal contributions under auto-enrolment rose from in April 2018 and are due to rise to 5% in April 2019. The Government originally advertised to all enrolled that the contributions for auto enrolment would be 3+4+1% - with the 1% being called a "Government Incentive". This changed when Ros Altmann was Pensions Minister as Government recognised that the 1% incentive, would only apply to those not-tax-payers enrolled in PRAS schemes.

“So, the number of people potentially caught by the net pay anomaly is increasing.

The extra cost to someone saving 5% of AE relevant earnings below the tax threshold is reckoned to be £62 per person from April 2019. This is a significant extra cost for someone who is unlucky enough to be in a net-pay rather than a PRAS scheme. Consequently considerable political momentum is building up among unions and campaigners for tax-fairness for the low-paid. It is focusing currently on an opportunity to sort out the anomaly while HMRC is sorting out issues with the marginal differences in basic rate tax-relief in Scotland.

So far, the campaign to end the net pay anomaly, which calls for low-earning net pay savers to be credited with their "incentive" via a year-end sweep of earnings and a pay-code adjustment, has not met with success.

However, campaigners continue to ask the three questions at the top of the article and focus in particular on the issues of equality in the third question. They argue that the distribution of incentives is not fair to low-earners and should be normalised to the position that the Government originally announced. Everyone saving through auto-enrolment should – according to campaigners – be eligible for the 1% incentive, regardless of the tax-relief system their employer and their provider have agreed.



Your Starter for Ten – Answers

Big Quiz of the Year: 2018

1. Former Russian operative Sergei Skripal and his daughter were poisoned in which English city? **Salisbury**
2. Which famous physicist, the focus of *The Theory of Everything* passed away in Cambridge in March 2018? **Stephen Hawking**
3. Which film about a giant, extinct shark species debuted at cinemas around the world in August? **The Meg**
4. In May, which member of the Royal family married American actress Meghan Markle in a ceremony at Windsor Castle? **Prince Harry, Duke of Sussex**
5. France won the World Cup, but which English player received the Golden Boot for his 6 tournament goals? **Harry Kane**
6. Greece and the Republic of Macedonia agreed on a deal to add which word to the latter's name? **Northern**
7. *One Kiss* by Calvin Harris and which female singer ended the year as one of its highest-selling singles? **Dua Lipa**
8. In December, Mary Poppins returned to the silver screen portrayed by which English actress? **Emily Blunt**
9. Which German tennis player defeated Serena Williams to become the 2018 Wimbledon women's champion? **Angelique Kerber**
10. Which man won Best Actor at the 2018 Oscar's ceremony for his portrayal of Sir Winston Churchill in *Darkest Hour*? **Gary Oldman**
11. The 2018 Winter Olympics took place in Pyeongchang in which East Asian country? **South Korea**
12. In October, which G20 nation became the second in the world to nationally legalise marijuana for recreational use? **Canada**
13. Which American rapper went double platinum with his April album *Beerbongs & Bentleys*? **Post Malone**
14. Which social networking site was caught up in a scandal after it was revealed to have been secretly sharing personal information with political consultancy firm Cambridge Analytica? **Facebook**
15. In May, President Trump announced the United States would be unilaterally withdrawing from its nuclear agreement with which Middle Eastern nation? **Iran**
16. In March, which major fast-food restaurant was forced to close many UK branches due to a shortage of chicken? **KFC**
17. Which athlete – the first in history to record a sub-4 minute mile died in March 2018? **Roger Bannister**
18. At a referendum in May, Ireland voted to repeal a ban on which medical practice? **Abortion**
19. Russia, Kazakhstan, Azerbaijan, Iran and Turkmenistan sign an agreement on territorial claims to which inland sea, the world's largest? **Caspian**
20. In November, New Caledonia voted to remain an overseas territory of which European nation? **France**
21. Borobi the Koala was the mascot for which sports and athletics games, held in Australia's Gold Coast? **Commonwealth Games**
22. In January, the inhabitants of which US state received a false warning of an incoming ballistic missile attack? **Hawaii**
23. Which British Formula 1 driver for Mercedes won his 5th World Championship? **Lewis Hamilton**
24. In February, controversial leader Jacob Zuma resigned as president of which country after 9 years in power? **South Africa**
25. Which Croatia and Real Madrid midfielder was the recipient of the 2018 Ballon d'Or? **Luka Modric**
26. *Black Panther* (the highest grossing worldwide in 2018) was the first film to be shown in which country, who re-opened cinemas for the first time since 1983? **Saudi Arabia**
27. November 11th 2018 saw the 100th anniversary of the armistice in which major worldwide conflict? **World War I**
28. Which team beat the New England Patriots 41-33 to win the Superbowl LII? **Philadelphia Eagles**
29. Which former US President (the 41st, from 1989-1993) died at the age of 94? **George HW Bush**
30. In August, a road bridge collapsed in which Italian city, killing 44 people? **Genoa**
31. In September 2018, the Supreme Court of which major South Asian country decriminalised homosexuality? **India**
32. Debuting in April, *Infinity War* was the third instalment in which series of Marvel superhero movies? **Avengers**
33. In November, NASA's InSight probe successfully landed on the surface of which celestial body? **Mars**
34. What name was given to the third son of the Duke and Duchess of Cambridge, born in April of this year? **Prince Louis**
35. The Gilets Jaune movement led to widespread civil unrest, predominantly in which European nation? **France**
36. In June, Donald Trump became the first US President to meet the leader of which reclusive and aggressive Asian nation? **North Korea**
37. In August, which company became the first to achieve a market value of over \$1 trillion? **Apple**
38. Which (not strictly European) country won the 2018 Eurovision song contest in Lisbon? **Israel**
39. Which country this year officially changed its name to eSwatini? **Swaziland**
40. Jamal Khashoggi was murdered inside the Saudi consulate in Istanbul; but for which American newspaper did he write? **The Washington Post**
41. Which Canadian rapper spent 8 weeks at the top of the UK singles chart for his song *God's Plan*? **Drake**
42. *Solo* was a spin-off from which popular long-running sci-fi movie series? **Star Wars**
43. Earlier this year, 12 youth football players and their coach had to be rescued from a cave after heavy rainfall in which south-east Asian country? **Thailand**
44. Which rugby nation ended the year as the 2nd highest ranked team, after a Six Nations Grand Slam and a home victory over World Champions New Zealand? **Ireland**
45. In April, which animated TV series passed *Gunslinger*'s 635 episodes to have the highest episode-count of any in history? **The Simpsons**
46. On December 18th, which man was sacked as Manchester United manager, once again in his 3rd season at a club? **José Mourinho**
47. Which Youtuber is currently the most-subscribed-to on the site, after a long battle with Indian media company T-Series? **PewDiePie**
48. Kenyan runner Eliud Kipchoge set a new world record over which running distance? **Marathon**
49. Andrew "Freddie" Flintoff and Paddy McGuinness were announced as new presenters of which popular motoring show? **Top Gear**
50. In May, which singer's music was removed from Spotify after sexual abuse allegations? **R. Kelly**

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