For People Development and People Regulation Personnel within Financial Services

# T-C NEWS

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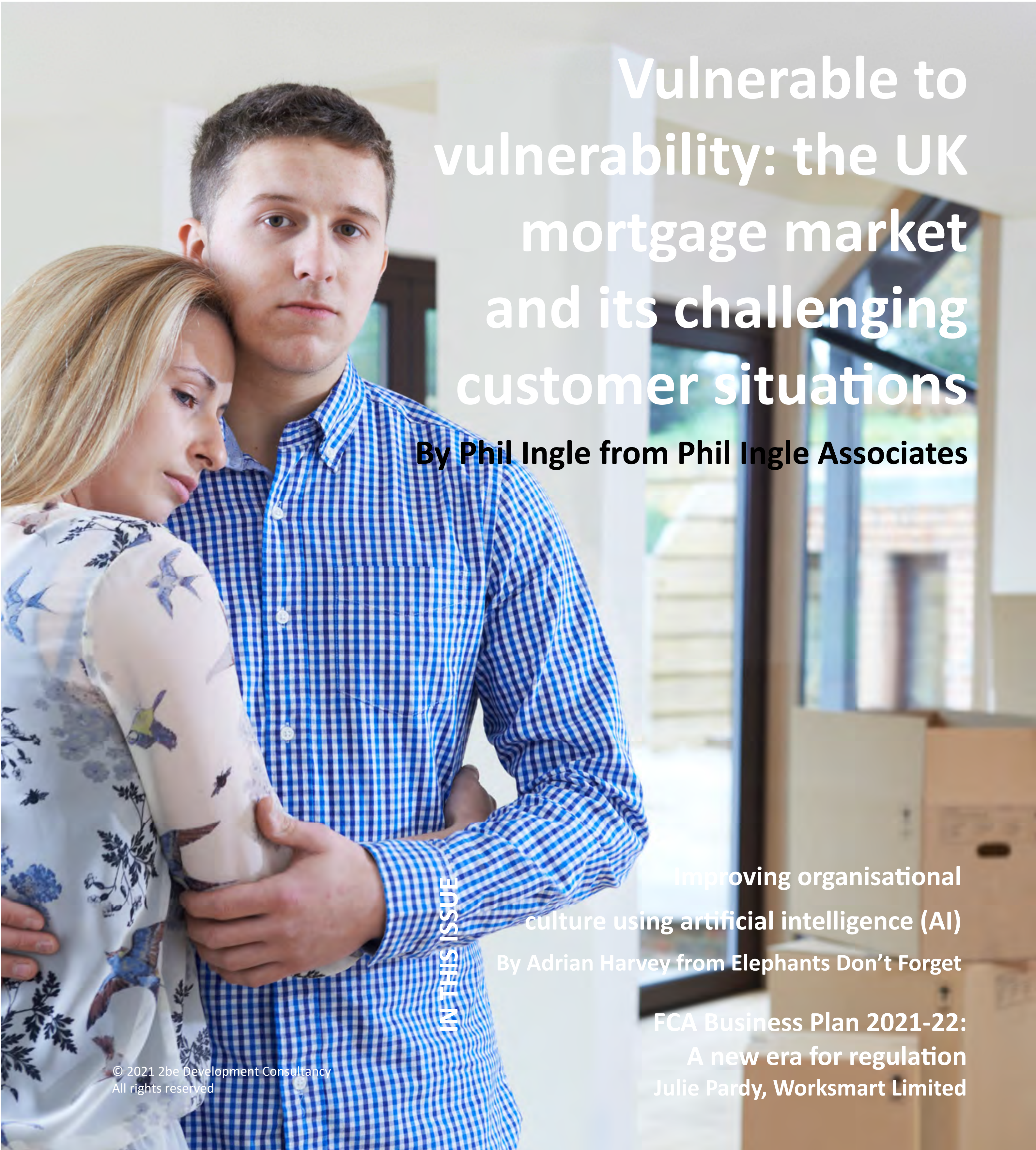
OCTOBER 2021



# Vulnerable to vulnerability: the UK mortgage market and its challenging customer situations

**By Phil Ingle from Phil Ingle Associates**

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T-CNEWS

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Welcome to the October edition of T-CNews. With the SM&CR becoming business as usual we start to think about what's coming next. We get insight through looking at the FCA's business plans as well as visiting a number of hot topics including vulnerable customers, company culture and ESG investments. Covid-19 is still very much a part of our day to day lives and has an impact on how we perform our jobs. We also examine different aspects of people development including examinations and CPD. All together we have a broad range of articles that we hope you will find of interest. Enjoy.

Jeff Abbott



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# How to show your competence – One of the three secrets to trust

**By Paul Archer from Archer Training**

One of the advisers I most admired in my career was a broker called Joss. Behind her desk, in eye view of her clients, was a collage of thank you cards from all her satisfied clients. All her new clients would see these, read a few and immediately feel comfortable with Joss and her competence.

In my first sales role, my desk was immediately beneath an enormous sign saying "Prudential Property Services". I relied on the brand to set a solid first impression.

Gone are the days when new customers can rely on the brand to demonstrate how competent you are. Halifax, Lloyds, Santander names all give an impression that usually shows that any adviser working for them knows a thing or two about mortgages.

Their advice days are withering, and you may be encountering lots of new customers as an independent mortgage adviser.

Here are eight ideas to help you do this before you meet the client and within the first 10 minutes:

- Provide evidence for any definitive statements you use. If you're the number one broker in town, back it up somehow; if you're a whole of market adviser, established for over ten years, show the client the FCA register entry or your Client Agreement brochure. Online via video, you can easily offer a screen share of the FCA register.
- If you've been associated in the finance industry or similar for many years, make sure you let your client know this to reflect your competence. Don't waffle on about it, but make sure they're aware of your years of experience.
- Exam certificates are helpful either as photos on the wall, as a visual on Zoom, maybe a background to use for a couple of minutes. Or just a PowerPoint slide showing your qualifications on video.
- Testimonials, endorsements and client reviews are more than helpful these days; they are essential. Your potential clients will look you up online and will search for reviews of you and your firm. So long as they are impartial and logged in a reputable source, clients will feel assured of your capability and competence. Vouchedfor, unbiased, Google, Trustpilot – there are dozens to use.
- Testimonials and case studies on websites also work, especially if direct quotes from clients on the web pages. Video testimonials are most powerful and possibly a YouTube Channel with all sorts of videos demonstrating your competence.

LinkedIn Profile is a must-have these days. You can own your name when it's searched on Google, which it will be. Purchase your name as a domain, for example, www.jenniferBarkley.me and have this redirected to your LinkedIn profile

> "One of the fundamental challenges for you will be proving your competence in the first 10 minutes without relying on a significant brand name above your head.

- Naturally, ensure your Social Selling Index is in the high percentages with your profile.
- Podcasts demonstrate your expertise; a published book will do wonders to your silhouette. Articles in the trade press can help so long as you re-purpose these for your clients. Sponsorship may help; charity partnerships are also heart-warming.
- Finally, how you carry yourself off, communicate, explain things. How you use the tech if you're advising via video. What you look like also impacts, although this is not so important in these contemporary times. A suit and tie are a bit old fashioned, but that's a personal choice.
- Awards? The British Mortgage Broker Award, the Intelligent Finance Magazine Award, the UK Financial Adviser Awards. Please don't get me on that bandwagon. Just think of the Eurovision song contest and the ultimate winners. Doesn't Lithuania constantly vote for Estonia, which also reciprocates and gives top marks to Latvia, who always supports Poland with the best marks? The UK always comes last, but surely we're the best. These are ego stroking lender marketing events that are all over LinkedIn like a rash and a complete waste of industry resources and money. If the funds were used to provide free training to every broker, that would be far more beneficial. The Award Ceremonies cost thousands of pounds.

Rant over.

Paul can be contacted at paul@paularcher.com for any sales or business development consulting or training you may want to bring in house. His YouTube Channel is at www.paularcher.tv and he would love you to link in with him at www.paularcher.uk - just mention TC News in the invite.

# Improving organisational culture using artificial intelligence (AI)

**By Adrian Harvey from Elephants Don't Forget**

**As the regulator steps up their drive for firms to foster and maintain a genuine culture of compliance – where the fair treatment of customers is default and runs through the firm like veins through a stick of rock – more and more firms are turning to Artificial Intelligence (AI) for assistance.**

In the light of the Financial Conduct Authority's (FCA) determination that firms in the sector have positive customer-centric cultures, perhaps the biggest challenge facing a Chief People Officer (CPO) or Chief Operating Officer (COO) is: "***How do you evidence that your firm has an appropriate and "good" culture?"*** Assuming, of course, that you have an acceptable culture in the first place!

I say "assuming" because judging by recent feedback – specifically from a survey we conducted in July 2021 of more than 250 Risk and Compliance Officers from FinServ firms who attended our recent webinar – **54%** stated they have a program underway specifically focusing on developing and improving culture, with **17%** asserting that they we be looking to assign time to launch a culture initiative within the next 12 months**.**

Add our findings to the fact that – in almost every public statement of late – the good and great at the FCA continue to reference and reiterate the vital importance of 'culture', and it is a fair bet that many firms – despite a lack of empirical evidence – may have concluded that they might just have a problem.

One, rather obvious, "self-test" that a firm might apply would be to consider their approach to employee Training & Competency (T&C). If one were to pose the question: ***"Just how fit for purpose is the current T&C regime in your firm?"***, it would first be necessary to define what we mean when we say ***purpose***.

Many firms approach employee T&C as a cost to be managed down and an outcome to be achieved. Typified by annual refresher training across a curriculum of "compliance learning" with little meaningful activity in between. Many in the sector quietly refer to this as: "tick-box compliance"; simply because it enables a firm to tick a box and assert that they have complied and trained their people.

Interestingly though, measuring and recording the delivery of training per se, rather than measuring and recording retained and applied competence, is likely to be a sure fire "tell" to an increasingly savvy regulator who is already alerted to this cultural fail.

Single point in time training, even when conducted in conjunction with annual refreshers, does not deliver the subject matter competency required to underpin a culture where the whole firm is aligned to, for example, Treating Customers Fairly.

How do we know? Well, last year we managed more **than 100 million individual knowledge and competency interventions**, the majority of which were in firms just like yours, across a required learning curriculum (just like in your firm), and the average level of retained competence was just **52%**.

In other words, the employees knew around half of what they needed to know to be able to perform their role within the regulations. Now, the fact that – to date – this has not really been a problem is not a reliable indicator that it will remain the case in the future.

***"Corporate culture refers to the beliefs and behaviours that determine how a company's employees and management interact and handle outside business transactions. Often, corporate culture is implied, not expressly defined, and develops organically over time from the cumulative traits of the people the company hires.***

***A company's culture will be reflected in its dress code, business hours, office setup, employee benefits, turnover, hiring decisions, treatment of clients, client satisfaction, and every other aspect of operations*"***

I like this definition of culture as it swerves much of the flannel and gets right down to brass tacks. Culture is a function of the beliefs and behaviours of employees and management of a firm at any given time and, on that basis, it is easy to see why a CPO might be more than a little concerned in relation to employee T&C.

**Afterall, how can any employee act on or reference training they have received but failed to learn and retain?**

How frequently do you hear your employees congratulating you that your firm has got it right and the T&C regime really improves their knowledge and competency? Perhaps, more likely, most firms quietly admit to their employees suffering compliance fatigue, resenting "largely useless" and "time-consuming" training that has "little or no learning value".

With the FCA embarked on a program to measure and monitor the culture of firms, without their explicit involvement, you would have thought that this cultural resentment of compliance training is likely to shine through rather quickly.

It seems such an easy, obvious, and somewhat immediate way for the regulator to establish if a firm has a cultural problem. I am no legal expert and do not purport to be, but I would have thought that all the FCA really need to do is point to blindingly obvious "tells" rather than attempt to prove a firm's culture is inappropriate using some elaborate, potentially contested, cultural yardstick.

If the FCA can then corroborate this with big data analytics and social media scraping, it feels pretty compelling and difficult to defend – and becomes undoubtedly awkward for Senior Managers & CPOs.

Is the answer to simply find an alternative way to tick the employee T&C box? Perhaps. But why go to all the effort and cost of finding a better box ticking solution (which does not actually contribute to solving the bigger cultural problem) when you could use award-winning, proven Artificial Intelligence (AI) that guarantees you land competent and capable employees whilst also underpinning your transition to an increasingly healthy and appropriate culture.

AI, by the way, that is increasingly being used by firms (just like yours) to solve this very problem – and more.

One of the downsides of using AI, such as our own: Clever Nelly, (utilised by Aviva UK and Aviva Canada to land the only Gold Award at the 2021 Brandon Hall Group HCM Excellence Awards in the category of Best Advance in Machine Learning and AI) is that leadership must be on board.

You cannot force the AI on the employee base. Without organisational leaders – Senior Managers, if you like – stating unequivocally why the AI is being deployed and that its usage is, like participation in any legally required activity, mandatory.

Once the firm has decided to take positive, pro-active action, then – true to form – the AI does almost all of the heavy lifting and hard work. Employees are engaged in the flow of work, at a point of their choosing, but daily works best. Total daily elapsed time rarely exceeds 1 minute 30 seconds in the early months and frequently falls to less than 1 minute per user, per day after this period.

Not only will AI like Clever Nelly ***guarantee*** every employee learns and retains the theoretical knowledge demanded by the regulator, but it will also help firms like yours translate and transition that theory into individual capability and, ultimately, competency.

Knowledgeable and competent employees that understand the regulations and how to apply them in their role form a key pillar of a healthy and appropriate culture within any regulated firm.

In addition, our AI comes with a specific Human Capital Risk Analysis Tool (HCRAT) that enables larger firms to dynamically analyse evidenced risk arising from the employee base, compare and contrast functions/territories/risks and intervene in advance of a problem manifesting.

So, instead of presiding over a culture where the employee base not only represents (perhaps) the largest single unquantified risk, the CROs working within the financial brands we support have the ability to dynamically scan employee risk and tune the AI to fix it.

*** A helpful definition by Investopedia https://www.investopedia.com/terms/c/corporate-culture.asp**

# What makes a good operational risk manager?

## By Bea Stafford from 1st Risk Solutions

**"You're not supposed to be sycophants; you're supposed to be sceptical. (…) And having you in this building has made this workplace better. It keeps us honest, makes us work harder."**
This may be a quote from Obama addressing the White House press corp for the final time whilst in office; however, don't these words also absolutely ring true for operational risk managers?
Having worked in financial services risk management and recruited for countless risk managers during the past 20 years, we have seen many operational risk candidates and worked with countless operational risk managers.
In the past, operational risk tasks were sometimes viewed as compliance or administrative rubber stamps and were handed to someone as a 'side of the desk' task, or given to someone junior or inexperienced.
In reality, the operational risk manager role is crucial for the effective running of your firm and compliance to regulatory obligations, thereby minimising losses within your processes – not least taking account of the reputational impact of breaching a regulatory requirement. Organisations are waking up to the benefits of an operational risk management department resourced with experienced, highly effective individuals.
Highly effective operational risk management requires a specialised skill set and a strong personality, with the analytical, technical and relationship management skills required to tread a delicate balance with colleagues and senior management daily.
**So, what makes a good operational risk manager?** Here is our list of the most important attributes that we look for in a good operational risk manager:

**Always looking for improvements and wanting to make things better**
The business processes, products, internal and external environment are constantly changing, therefore the operational risks, the control environment, KRIs, reporting, and operational risk frameworks also need to be revisited, adapted and renewed in response. A good operational risk manager knows this and will be continually looking at the changes in your business and the impact this has, and by supporting you in ensuring the most effective, efficient and relevant operational risk framework is in place.

**Robust and credible relationship manager**
An effective operational risk manager will want to drive the right results for the risk management of the firm. They will be comfortable challenging within any of the 3 Lines of Defence and at any level of the organisation regarding the operation and application of the risk framework. There have been many examples throughout history where the boss, or those in authority, have not been challenged appropriately, even though the error had been noted, with disastrous consequences.
Credibility is key to relationship management with the business. Credibility does not imply the need for 'greyed hair gravitas', however you do need to have knowledge of the business, products and processes, of what good risk management looks like, and to be able to ask those tough questions.
The business and functions do not have to personally like the operational risk manager, but they do have to respect their position and opinion.
A good operational risk manager will be able to nurture and maintain a good relationship with the business which can withstand a 'healthy tension' to ensure the right level of debate and challenge.

> "it's no wonder that so many organisations point to a lack of operational risk capability as one of their key areas of weakness.

**Professionally sceptical**
Scepticism should not be confused with pessimism. A good risk manager will maintain objectivity with the business, not jump to conclusions, but should naturally seek to validate answers they are given, before coming to a decision. If there was no need to validate, there would be no need for the 3 Lines of Defence.
Going back to the quote from Obama "You're not supposed to be sycophants; you're supposed to be sceptical. (…) And having you in this building has made this workplace better. It keeps us honest, makes us work harder."
A good operational risk manager will instinctively question everything and want to find out more, from what they read about the industry, or what change is happening in the 1st Line, or how a process works, and what went wrong when the process didn't. They will analyse all potential scenarios of a process to identify the risks.

**Can focus on priority and materiality**
The ability to recognise and focus on priority and materiality within a business or function is essential for an operational risk manager. Risk management tends to attract individuals who are precise and although a risk manager needs to ensure that the framework is applied accurately and completely, they always need to bear in

mind both priority and materiality.  There is little to be gained from attending to a graze on the knee of an injured person when they have blood gushing from a wound on their head. Not focusing on priority and/or major material items significantly impacts the effectiveness and credibility of the operational risk management, as well as the engagement and support from the business.

**Understands the business, their needs and their challenges**

A risk manager cannot be effective if they do not understand the business and its priorities. Only with this view do they understand the real risks, the reliability of the assessment, the performance of the controls, and the appropriateness of the KRI and reporting. Only with this knowledge can the risk manager understand the real challenges and the gaps in the control environment of the business.

This will also build the credibility of the risk manager and facilitate the relationship between the risk manager and the business, the other lines of defence and Senior management.

**Can run an effective risk management meeting**

We have all experienced a risk management meeting where:

- the debate focuses on trying to ascertain blame, rather than how to remediate
- the meeting is a download of the latest events that have happened which is the equivalent of having a newspaper read to you (somethings there will even be unnecessary pre-meetings, just to ensure the download of information is rehearsed and therefore seamless!)
- the main priority of the meeting appears to be to stick to the time allotted on the agenda for each item, however valuable the current discussion is, and any challenging questions are met with 'let's park that one for now, or 'let's take that one off line'

A good risk manager can hold a risk meeting that maintains discussions on:

- the risks of the organisation that are not mitigated within appetite, root causes, next steps and responsibilities
- encourages challenge and debate, and can be flexible to allow valuable discussions to continue if required, and be inclusive
- without seeking to lay blame, but ensuring identification of remediation plans and future prevention strategies

**Always with an eye on what is coming down the track**

A good operational risk manager sees the train coming down the track long before the horn has sounded. They keep abreast of all impending regulatory and business changes and escalate any potential impact appropriately. They plan for this and ensure the risk framework is flexible to react as necessary.

**Genuinely wants to do the right thing**

A good operational risk manager genuinely wants to do the right thing for the organisation, their colleagues, shareholders and the regulators. They want to log off at the end of the week knowing that they have done the right thing, even where that has bought them into conflict with colleagues or even management.

**With such a demanding brief, it's no wonder that so many organisations point to a lack of operational risk capability as one of their key areas of weakness.**

# AF Exams - How to prepare with past papers and prevent common pitfalls

**Gayle Conway**
Managing Director
Expert Pensions

> Make sure you know which are the key terms and answer the question, the whole question and nothing but the question

It's a feeling every student knows, as you walk out of the exam hall feeling elated that you literally smashed every question, they threw at you OR…………… you have the tendency to assume the worst in your exam performance and it's a nail biting wait until results day.

Let's face it NOT everyone is going to pass first time (fact) and being hard on yourself is not helpful. If things didn't go your way this time around think about where you went wrong and what could you have done differently?

Past papers have a number of great uses. They give us an insight into what the examiner is thinking, an idea of what might come up in the future and they highlight the pitfalls to avoid as we prepare for and sit the exam.

So, let's look back at some previous exam papers and some of the common mistakes made:

**AF1 2018 paper**

- A study of past AF1 papers tells us that having to perform both an income tax and a capital gains tax calculation in your exam is almost inevitable. For example, in the October 2018 sitting, both of these were included in the very first question of the very first case study.
- In the same paper, candidates were asked to explain briefly the authority granted under a general power of attorney. This appears to be a straightforward question, yet the examiners reported that a number of candidates answered it as if the question had been a 'lasting power of attorney'. Now we know you need to read all the questions carefully. However, you might want to make a mental note to remind yourself of this when you're under the pressure of an exam room.

**AF7 2019 paper**

- You must tailor your answer to the information given in the case study and/or the question asked. For example, in question 9, candidates tended to list generic benefits and drawbacks of transferring, rather than the specific benefits and drawbacks for the client and her particular set of circumstances.
- We recommend that you always include the client's name in your answer to a question. Once you get into the habit of doing this, it acts as a gentle reminder to your brain that you need to be linking your answer to the case study as a matter of course. How well can you recall and apply your knowledge of the financial planning process to the client-facing case study you have been presented with? By the time your exam comes around, you'll be doing so without a second thought.

**AF4 2019 paper**

- In Question 1(F) candidates were asked to list three Investment Association sectors that could be suitable to provide the funds to construct the UK equity component of the investment portfolio to meet the client's objectives. The examiners reported that "despite the question's focus, many candidates stated an assortment of different indices, market sectors, individual stock names as well as different types of investment product"

- Where the Examiner is asking you to ‘list’ this means you have to list or state facts without description or explanation. Short answer questions typically ask you to "explain", "define" or "list". Make sure you know which are the key terms and answer the question, the whole question and nothing but the question.

**AF5 2020 paper**

- Encouragingly, overall performance was good across this paper. ***Topical issues may be tested.*** For example, candidates were asked to list drawbacks of relying on reinvested dividend income.

  Dividends were suspended by many companies in 2020, so this was a pertinent question to ask.

Mediocre previous answers + topical nature =
high chance of recurrence in our experience!

We are constantly amazed by students who set out to do questions that they’ve clearly got not the first clue how to do. Look carefully to see if there is another question on the paper that that you feel more confident with. Don’t be tempted to do question 1 first because it’s the first question on the paper. It might be a real stinker of a question. Are you sure you can do it? How many marks do you think you could get on the parts of the question you can do? You might find there is another, much easier question further on, work out for each part of each question: which question is likely to get you the most marks? Do that one. *There is absolutely no reason to do the questions in the order they are printed in the exam.*

There are strict marking schemes in place so for examiners to use. This means if there are four marks available on a question, then the marking scheme will probably have four key points. Mention them all, and you get the marks.

Finally, if you have time at the end of your exam then there is always something you can do to improve your paper. Check it, check it and check it again.

Best of luck to anyone registered to sit an exam this session and well done for taking the first steps towards success…getting started!

# SM&CR 5 key issues

**By Vince Harvey from Compliance Cubed**


As we approach the second anniversary of the roll out of SM&CR to all solo regulated firms, we have an opportunity to reflect on progress. As part of our consulting on compliance issues, we at Compliance Cubed are seeing many firms who have processes in place and want reassurance that they're on the right track.

In this article I will consider five key SMCR issues:

1. Statements of responsibilities
2. Identification of certified staff
3. Training and competence
4. Conduct rule breaches
5. Firm culture

**Statements of responsibilities – what and how**

Every Senior Manager must have a Statement of Responsibilities (SoRs). The document used by the FCA sets out the role titles and what they are responsible for, however for firms this has proven to be just the starting point. While the FCA are looking for a succinct description, firms are more interested in the how: how will they demonstrate that the responsibilities are in practice being fulfilled and how do the 'prescribed' and 'other' responsibilities interact.

Unfortunately, I still come across off the shelf compliance manuals and templates which have yet to be tailored to the firm using them. A statement of responsibility describing someone's role as being to lead the governing body where there is only one director would indicate that the firm has been too busy with the day job.

We encourage firms to ask themselves, as they work through a statement of responsibility, is this what actually works in our business. Whether the statements cover FCA expectations is, of course, important but the point of the SM&CR was to help firms improve their performance not to generate more paperwork that just gets filed somewhere safe.

**Identification of certified staff – don't underestimate the complexity**

There were some initial challenges as firms worked out which of their staff need to be certified as many jobs requiring certification could only be identified through careful consideration of the rules. Now, as part of recruitment, firms are aware of the need to consider whether the new person is caught by the regime. This should be straightforward where they are replacing a leaver but if it's a new role this can be challenging for some firms.

We still find firms struggling with the 'significant management function' and 'client dealing function' categories currently causing the most difficulty. In the first instance, significant management functions are not

> “the point of the SM&CR was to help firms improve their performance not to generate more paperwork that just gets filed somewhere safe

to be confused with senior management functions. The relevant staff are those with significant responsibility for a significant business unit.

While the FCA provides examples of such staff, their list is not exhaustive and there is work to be done to define who has this level of responsibility.

For client dealing functions, the SMCR brought roles other than those who advise and deal into the regime. Now, those who deal with clients or client property in relation to such advice and dealing are also regulated.

**Training and competence – initial and ongoing**

Firms are aware that the FCA has a rule requiring that staff are competent in the role that they perform. Evidencing this consistently can be a challenge, particularly during the pandemic lockdowns with staff not being in the office. While webinars have been a great tool during this time, ensuring that they are relevant and that learning and thought about application has taken place may sometimes have taken a back seat to keeping the business running.

Whatever the ‘new normal’ looks like SM&CR requires that firms have an effective approach to T&C, not just about qualifications but with a focus on competencies. Having a formal approach with forms to complete gives firms the structure required to underpin the annual certification process. It is clear that this is not just an HR function, line managers need to be involved and buy in to the value of staff meeting the criteria set out to be certified as fit and proper. At this two-year mark, firms should be asking whether their process is aligned with business needs and the SM&CR.

**Conduct rule breaches – identifying and correcting**

The conduct rules prescribe a minimum standard of behaviour for all who work in financial services and firms are aware that under SMCR, proven breaches of a conduct rule need to result in disciplinary actions and that they have specific consequences.

The disciplinary actions involved include:

- Issuance of a written warning to the individual involved
- A reduction or claw-back of their salary or bonus (for the misconduct)

The suspension or dismissal of the individual

And the consequences of those actions are as follows:

1. The breach will be notified to the FCA
2. The firm is also required to provide details of the breach in any regulatory references provided for at least the next six years

So proven misconduct is likely to have a seriously detrimental impact upon an individual’s career, even if a breach comes to light after the individual has left the firm.

If the firm concludes that they would have taken formal disciplinary actions had the individual still been an employee, then they must notify the regulator and issue an updated regulatory reference to the individual’s current employer. Firms know that this can run into issues with employment law and expert assistance should be sought. Will this see a reduction in written warnings for relatively minor misdemeanours?

**Firm culture – building for the future**

Every speech from the FCA seems to have culture or diversity shoehorned into it – it’s clear the FCA see this as key to achieving their objectives. Fostering a strong culture of integrity and inclusion is not only good practice but it is linked to the FCA’s expectations in the world of SMCR.

Central to meeting SMCR is the administrative workload that comes with compiling and updating statements of responsibility, organisation charts and the certification process. Helping staff see the value in doing so is part of the culture piece.

So consider the following questions:

*What does “good culture” look like in your firm?* Different firms have different needs and attract different personalities and customers. For example is it possible to have an honest discussion involving people from all parts of the business, from the board to the front desk, about what your customers and the market can reasonably expect of you and, ultimately, where you are falling short? There needs to be a genuine desire to learn and change where necessary.

*How can you measure your success?* Clarity on what success looks like can then lead to thought about what steps there will be along the way. Those charged with oversight need access to Management Information (MI) that will tell them where the firm is succeeding and where it is falling short of its own values.

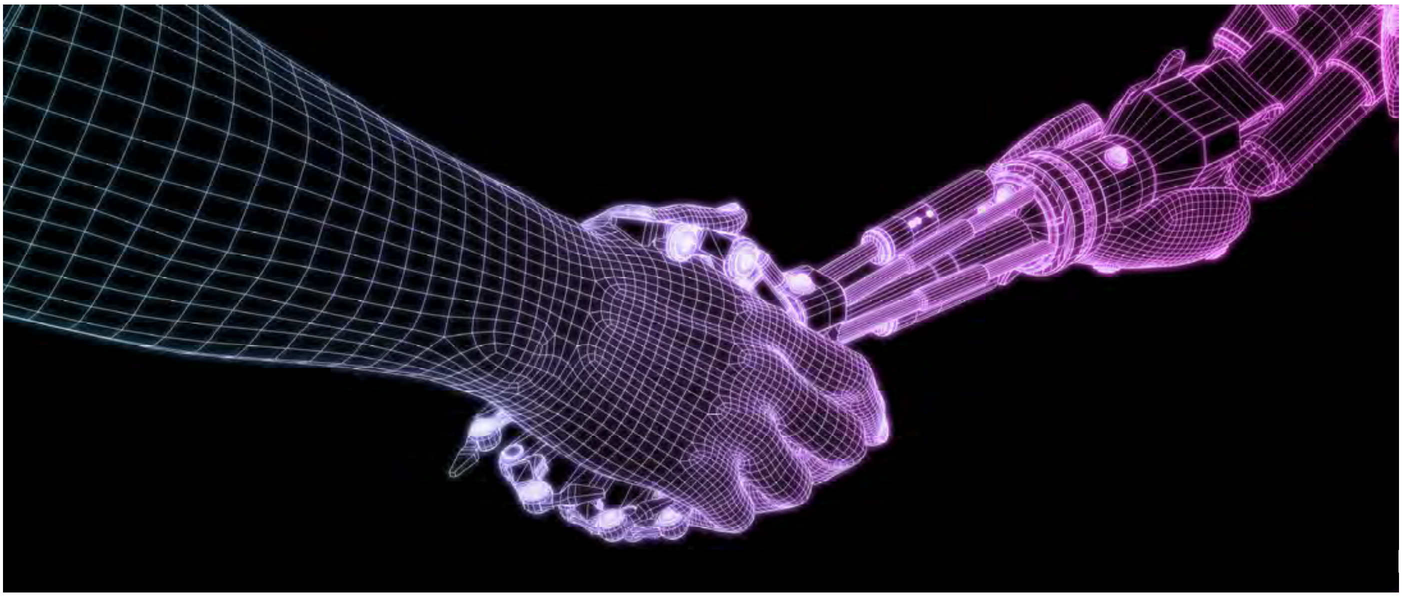
A significant challenge is measuring something as subjective as good culture, so firms need to find a way to make the intangible tangible. What change is required and how will staff be motivated to do things differently? One area many firms are looking at is their remuneration structure, particularly around bonuses; are these set in a way that encourages the desired behaviours?

**Conclusion**

If your firm can demonstrate that it has reviewed each of these five aspects of SM&CR then it has a fair chance of being compliant (and profitable?).

# FCA Business Plan 2021-22: A new era for regulation

**Julie Pardy, Director Regulation & Market Engagement, Worksmart Limited**



In my article published in T-C News earlier this year, I talked about the early signs coming out of the FCA about a change of approach. To do this, I cited the increasing number of Skilled Persons Reviews (S166s) being issued by the FCA, the rise in the number of withdrawn applications for Approved Persons authorisations and the new leadership team, led by Nikhil Rathi, at the helm of the regulator. Well, in July the FCA published its Business Plan for the forthcoming year, and whilst there are similarities and continuities with previous years, it is the differences in both tone and content that are most striking. In short, it sets out a new vision for the future and is a radical blueprint for change.

The 2021-22 Business Plan heralds a new era for regulation in UK financial services. Gone is the 'light touch', reactive and, arguably, slow pace of previous regimes. In its place is a completely new management team, led by Nikhil Rathi, that promises an FCA that is both 'purposeful and fit for purpose' by becoming more 'innovative, assertive and adaptive'.

To achieve this, the FCA has committed itself to radical change, focusing on its priorities, operating methods and culture:

**Priorities**
This is perhaps the area of least change in that the FCA are continuing the focus on the 4 key objectives from last year's Business Plan, i.e.

- Ensure electronic payment and receipt systems work quickly and reliably
- Consumers can make effective investment decisions about their savings, and are not exposed to risky or poor value investment products
- Credit markets work well for consumers
- Consumers are offered fair value products in a digital age

However, this year's Business Plan also includes the impending Consumer Duty of Care, currently in consultation. Unless, significantly diluted before becoming final rules, the new Duty of Care lays out in detail the FCA's expectation of firms. It's no understatement to say that the FCA are setting the bar very high!

**Operating Methods**
Recognising the scale and speed of change in the marketplace, the FCA has set itself six challenges that it needs to address to keep pace with and get ahead of these changes:

> Nikhil Rathi has promised that the FCA will become more ‘confident, forward looking, agile and adaptive’

- Setting the bar high to support market integrity and sustainable innovation
- Ensuring firms start with high standards and maintain them
- Using new approaches to find issues and harm faster
- Tackling misconduct to maintain trust and integrity
- Enabling consumers to make informed financial decisions
- Proactive at the boundaries of the perimeter

We are already seeing the FCA acting quickly where it sees firms falling below the standards it expects, e.g. the Supreme Court action against insurance firms over their failure to honour their business disruption policies during the pandemic and, more recently, banning of firms marketing types of crypto-asset based products to retail customers in the UK.

Perhaps the most radical changes, however, will be in the area of supervision. Facing up to the challenges of regulating over 60,000 firms and an exponential increase in the data used to oversee the markets, the FCA is committing itself to becoming data led. What this means in practice is a £120m investment over the next 3 years to enable the FCA to transform how it collects, triages, stores and analyses the data from firms to strengthen its holistic assessment of each firms’ behaviour. Using ‘big data’, machine learning and behavioural science, the FCA plans to identify the early warning signs of firms falling below its high standards and quickly intervening to prevent market abuse or consumer harm. A significant part of this is that firms’ returns will potentially be automated to assist in the data collection and analysis process. As such, the Business Plan predicts that within 5 years, the FCA will be a data regulator as much as it is a financial regulator. Radical indeed.

Although published by the PRA, their recent paper on using big data to provide insights into firms’ operations is clear evidence of how the regulators intend to use big data to provide these early warning signs.

**Culture**

The final area, and perhaps most challenging, area of change for the FCA is to reinvent its culture. Nikhil Rathi has promised that the FCA will become more ‘confident, forward looking, agile and adaptive’, one that is a ‘learning organisation’, i.e. one that embraces risk, is willing to make difficult judgements and is prepared to make mistakes. Of course, central to this is the same commitment to promoting diversity and inclusion that it expects of the firms it regulates. However, the aspiration is for the FCA to become both accountable and transparent. Although the Business Plan does not delve into the detail, there will need to be a major transformation programme put in place for this change to materialise because culture change is notoriously tough to deliver, particularly one with this level of ambition. However, culture change in the FCA is a must if it is to become the regulator it aspires to be in the Business Plan.

**Implications**

What does this mean for firms? There is no doubt that change is afoot at the FCA. Nikhil Rathi has set out a radical agenda, certainly the most ambitious I have seen in my career. Importantly, for him to ‘go public’ on such an agenda means he must have the support at the highest levels in the Bank of England and Westminster – so this new agenda is here to stay.

Let me suggest three areas where firms can expect to see evidence of this new agenda:

**1. Consumer Duty of Care:** the FCA promises the current consultation paper will become rules by July 2022. I believe it will lay out the new standard for firms to follow and, importantly, this standard will be both explicit and higher than that expected today

**2. Intervention:** the FCA’s interventions against the insurers (business disruption insurance) and firms promoting cryptocurrencies are just the beginning. The recent guidance to insurers on penalising loyal customers when renewing their premiums is further evidence of the FCAs willingness to intervene quickly when they see firms not meeting their high standards. Although these actions have been against sectors of the market, it infers a willingness to tackle individual firms where necessary

**3. Supervision:** the FCA’s investment in big data and analytics to understand how firms in each market sector are behaving, and identify ‘the outliers’ (Rathi’s word), is equally significant. It may well be that the FCA’s investment overtakes that of firms and risks the FCA knowing more about a firm’s behaviour than those responsible within that firm themselves!

This may sound fanciful but in our experience investment in RegTech is still modest and piecemeal across the industry. Of course, some sectors are more advanced than others, however my experience is that an understanding of the benefits of investing in RegTech is some way off. For example, at a recent Worksmart seminar, more than 70% of attendees said that their firms either did not have a defined "Tech" budget and/or that it was not a strategic priority for their firm. Now, I appreciate these results are from one survey to a limited number of respondents, however, it supports polling from previous events that typically tends to show that on average more than 70% of firms still manually manage all elements of SM&CR. If the polling results shown here really are representative of the industry, there needs to be a major rethink about RegTech in firms and investment needs to happen fast or there will be some very embarrassing discussions between firms and the FCA!

In summary, the new Business Plan is a radical agenda for change. There is much in the Business Plan I haven't had the chance to discuss here, e.g. the cross-sector priorities, however the tone is the same. Nikhil Rathi has set the FCA's 'stall out'. The big question is, how quickly can firms change? I wonder….

# Career aspirations and skill development through training

**Nikki Bennett** from Searchlight Insurance Training

> Professional and personal development should not be about repeating what you already know year in and year out.



It's that time of the year again. The evenings are drawing in, the children are back in school, and there's a definite chill in the air signalling the end of summer. As we enter the final few months of the year, it's time to turn our attention towards completing any outstanding work before the Christmas break and yes, that also includes CPD.

*"Education is not the learning of facts, but the training of minds to think." – Albert Einstein*

Continued Professional Development is still viewed by many as arduous, boring, or unnecessary. We've all sat through lengthy staff training sessions, struggling to pay attention whilst willing the hands on the clock to move just that little bit faster. But CPD does not have to be tedious.

Professional and personal development should not be about repeating what you already know year in and year out. Refreshing and enhancing your knowledge and understanding of certain skill-specific topics not only improves your workplace productivity and efficiency, it also demonstrates to your employer that you are committed to your role and are therefore well-placed to provide a better service to clients.

It comes as no surprise that there is no 'one size fits all' approach to learning. Wherever you are in your career now and whatever you want to achieve in the future, your CPD should be seen as an investment that you make in yourself.

CPD allows us the opportunity to open ourselves up to new knowledge and skill areas, essentially ensuring that we continue to be proficient and competent in our professions while also furnishing us with essential skills that could help career progression. Most training courses that Searchlight offers are available at introduction, intermediate and advanced level, so no matter what your current skillset, there is a course or training package suitable for your development needs.

While the minimum number of required hours may seem daunting (15 hours or 35 hours for Chartered Insurance Institute (CII) members) the reality is that most staff regularly achieve and exceed this target. The key is to ensure that all learning undertaken is recorded. Keeping up with industry news through reading industry journals or magazines and engaging in relevant podcasts all count towards CPD.

Be sure to speak with your managers to help you define clear goals - What is it **you** want to achieve? An effective T&C plan will help you identify gaps in your knowledge and allow you to fully reap all the benefits that CPD has to offer.

The long and short of it is, don't neglect your CPD. Take the time to invest in yourself, develop your skillset and reap the rewards. After all, there are only 3 months left of 2021!

If you need help and advice on how to develop an effective training plan for your organisation or would like to know more about our online or face-to-face training offering, please email: training@ssluk.net

# From apprentice to risk analyst – how to fast-track a successful career in the debt collection industry

**By Phoebe Backhouse, Risk Analyst from Lowell**

> "I soon realised that it was the ideal route for me to gain a highly regarded but hands-on qualification while developing specialist professional skills and getting invaluable experience in the workplace. It was a win-win

Credit Services Association (CSA) is the UK trade body for the collections and debt purchase sector and an apprenticeships training provider offering specialist programmes in credit, collections, compliance, counter fraud and debt advice. CSA member company Lowell is one of Europe's largest credit management companies with a mission to 'make credit work better for all'.

**Phoebe Backhouse, Risk Analyst at Lowell and former CSA Level 3 Compliance Risk Officer apprentice, says:**

*"In 2016, after asking myself some tough questions, I decided to leave university where I was studying accounting and finance to seek alternative learning opportunities through the workplace. Attending university is a fantastic privilege but sitting in a lecture theatre of 200 people did not allow me to thrive. I am curious and like to ask a lot of questions, learn in a hands-on way, and I didn't feel my learning needs would be fulfilled in an academic environment.*

*"Still today, there is a lot of unfortunate stigma around being a 'university drop out' as well as misconceptions about vocational education options. However, I took the leap because I felt strongly that I would be more capable of fulfilling my potential in a professional setting. In fact, once I realised graduating is not the only way to start a career, I was more determined than ever to prove myself.*

*"Shortly after leaving university, I came across a role at Lowell in the Customer Engagement Centre. At the time, I understood little about the collections industry, but I could see that this entry level role had the potential to open doors for me. The role gave me a unique insight into how collections firms work and what kind of circumstances customers are facing, and it quickly became evident that the widely-held perceptions about 'debt collectors' were not like the reality. Seeing first-hand how collections firms help people repay their debts and restore and renew their access to credit made me feel proud and drove me to want to work in the industry long term.*

*"Much as I enjoyed supporting our customers directly, I had a burning desire to transfer my skills into other areas of the business. I was monitoring internal vacancies when I came across an apprenticeship role in the UK risk function. This was a unique opportunity to carve a career pathway in a fascinating area of technical expertise while learning on the job through a Level 3 Compliance Risk Apprenticeship delivered by our industry trade body, the Credit Services Association (CSA).*

*"Prior to this, my perception of apprenticeships was that they were designed for traditional trades such as building and plumbing, so I was quite surprised when I came across a relevant apprenticeship that offered a credible*

*career opportunity within financial services. However, I soon realised that it was the ideal route for me to gain a highly regarded but hands-on qualification while developing specialist professional skills and getting invaluable experience in the workplace. It was a win-win.*

*"As soon as I started in the new apprentice role, my mindset switched from that of a student to that of a young professional and it kick-started what has so far been a hugely rewarding and successful career. Because my new role was created with an apprenticeship 'built in', it had hands-on learning and development integrated from day one, which gave me exposure and opportunities that I do not believe would otherwise have been possible at that level. With specific time set aside for learning, and practical projects and assignments that fed directly into my day job, I was able to take a strategic view immediately and make a much more significant impact than I would have done as a graduate rather than apprentice.*

*"As an apprentice you have a lot of flexibility to shape your learning, so I took the initiative to develop a role that mutually benefitted the business, the department, and me personally. From the outset, I had to approach key stakeholders to fulfil the requirements of both my apprenticeship and my role and demonstrate that I was gaining the knowledge, skills, and behaviours required of me. It allowed me to shine and be recognised for my hard work and ambition as someone who is worth investing in.*

*"I had a huge amount of support from the CSA tutors and also experienced fantastic networking opportunities with my apprenticeship cohort peers, including attending industry conferences run by the CSA.*

*"I was fortunate enough to progress into a Risk Analyst role, where working in a fast-paced environment means no two days are the same. But the apprenticeship was not just a 'tick box' to progress up the career ladder; I still use the course content and skills I learnt on a daily basis as part of my own continuous development and improvement.*

*Highlights during my apprenticeship include winning a 'Best Newcomer of the Year' Award at a functional company Away Day. I am also immensely proud of achieving the Institute of Risk Management's 'International Certificate in Enterprise Risk Management' alongside the apprenticeship, which is internationally recognised and equivalent to degree level.*

*"Working as a Risk Analyst in a debt collection firm might not sound like the most appealing job, but to me it is exciting and empowering to be part of a function that helps to create a 'risk aware' culture in the business. Having the opportunity to not only provide assurance and oversight that we are managing our risks to colleagues, investors and regulators etc., but also knowing that I am contributing to providing reassurance to our customers, really motivates me and reminds me of why my role is important.*

*"I would highly recommend both a career in the collections and debt purchase sector and apprenticeships to those looking for a rewarding job where they can make a real difference to people's lives while fast-tracking their own career in a professional, innovative industry. Based on how far I have already come in just a few short years, I am excited to see what the future holds!"*

Find out more about CSA apprenticeships at: https://www.csa-uk.com/apprenticeships

# Vulnerable to vulnerability: the UK mortgage market and its challenging customer situations

**By Phil Ingle from Phil Ingle Associates**

Imagine this customer: a 50 something Financial Adviser, based in Singapore but with an English wife who is living in the UK with your 4 children. His earnings last year were some £400,000 enabling him to work in Singapore, have the family schooled in the UK, with 2 properties in addition to a Singapore apartment. His family lives in one of the UK properties, and his current plans are to retire there once into his sixties. He is also something of a 'cobbler whose children are poorly shod': that is, pension arrangements are some way short of the UK LTA, although his Buy to Let in the UK will help retirement income once the mortgage on it is repaid.

Hardly vulnerable. Things could be worse.

They become so.

This customer's position was at the start of 2020, then the pandemic arrived – even if initially well handled in parts of Asia.

Over the next 3 months his income collapses as the bonus, linked to investment returns in a crashing equity market, ceases. Earnings reduce to £200,000. One mortgage falls straight into arrears as the tenant in the BTL property ceases paying the rent. One of the problems of renting to the self-employed, non-furloughed. Having taken a 15-year mortgage of some £450,000 to buy the UK (family) home the repayments become unaffordable, and overdrafts appear.

What had been a high net worth looking financial position, slips into vulnerability. Not that this customer would meet most people's definition of vulnerability – but it does meet the regulators definition.

Vulnerability is a relatively new term in the UK regulatory framework, having first been seen in the FCA's 'Vulnerability Exposed' research in December 2014. The most recent guidance though comes in FG21 Guidance on Handling Vulnerable Customers published in February 2021.

The FCA vulnerability definition is "someone who, due to their personal circumstances, is especially susceptible to harm, particularly when a firm is not acting with appropriate levels of care."

The FCA's guidance also adds what I feel is a useful concept:

"Firms should think about vulnerability as a spectrum of risk. All customers are at risk of becoming vulnerable and this risk is increased by characteristics of vulnerability…"

Their first paper on Vulnerability (Vulnerability Exposed) states "While everybody can – and, indeed, most people do – experience vulnerability at some point in their lives, most of us, most of the time, do our best to ignore the possibility." This highlights how widespread vulnerability may become, but more usefully then identifies the 4 key drivers which define the characteristics:

- Health–health conditions or illnesses that affect ability to carry out day-to-day tasks.
- Life events – life events such as bereavement, job loss or relationship breakdown.
- Resilience – low ability to withstand financial or emotional shocks
- Capability–low knowledge of financial matters or low confidence in managing money (financial capability). Low capability in other relevant areas such as literacy or digital skills.

> "shows that between March and October 2020, the number of adults with characteristics of vulnerability increased by 3.7 million to 27.7 million. A 15% increase on the February figure, this takes the overall proportion to 53% of all adults."

These drivers work with the 'spectrum of risk' concept, which could apply in cases from all 4 drivers. Health conditions which impact day to day activities are not limited to physical impairments, and since March 2020 there have been numerous reports of increased mental well being shortfalls across the UK population*.

Life events too will be on a spectrum as the impact of - for example - divorce or bereavement will differ enormously depending on the circumstances and nature of each individual's experience.

Resilience in this context is defined in financial terms, and the earlier case of the Singapore Financial Adviser would fall into this category.

Capability too lies on a spectrum, and although those of us in financial services would hope that we 'know our customers' and have communicated well, sometimes even well-informed customers may experience a reduction in capability, possibly doe to the impact of other drivers like a life event or ill health.

This highlights another facet of vulnerability, and the FCA's words on spectrum: some customers will have multiple drivers. Vulnerability does not come limited to just one driver or characteristic.

How vulnerable are UK mortgage customers? While the straightest answer is 'we don't' know' the FCA Financial Lives Survey from earlier this year – "shows that between March and October 2020, the number of adults with characteristics of vulnerability increased by 3.7 million to 27.7 million. A 15% increase on the February figure, this takes the overall proportion to 53% of all adults."

My reaction to the 53% figure was initially one of incredulity, although using the 'spectrum of risk' view, and the nature of the drivers during the pandemic, I was more understanding. Whether this extrapolates across the UK mortgage market is something which is currently being looked at by mortgage lenders across the country.

Where is the likely direction of travel in mortgage vulnerability? Despite the 53% figure above, numbers of vulnerable customers will depend on a set of drivers and constraints. The 'drivers of the drivers' include:

- Future interest rate rises, especially if passed straight through to those on variable rates.
- Changes in government policy, including further Covid restrictions, and possible reductions in assistance for self-employed. The effect of the removal of the £20 supplement for Universal Credit may have small effect too.
- The levels of unsecured debt: while we focus on the mortgage market, overall unsecured lending pressures remain.
- Constraints on future vulnerability could include, the continued resilience of the property market. Even after the end of the Stamp Duty 'holiday', this should continue to give lenders some confidence that they will not have to face too much negative equity. The current jobs market also provides plenty of employment opportunities, although many of the jobs available are at the lower end of the pay scale.

What should mortgage providers do when faced with vulnerable customers? From my experience of working with banks and mortgage providers in the UK I suggest the following key themes:

1. Systems. Financial services firms are frequently emphasising the importance of communication in correspondence and website advice, while the customer experience in communicating may reveal unhelpful approaches to vulnerability. While rigorous security standards must be maintained, factors like time taken to identify customers can add to stress a customer's emotions. For example, they have to self-identify' through call technology first, only to be asked exactly the same questions again by an agent a few minutes later. Budget planning questions and questionnaires are not universal, putting pressure on customers to have facts and figures, possibly in a different order to another institution – say another lender – if they have multiple financial issues to handle. Remember the FCA's guidance about 'appropriate levels of care'.
2. People. Most mortgage providers have experienced call handlers for dealing with mortgage arrears and vulnerable customers, and the importance of voice tone has been highlighted in research from Bristol University*
   Options. Lending policy may need to be flexible enough to cope with changing situations. For example, going back to the financial adviser mentioned earlier, one issue affecting the lender was the age limit on the original mortgage agreement, which sought complete payment by age 65. Other lenders may have limits on terms, age, or use of "Interest only" for a while. The more options you are able to access, the greater flexibility you can share with the customer.

Remember that these themes will need to reflect this element of the FCA's Guidance:-

"to achieve good outcomes for vulnerable customers, firms should:

•understand the needs of their target market / customer base

•ensure their staff have the right skills and capability to recognise and respond to the needs of vulnerable customers

• respond to customer needs throughout product design, flexible customer service, provision, and communications

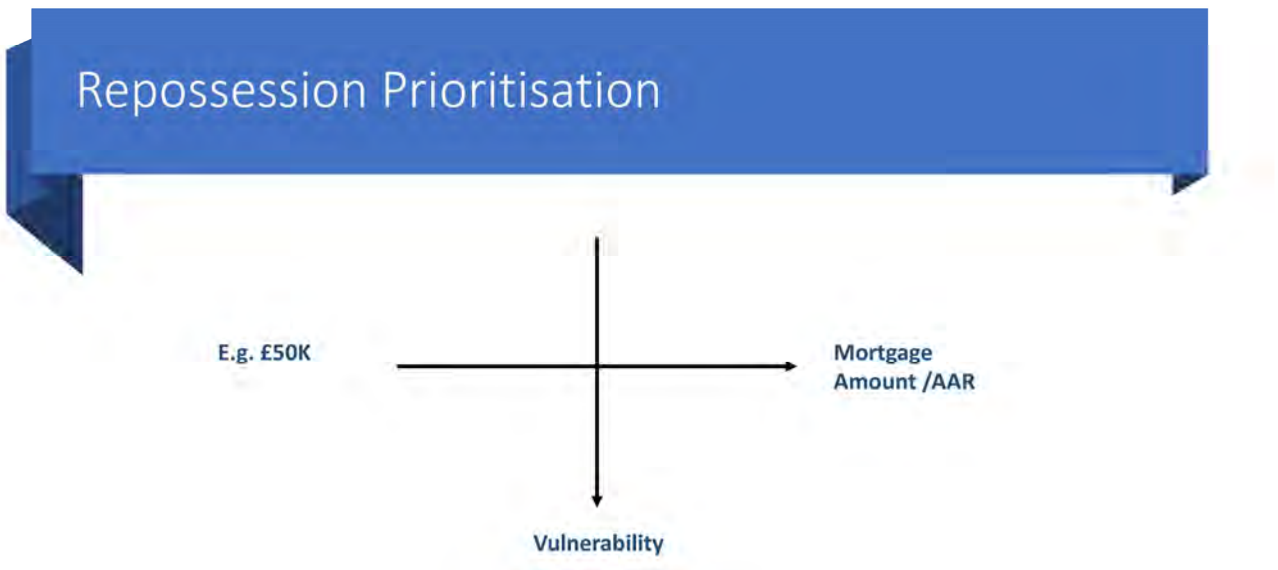
•monitor and assess whether they are meeting and responding to the needs of customers with characteristics of vulnerability, and make improvements where this is not happening"

Repossessions – traditionally the 'last resort' of the mortgage lender - have shown a marked decline in recent years, and during the pandemic the government prevented them altogether. But repossession may be a step unlikely to be acceptable when seen alongside deeper vulnerability, especially if the driver is health or life event over which the borrower has less control.

Mortgage lending will always feature the management of repayment issues, and when discussing this with lenders I have come across a range of approaches but summarise these in a model which balances vulnerability with amounts at risk. This combines 2 spectra, and while it involves data this remains a subjective, judgemental approach.

Firstly amount at risk: each institution can customise its approach here. For some, depending on the lending book, numbers and amounts of arrears, they may start with an amount which would typify a small amount of arrears. The starting amount therefore is unlikely to be zero and will be affected by the number of customers with problems.

In summary, I suggest every lender in the UK will have vulnerable customers, some more obviously than others. The way these customers' issues are handled will have an important impact on customers' lives, and also an important impression of the lending institution, and it's claimed values.




Then add the spectrum of vulnerability. There could be various iterations, but I suggest those with just one 'driver' be categorised lower than those with multiple drivers. Secondly, each driver could also have a weighting applied to it, depending upon the assessment made during customer calls.

If problem mortgage accounts are plotted using this tool, the pattern for action becomes relatively easy to see - you start with those in the top right-hand corner, with different actions and approaches than for those in the bottom right. Then go top left followed by bottom left. Briefly, prioritisation goes diagonally across the matrix from right to left. What this tool should do is enable a view to be taken about what additional action should happen to help protect the lenders position, but also to protect vulnerable customers.


https://www.fca.org.uk/publication/research/vulnerability-exposed-research.pdf
https://www.fca.org.uk/publication/finalised-guidance/fg21-1.pdf
https://www.fca.org.uk/publication/feedback/fs21-6.pdf
https://www.health.org.uk/news-and-comment/news/latest-data-highlights-a-growing-mental-health-crisis-in-the-uk


* A key lesson here is the tone in which lenders communicate early messages and warnings about mortgage arrears (whether in writing or verbally) – In essence, this involves getting the balance right between conveying the seriousness of the situation while making it clear that there are steps that the mortgagor can take to sort things out, all the while showing an understanding of the fears and anxieties that mortgagors may have. " https://www.bristol.ac.uk/media-library/sites/geography/pfrc/pfrc1709_customer-perspectives-on-mortgage-arrears.pdf

# Expanding a T&C Scheme

## By Andy Snook from Performance Evaluations

There may come a point in time when you need to expand your T&C Scheme, whether this is through additional members as the business grows, taking on an additional scheme, or expanding the scope and activities of the existing scheme.

At the time of writing this, all three of the above are embedded on my radar. This is going to be one big piece of work. So, what are my plans to get everything up and running?

The current scheme membership will increase significantly, partly due to the business taking on additional staff, and partly due to the inclusion of our support team into the Scheme, which is something I've been wanting to do for some time. This has now made been made much simpler through a revision of the current roles within the support team. There's also a plan to take on another scheme from another area of the business that will involve a merger of similar activities within the schemes.

Key to a successful implementation will be good planning. With an expected launch date for the changes just over three months away, the more time spent working on this through the better the outcome. So, I need to plan the time in and prioritise it over some of my other more routine tasks. I also need to present the new Scheme to senior management to get sign off earlier than normal, since this is usually at the end of each Scheme year and before we launch the next Scheme year.

Call it old fashioned, but currently I run the Scheme using several spreadsheets, and have done so for about ten years for this Scheme. That said, we have doubled the Scheme membership almost every other year and the new year will add a further twenty-five percent to the membership, so spreadsheets are not going to work. Well, at least not to cover everything.

Technology must be the answer, and last year I found a suitable solution to meet the Scheme's requirements to deliver, monitor, and record CPD. With 2020 being, to use one of many definitions, an "interesting" year, the solution wasn't implemented. But it has been signed off for 2022. This will eliminate two of my spreadsheets. One of which I use to record the CPD logged for each member month by month, and CPD type (general, IDD, and PTS) month by month. The other spreadsheet records the CPD that I have sourced, and who attends the sessions. Also of significant benefit is that the solution automatically creates CPD Logs and reports which will save considerable time, both for the Scheme members who will no longer have to record their own logs, and for me as I won't have to check, record, and file the logs in the T&C files.

Technology will also help with some of the other elements, such as recording different KPI's such as file check results, client servicing monitoring, and 121 meeting notes. I'm planning on recording all of this in one place, making it easily accessible to the management team, and in a continuous format to eliminate the volume of different documents we currently use.

I also plan to deliver and record specific training more efficiently and effectively, across a much wider area of the business. Communication and coordination are key here. Historically the different teams have run their own training programmes but going forward this will all be centralised allowing training to be offered to consultants and even other support staff, for example specific product training arranged by the para-planning team could be made available to consultants. It could even be offered to other areas of the business.

Our Support team have never been included in the Scheme; however, I plan to change this. After all, we all work as a team, and everybody is needed throughout the sales process. So why not include our administrators? We have been building better career paths over the last couple of years, so an administrator can progress into para-planning and then into consulting. But we also need to have career paths within each team to allow progression for those who don't want to take the route into research or advice. To achieve this, we are utilising the industry Apprenticeship programme together with a more defined on the job training programme. Although not finalised, it may be that we will ask the Support team to undertake CPD, or at the very least involve them by inviting them to specific CPD events.

Finally, I mentioned earlier the possibility of taking on an additional scheme. This is for a different area of the business, and currently run separately, although I do have some oversight on it. The thoughts are that in 2022 it will remain a separate scheme, but I will run it alongside my existing Scheme. This has the benefit of co-ordinating activities and knowledge, whilst helping bring both departments closer for the benefit of the individuals and the business.

And the main benefit? There are several. Firstly, time. Most of us have all gained time over the last year or more, so why not make even more time available for other activities. If you, as a manager, suddenly gained just two hours a week, what would you do with it? Efficiency is another benefit by making everything more streamlined. And a third benefit. Learning. Make our people are better informed and knowledgeable. All this points to a better service for our clients, which points to a more productive proposition for us.

# How “value for money” is taking over from “cost and charges”

**Henry Tapper**
CEO Age Wage

> “Just as there appears to be a move away from “cheap is best”, so there appears to be a more plural perception of what “value might be”

The financial services industry is now better understood for the transparency shed by consumerists such as Dr Chris Sier on the costs and charges we pay for the funds, platforms and policies into which consumers invest. We may not fully understand complex issues such as ownership and agency, but professionals can now compare and contrast the cost of products using standard measurement frameworks such as the CIT templates.

But we are a long way from finding a common way of expressing value and recent work by Tesco and Ignition House for the DWP suggests that the workplace savers who work the tills and stack the shelves know that value is more than price. The message from independent research was that what people valued was a good financial outcome and a reasonable quality of service, whether they were shopping for groceries or investing for their retirement.

This message has not been lost on Government. In September the FCA and TPR jointly issued a discussion paper outlining the framework for value for money in DC pension schemes. This follows guidance from the DWP for occupational pension schemes on assessing value for their members which was issued over the summer. The FCA is delivering a follow up to their CP20/9 paper aimed at IGCs and GAAs which should be published by the time you read this article.

What these papers have in common is a broadening of the debate about value for money from a focus on costs and charges to a broader investigation of what people are getting for the money they are investing and the cost of its management.

So what does this mean in terms of best practice?

So far, attention has been focused on costs and charges and performance as separate items. Quality of Service has been determined by various frameworks. The FCA/TPR paper suggests that a more standard approach is needed and is calling on the pension industry to come up with a suite of metrics that can determine the service offering of a product using a consistent measure. If no consensus can be found, the paper suggests that the Government could sponsor a standard created by BSI (or similar) and accredited by UKAS.

Since templates already exist for measuring costs and charges and performance (the DWP have provided a performance reporting template in recent guidance on consolidation), there appears to be an emerging framework for value for money reporting.

But we are at an early stage and what is being presented is only a “discussion paper. It will be interesting to see what the outcome of all this measurement will be. The BSI standard is the kitemark which you either receive for your product or you don’t.

This binary approach has governed most VFM reporting with the overwhelming conclusion being that “XYZ product provides value for money”. But the approach to performance and cost suggests a more graduated approach may appear, perhaps with a score for performance and cost that indicates what historic outcomes will have been.

Just as there appears to be a move away from “cheap is best”, so there appears to be a more plural perception of what “value might be”. Many savers, investing for the future, may want to know not just the outcomes of their saving in terms of net returns, but the impact of their savings on the environment, society and good governance (ESG). We could almost refer to clean and dirty performance, though the value for money measurement of ESG may well start by looking at the greenium (the cost and charge of ESG activity) relative to its impact – perhaps measured in terms of success in stewardship).

Implicit in such thinking on “value” is that value must respond to what matters to members and here there is considerable diversity of thought. If value is primarily about member outcomes, should outcomes be measure by the capital reservoir within the pension pot or the income stream that pot purchases? Most workplace pensions can show a clear link to work but no clear link to a pension after work. Will consumers come to consider pots without clear investment pathways, less valuable? Will this be the

opportunity for a new kind of value to emerge where the tough decisions on how to turn a pension pot into a wage for life are offloaded to a large multi-employer scheme with the capacity to share longevity risk across cohorts of savers?

To my mind, the debate about what is valuable in a financial product is specific to what it is setting out to do.

That is why we should consider value for money in a pension plan in a different way to value for money in an ISA or a savings account.

People value pensions as a means to stop working and the tax-treatment of pension saving (exempt, exempt taxed) is still based on pensions providing people with a taxable income in retirement.

Extraordinarily, we are not measuring the value for money of a pension plan by the pension arising from the contributions paid. This may be where the VFM journey ends up, though we are a long way from getting there yet.

# What's in a name?

**By Lynne Hargreaves from Clearstep Consulting**

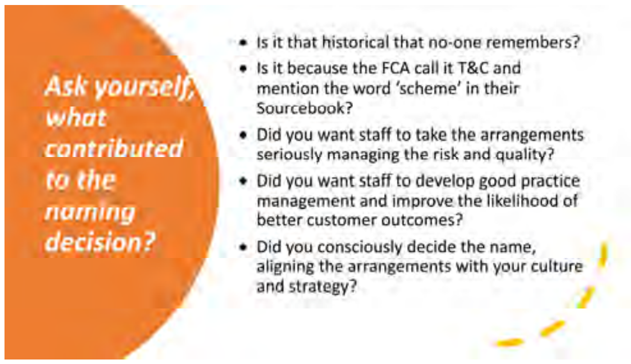

The short answer is a lot. For those that have read Romeo and Juliet you will remember that Juliet is not allowed to associate with Romeo because he is a Montague. She complains that his name is meaningless and if he had a different name he would be the same man. So, what is so special about a name...?

Often, the first piece of information we have about an individual is their name, from which we form judgements very quickly. This information can make you inclined to think in a positive or negative way, setting the future direction.

Now, I am not a communications expert; however, I recognise the immense power of language and the importance of thinking carefully when making naming decisions. The simplicity of a name can determine various outcomes as can psychology. We hold associations with certain words and names.

In Financial Services we like to put a label on things, whether that be a policy, process, or system. The regulator is the same, just take a deep dive into the FCA Handbook.

In the world of Training and Competence (T&C) the names and labels used can significantly impact perception and desire to deliver tangible results. Whether that be the call scoring categories you use or what the system is called where activities are recorded. What do you call your documented arrangements? Is it a T&C Scheme, Competency Framework, T&C Policy, Development Programme, Management Framework, People Policy, Quality Process, or some other permutation?




Recently, I undertook a review and evaluation of a T&C scheme. Part of the review included asking those in scope their thoughts and views. How did they view the Scheme? Why did they think the arrangements were in place? What did it achieve? Interestingly, the scheme was viewed as a 'tick-box' exercise designed to keep the organisation in business. It wasn't just the name of the arrangements that led to these views, it was also the underlying activities and accompanying tone of voice. Competence is not 'tick-box'. Nor is the customer experience you aspire to deliver through your people.

> "Competence is not 'tick-box'. Nor is the customer experience you aspire to deliver through your people

Building trust and a differentiated customer experience requires a staff skill set of technical expertise as well as cognitive and adaptable behaviours. To achieve this, firms need a T&C strategy in place which is designed to deliver competencies supported by an appropriate tone of voice.

***How do staff view your arrangements? Is a review required?***

Call scoring and the names attributed to the results can be a very emotive subject, especially for the individual. Again, a myriad of naming conventions exists across the sector. 'Fair, fair with development, unfair', 'competent, competent with development, not competent', 'achieving, developing, below', 'red, amber, green', '1, 2, 3' ….and other combinations.

***What does your scoring terminology and observation practices convey? Is it…***

- fear and consequences?
- negativity and unconstructiveness?
- development and support?
- encouragement and self-awareness?

***Why should you care?***

You need to care. Will staff who worry about consequences positively and enthusiastically apply your policy and process in their customer interactions? Will they think 'outside the box' and strive to make that special effort for customers?

Diverse, well-motivated and competent staff means better decision making and innovation. It means a consistently delivered customer experience, an advantage in the market. Inspired and confident staff strive to resolve issues and work collaboratively.

I'm not saying that simply choosing fantastic names for all your T&C arrangements will guarantee success. As you know there's a lot more to it than that! However, names and labels do influence how your arrangements are perceived. They set the tone for the desired outcomes. And they influence the results.

***What results do you want?***

Now I'd like to hear from you:

Do you agree that the names you attribute to your T&C arrangements influence the results you achieve? Do your arrangements drive a 'tick-box' approach? What are the naming conventions you use that drive a positive staff experience?

**About the Author**

Lynne Hargreaves is the Director at ClearStep Consulting. ClearStep specialises in the interpretation of FCA regulations and the impacts on people. This includes the design and development of TC frameworks, competence training and assessment and consultancy support for the Certification Regime and Code of Conduct.

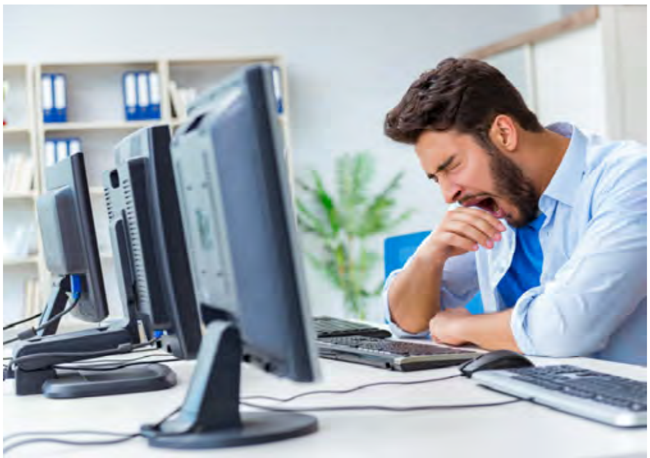
# Avoiding death by voiceover PowerPoint

**By Paul Archer from Archer Training**

11 Tips to Help Advance Your Online Live Training

1. Think about using your LMS to store delegate names and creating a training path for them. This path would include many other resources which are part of the journey rather than extras. This will allow you to accompany the live delivery with some pre-recorded videos or Audios
2. Remind learners before the training of the up-and-coming course. Not only is this good practice, but it also allows you to explain how it's going to work and possibly be different to what they've experienced before. Record a brief video clip of you using your phone to explain the benefits.
3. Create your flight checklist to use before every workshop so you don't forget anything. 737 pilots don't forget anything; I wonder why?
4. Don't let things CRAMP your style. Cramp is an acronym for introducing the session—contingency plans, responsibilities, agenda, motivation and how to Pin people.
5. Offer a Zoom Zone or Teams Scape MOT to anyone who is attending. 15 minutes online to make sure they're camera-ready and pivoting towards involvement
6. Breakouts are great features. Use them wisely, ideally to help the learners discuss how they will implement a particular technique or concept. Make sure you swing by and enter each room rather than using it as a break. Allow them to share their whiteboards and use this to collect ideas which they can use to present back to the main group.
7. Switch off your self-image when you're presenting, not to be distracted, and allow your full attention to focus on them in gallery mode. Make sure your primary monitor is behind your camera, so you maintain eye contact. After all, you would never have a large mirror in an actual training room, would you?
8. Stand up and face the camera more, don't hide behind slides. Place your whiteboard or flipchart alongside you on the key camera or use a picture in picture software to place your slides alongside you. Remember, you are the central figure, not the slides.
9. When presenting, use your gestures since you'll be filming from the waist upwards. Gestures allow you to be human and communicate better, but don't be a windmill.
10. Consider the three elements of body language when on camera. Facial expressions (your delegates are all in the front seat now so that you will see every expression), movement (including gestures) and posture.

"Gestures allow you to be human and communicate better, but don't be a windmill.



1. Consider a switcher so you can effortlessly switch **the** camera and view without too much fuss **and** bother. I have several camera views which I can change using my Elgato:

a. Zoom Zone with an appropriate background for chatting, discussing and telling stories
b. Slides in full-screen mode
c. Slides in picture in picture mode showing me alongside my slides
d. Me with a close-up of the whiteboard to describe critical concepts
e. Wide view of me presenting alongside whiteboard, this picks up an extensive view of it all, almost like a delegate might see if they were sitting around tables in an old-fashioned training room (remember those!)
f. Gallery view of every delegate in "Brady Bunch" style – google Brady Bunch if you've never seen the opening of this show.
g. Role-play image of two or more delegates only where I spotlight only those playing

I can switch these views within seconds, and it allows you to appear like a BBC Newsreader. In real life, that's what delegates would have been used to, not a voice-over PowerPoint all day.

Paul can be contacted at paul@paularcher.com for any sales or business development consulting or training you may want to bring in house. His YouTube Channel is at www.paularcher.tv and he would love you to link in with him at www.paularcher.uk - just mention TC News in the invite.

# Outcomes-focused regulation 'consumer duty'

**Nick Baxter** from Baxters Business Consultants

> On the face of it, the guidance appears to be a highly focused and targeted warning to specific firms.

The FCA recently published a 'Dear Board of Directors' portfolio strategy letter' to all firms who outsource to third party mortgage administrators and to third party administrator firms. It set out the FCA's concerns in respect of key risks posed to customers and detailed how firms should address and mitigate those risks. On the face of it, the guidance appears to be a highly focused and targeted warning to specific firms. But actually, it is a worthwhile read for any FCA regulated firm as the issues highlighted are not unique to those specific firms. All regulated firms should heed the warnings contained within the letter!

There are four particular themes that all regulated firms should review and reconsider.

**Fair treatment of customers**

I am sure all regulated firms know that the FCA focuses on six consumer outcomes. These are the outcomes that firms should strive to achieve in all their dealings with customers, to ensure fair treatment of all customers. Equally, I am sure I don't need to reproduce the six outcomes here; space doesn't allow it anyway! But seriously, post COVID, it is well worth refocusing on these outcomes – they have stood the test of time and are equally as important today as they were when first published. I would encourage all regulated firms to carry out a 'gap' analysis of their current performance against these outcomes and then develop a plan to close the gaps.

**Vulnerable customers**

The requirement to achieve good outcomes for vulnerable customers is not a new theme for the FCA. The best way for firms to satisfy FCA requirements is to ensure that they understand the needs of their target market, that their staff have the right skills and capabilities to recognise and respond to the needs of vulnerable customers, ensure that products meet the needs of their customers and ensure that there are measures in place to monitor and assess whether they are meeting and responding to the needs of their vulnerable customers. Government has also published a 'vulnerability' toolkit. This is designed to ensure that front line staff recognise vulnerable customers and that they apply appropriate safeguarding measures so that such customers are "handled with compassion". The toolkit is comprehensive as it builds on the work by the Money Advice Trust and StepChange Debt Charity and, in particular, it develops their well-known vulnerability protocols TEXAS, IDEA, CARES and BRUCE.

**Operational resilience**

A policy statement earlier this year required specified firms to identify their important business services, set impact tolerances for the maximum tolerable disruption and carry out mapping and testing of the tolerances. Those firms also must identify any vulnerabilities in their operational resilience. Firms must then show that they are able to remain within the set impact tolerances for each identified business service. Firms must also have made the necessary investments to enable them to operate consistently within their impact tolerances. Identifying important business services and setting impact tolerance for each is, frankly, critical for all businesses – specified or not. While many firms coped quickly with recent operational upheavals, with the recent issues still clear in the mind, now is a good time to revisit resilience plans.

**Financial resilience**

I am sure most firms have had their financial resilience tested during the last 18 months. I am sure the fallout from Covid-19 has led to new thinking in respect of what is needed in respect of what adequate resources need to be in place and how to assess how those needs may change in the future. The role of adequate financial resources in minimising potential harm is an issue that is coming under closer scrutiny.

While these themes may have been highlighted in a very focused 'Dear Board of Directors' letter the themes are relevant to any regulated business and as we move into the last quarter of 2021 now is the perfect time to revisit them in order to make sure businesses are set up ready for the new challenges that 2022 will bring; whatever they might be!

**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**

# ‘Fit’ for purpose!

## By Michelle Hoskin from Standards International

Last time I wrote about what it takes to be extraordinary and why as business owners and team leaders we should be doing everything that we can to hang on to those ‘extra special few’ for dear life! But there is one last piece of that people jigsaw puzzle that it would be remiss of me to not bring up; and that is the power of FIT!

You know when you work with someone and, while they seem to have all the skills to do the job, there is something still a little off. You can’t quite put your finger on what it is, but you know there is something that just doesn’t quite work? This is the challenge of ‘fit’. It’s a real thing – yet sadly, day after day, financial services practices and firms are making decisions to hire team members on everything apart from the most important thing of all.

‘Fit’ is that feeling when you just know it’s right (or not!). Your gut instinct is shouting at you loud and clear, and if you trust your gut instinct along with your lifetime of learning, you will be told the truth of what is really going on.

The best question that I tell all of my clients to ask daily in order to test their gut instinct is this one:

*Is this (task/objective/relationship or PERSON) in the best interests of the business?*

If they answer ‘yes’, by all means carry on. But, if it’s a ‘no’ then it’s so important to stop and reconsider!

While this is easily said, it’s very often extremely hard to do!

With the ever-growing need for great people in our sector, firms are getting desperate and because of this they are often hiring fast, and foolishly. The problem is this won’t end well. I am yet to come across a successful hire which was panic-placed; and yet it continues to happen every day.

So, let’s have a look at the main attributes that businesses and firms traditionally prioritise hiring upon:

1. **Qualifications**

Now, I will try not to jump straight onto my soap box about this, but come on! I am sure we both know some of the most qualified people in this profession who just don’t get it. Qualifications are an indication of a person’s academic and technical understanding of the job, but it doesn’t mean for one minute that they can do it excellently in practice.

2. **Length of time doing the job**

This boils down to how much training they may need in order to learn how to apply the knowledge that they have so committedly ‘learnt’, or how much back-tracking you are going to have to do to help them ‘unlearn’ all of those bad and unhelpful practices that have kept them nice and busy in their previous roles.

**3. When can they start?**
Remember, desperate times require desperate measures, and it is likely that you have left the hiring process way too late in the day and now you need someone to start ASAP! Well, apart from the obvious 'think ahead' for next time; the fact is you are now under pressure so whatever you do, tread carefully and remember going forward that it's vital when making a long-term decision to give yourself the long-term space to make the right one.

**4. What is their 'what next?'**
What do they want to do next in their journey with us? Team leader, Head of Compliance or financial adviser? What a conundrum! Well, it's not really, because why do we seem to continue to assume the direction of what their next step may be? Take Paraplanning for instance… I know the Paraplanning profession as a whole recognise and value this role exactly as it is, however, there are thousands of firms who still haven't quite grasped the fact that the role exists in its own right! Rather than assuming it's a stepping-stone, it can equally be the start, middle and end for many who aspire to being the best Paraplanner possible.
Regardless of the role, this process clearly all starts with the firms gaining a genuine understanding of the candidate they are looking to hire, and add to that the absolute need for the candidate to be upfront and honest about and with themselves. Regardless of the role, 'ego's' still very much fuel our profession, and after decades of putting financial advisers and more recently financial planners on a pedestal of awesomeness… we've now got the huge job of educating our new entrants, and those that are leading at the helm in other roles, that in fact not everyone wants to, or needs to, directly advise clients! A collaborative conversation needs to be had.

**So, what is the solution?**
Well, if you have a pattern of hiring based solely on the above, or if you have someone in your team that doesn't fit, it's not a total disaster! Here are some top tips for next steps:

1. The first step is to have the appropriate conversations with the person(s) and an HR Professional. You need to be honest, brave and confident in your feelings that something is not right. The sooner the lines of communication around this are opened the better.
2. Take recruitment seriously. Long gone are the days when big salaries, bigger offices and fast cars are the promises that will seal the deal. Now firms have to be creative, to offer something extra special - which is often not what you think! Ask yourself what you would need to do to secure a waiting list of candidates at your door? Look around, what are the best places to work doing? And don't forget to ask your existing team. This is all part of creating the magic cultural potion in your business that will attract like-for-like, making the whole process easier from the get-go.

> "Recruitment is never an easy task, but by embracing the challenge and using the appropriate tools in your kitbag, combined with your gut instinct, you will build your very own extraordinary team!

3. Review your recruitment processes and practices. Make sure that in future you allow plenty of time for the process to blossom. It's important to think and plan ahead, and to maximise the tools available to support the process. When it comes to 'fit' the bottom line is really that we are talking innate behaviour – does theirs match yours/your expectations? To try and establish the likelihood of this upfront, why not include some personality, psychometric tests into the process?

At Standards International our two favourites are:

**The Kolbe A™ Index** - This measures an individual's innate 'modus operandi' across four indicators – Factfinder/Follow Through/Quick Start/Implementor. https://www.kolbe.com/kolbe-a-index
I could share 100 stories as to why this works, but let me share just this one. We recently helped one of our clients with the recruitment of a Technical Manager. We carried out the Kolbe and provided our feedback and recommendations on their Kolbe score and how this would 'fit' into the overall team. This was the reply from the firm's owner:
*"Your 5 min Kolbe feedback was so accurate. I honestly don't think you could have summarised him better if you spent all-day" interviewing him!'*

**The 5 Love Languages -** This evaluates how an individual likes to be communicated with/appreciated across five indicators – words of affirmation/acts of service/receiving gifts/quality time/physical touch. https://www.5lovelanguages.com
Now don't be put off by the lovey-dovey nature of my second recommendation. The 5 Love Languages really can help to get to the bottom of the innate needs of your people, and there's a great deal of magic in knowing what a person needs in order to feel motivated to perform at their best!
Recruitment is never an easy task, but by embracing the challenge and using the appropriate tools in your kitbag, combined with your gut instinct, you will build your very own extraordinary team!

# Covid Considerations

**By Derek Davies**

As I write, deaths from Covid-19 are averaging just under 200 per day in the UK. That doesn't sound a lot, but it equates to 73,000 per year, enough to decimate the population of a town the size of Harrogate, East Kilbride, Lisburn or Chatham. Then there is also the effects on the people who survive the disease but have to endure the effects of Long Covid, for months or perhaps years.

At present, despite optimistic noises from both government and scientists that these statistics will improve, it is generally recognised that Covid-19 will continue to be a health factor until well into 2022. Also, as we approach the autumn and winter months, not only Covid-19, but other respiratory diseases like flu, will take their toll and all of this may well make a number of clients very nervous.

There will therefore be a continued need for advisers and T&C supervisors, to continue to deal with client meetings electronically, potentially via videoconferences. Although, for those without access to such facilities, or who lack the desire to deal with technology, they may simply take place via the telephone, rather taking the risks posed by face to face meetings.

With the reasonably good weather over the summer, and the lifting of restrictions, some advisers have managed to undertake suitably socially distanced meetings with clients in gardens, or other spaces and may not relish the idea of going back to using technology. T&C supervisors, on the other hand, may prefer videoconferencing, as they can still attend meetings but after the introductions have been made, can turn their video off and take a useful and important part in the session, without being as obtrusive as they would be if they were on site.

Where face to face client meetings do continue though, there is the potential for transmission of Covid-19 and measures must be in place to ensure that advisers and clients are put at as little risk as possible. These could include the use of lateral flow tests by advisers before they meet with clients to be able to reassure them that they are Covid free. Where these tests do take place, should they be documented and kept in client files, and/or on a spreadsheet? If so, consideration should be given as to which business area is responsible for maintaining this information and who is responsible for auditing such records, to ensure compliance with internal rules?

In addition, whilst long-term health issues and potential deaths still pose risks, there is a greater need for advisers to focus on certain areas of a client's potential needs than they would have done previously. These include areas such as Estate Planning, Wills, Powers of Attorney and Funeral Planning, as well as ensuring that beneficiary forms are up to date, in relation to any pensions that clients may hold.

It is also important to ensure, through investment planning, pension planning, or via insurance, that measures are in place to channel sufficient income to a client's bank account to meet bills and expenses each month, if they are incapacitated for a period of time. This is even more important when, as is often the case, one partner deals with household finances, more than another.

Apart from that, there is the question of whether clients might want to consider the option of private medical treatment, possibly via insurance, to offset the delays the NHS is expected to continue to suffer. This may be especially important for those who have been made redundant and have lost such benefits in the transition and especially for those who may have a continuation option from their previous group scheme.

These considerations should therefore provide a focus for T&C Supervisors in observations and in any reviews of reports and recommendations. Even if there is no direction provided by the business-writing arm of a firm, T&C Supervisors should be ensuring that appropriate advice in relation to factors affected by the pandemic, is being provided to each and every client and that efforts are being made to mitigate any potential personal and financial risks.

Also, I have noticed that quite a few firms and businesses generally have Covid-19 guidance on their websites that differs from what is actually happening on site. This also applies to the documentation used, where forms that pre -date Covid-19 and can lead to potential confusion for customers. The same also applies in financial services generally and for some firms, in relation to supervision records specifically.

One of the main questions that the FCA will ask themselves if they undertake an audit of a firms' T&C, is can that firm prove that it continued to treat customers fairly during the pandemic and did those customers receive appropriate advice? If the supervisory observation form hasn't been amended to show a change in approach for Covid-19, or evidence isn't provided of what additional measures or focus has been implemented by the business, searching questions could follow.

Being faced with the standard "Did the adviser prepare adequately for the meeting", in a pre-Covid scenario, might have meant "Did the adviser shove the final report into their briefcase just as they left for the meeting, so that they could blag their way through it?"

" how confident are you that the T&C forms, records and documents you have, accurately reflect the efforts made to provide compliant advice, with adequate supervision during the pandemic

However, in the Covid environment, more planning is required and this means understanding whether clients would prefer to meet remotely, rather than face to face? If so, reports needs to reach them before such a meeting, so that even if a videoconference can't proceed for technical reasons, a telephone meeting still could, as they will have a physical copy of the report available.

There is also the issue of where the adviser will be based for a videoconference, as people can have blind spots about their environment. Even if they don't see that the edge of the ironing mountain is visible to the camera in the room that they have commandeered at home, their client's will. The use of corporate or other backgrounds can be very useful therefore to hide such faux pas, but some have the disconcerting effect of the background merging into the adviser's body when they move about, which some clients can find distracting.

These elements wouldn't have been an issue in a pre-Covid world, nor would the section on an observation form that asks whether the adviser maintained adequate eye contact. However, not only is this irrelevant in a telephone environment, it is difficult to assess on a videoconference depending on where the cameras at each end are placed. Having said that, an assessment as to whether an adviser asked appropriate questions, have increased validity, as there is much less opportunity for an assessment to be made of all of the elements of a client's body language if all that can be seen is their head and shoulders, so ensuring clarity is essential.

The gist of my concerns therefore is that it is all too easy with the pressures we have had in the past 18 months, to miss what under other circumstances would be obvious. Based upon the FCA maxim that "if it isn't documented it didn't happen", how confident are you that the T&C forms, records and documents you have, accurately reflect the efforts made to provide compliant advice, with adequate supervision during the pandemic and if not, what can you do to improve that?

# Compliance relating to ESG Investment

**By Tony Catt from TC Compliance Services**

I have recently embarked on research into ESG Investment and am due to complete my report on this by the end of October. It has introduced me to a whole new world of Responsible Investment and there are advisers who have been operating in this space for years and have built up considerable expertise. This has been great as they have been very helpful to a newbie dabbler like me.

The FCA brought in the Sustainable Finance Directive earlier this year. This is making it mandatory for fund managers and institutions to be very clear about how their products comply with EU rules and MIFID in transparency and clarity regarding their investment culture. Currently, this only refers to those institutions, but the expectation is that soon advisers will be drawn into this regime and need to be able to prove that they have offered clients sustainable finance products.

Personally, I think that Sustainable Finance is very easy for advisers to introduce to clients as the issues are so topical and increasingly in the news. Indeed, people would almost have to be avoiding any news media to be unaware. Certainly, I think that this is a far easier conversation than attitude to risk. It is dealing with issues that directly affect people on a daily basis without needing to resort to abstract ideas.

Talking about it is the easy, bit, but advising clients about products and funds could become quite daunting for advisers.

Firstly, there is the fact finding relating to responsible investments. I have seen several different fact finds which collect this information by way of tick-box questionnaires. A whole set of issues relating to positive and negative criteria. This is useful for filtering, but it has its drawbacks. If someone has ticked that all of the criteria are important. Then the choice of funds available can be quite limited, if there are any funds left at all that are totally suitable to match the client's choices.

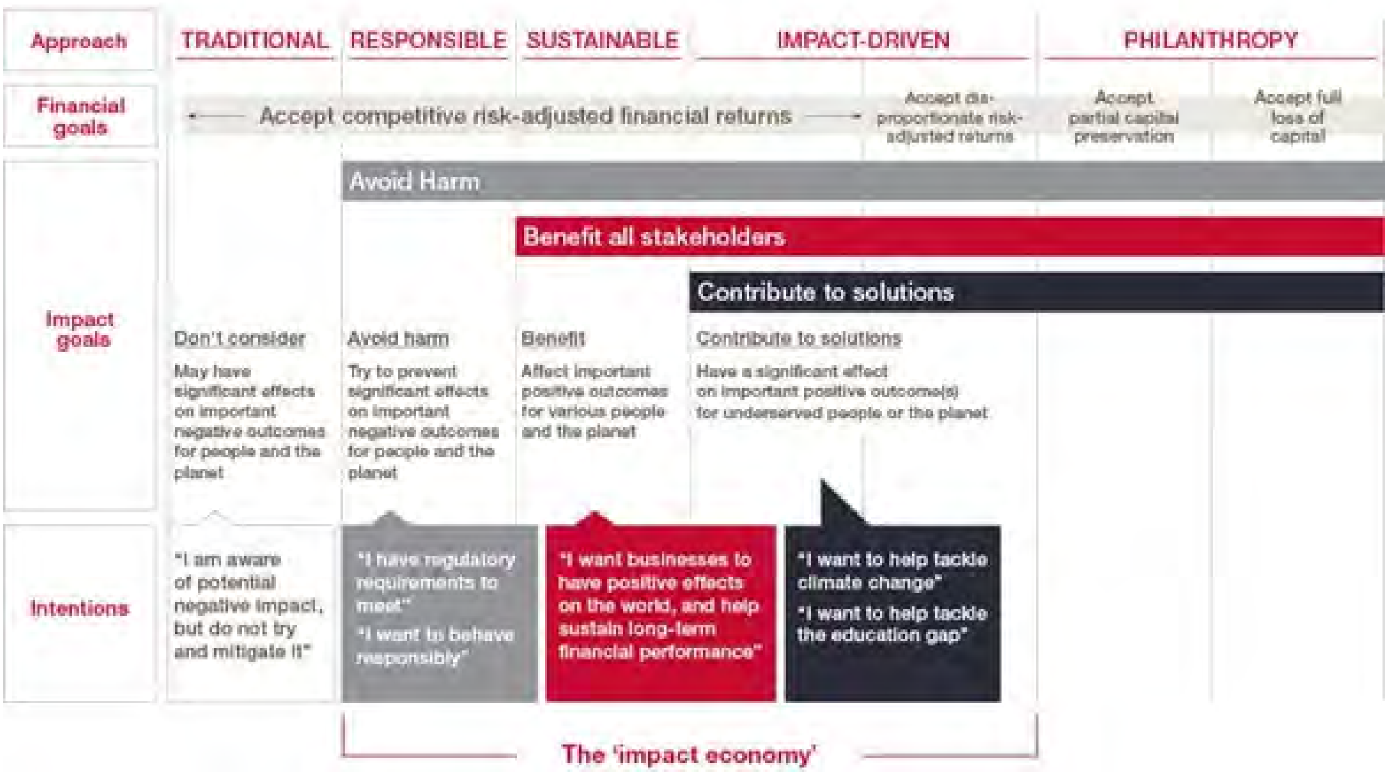
The advisers need to be very careful to manage the client's expectations and to record the choices made and advised.

The choice of fund manager and fund are going to be very important. To truly work for the client having made a menu of demands, the chances are that the investment will need to be bespoke rather than a managed portfolio. Due to the costs of this, truly Responsible Investment may not be economical for the client's if the investment funds are not high enough value.

Compromise may be required in order to meet the client's demands. Possibly rather than ruling out certain classes of investment e.g. Pharmaceutical companies, the fund managers may need to use a "best of breed" approach to enable their funds to include those types of company. In the case of energy companies, the choice may well be based on how far a company is transitioning from traditional fossil-based fuels to renewable energy.

These judgement calls by the fund managers can be quite subjective as empirical data may not be available to prove investee company claims about their green credentials.
If you consider the application of the ESG Investment spectrum, it may well be this that will become more important for advisers to consider than attitude to investment risk

> "Talking about it is the easy, bit, but advising clients about products and funds could become quite daunting for advisers.




Looking at this, most retail clients are unable to consider the philanthropy end of the spectrum as they are likely to be investing for financial gain.
As we go forward, investment is likely to gradually switch away from the traditional end of the spectrum as very few clients will say that their goal is heel for leather pursuit of profit and growth with no consideration of the planet and their fellow human beings.
So, I believe that fund managers will need to be quite clear where their investment strategy and culture sits within this spectrum. Having discussed this with several fund managers, they are likely to have fund offerings that straddle all of the investment strategies.
Like SM&CR, firms are being encouraged to develop a culture of good behaviour, fund managers are being encouraged to make Responsible Investment an integral part of their culture, rather than being a "nice to have" added extra.
There is the suspicion that fund managers who have introduced an ESG based investment fund to be part of the current investment fashion may be guilty of "greenwashing". This is producing a fund that claims to have ESG credentials based on a lot of "best of breed" choices and early-stage transitional companies rather than embracing a responsible investment culture.
All of this requires due diligence to be carried out by advisers. Both at the outset, when making the investment and ongoing to ensure that the investments maintain their "responsible" status. Advisers will be almost entirely reliant on fund managers in this respect as most advisers are unlikely to have the resources to devote to the level of due diligence that would be required to do the job properly.
Sustainable finance is the way investment advice will be delivered in the future. As the world is trying to move towards zero carbon, minimising global warming and generally keeping mankind alive, anybody not embracing this culture will be left behind like the dinosaurs.
Therefore, any thoughts about sustainable finance-based funds offering limited returns should be dismissed. It will be the traditional funds that will fall behind as more investments are moved to ESG based funds. Companies that are not transitioning quickly enough, may find their perceived value diminishing quite dramatically in the future.
I think that this is the direction of travel

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How can regulated financial firms measure culture? In this session review, Elephants Don't Forget and Worksmart examine some of the key learning outcomes from their recent Culture Measurement webinar and look at why a continual assessment methodology is crucial to generating meaningful positive indicators of culture change.

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## worksmart

**SM&CR Virtual Briefing – Tuesday 19th October 9.30am – 11.00am**

The FCA has made it clear that the Senior Manager and Certification Regime should be used as a cultural framework within a firm, helping to create a culture of accountability rather than 'tickbox' compliance. If the effectiveness of your regime has not been tested, how will you assure yourself as to whether what you have implemented is "Fit for Purpose?"

Join the Worksmart team, and special guest, Marian Bloodworth, employment partner in the FS Employment Team at Deloitte Legal, for another lively discussion and update on the key issues and considerations on this topic **Click Here**

## 2be Development Consultancy

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The deadline for FCA solo regulated firms to have completed their first fit and proper assessments of people performing certification functions has passed. Now seems an ideal time to undertake a review of your schemes (which you should have!) to make sure they are fit for purpose. Whether you would be interested in a review of your T&C scheme, certification regime scheme or both please get in touch. Please email info@2bedevelopmentconsultancy.com Find out more about 2be Development Consultancy and our range of services