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T-C NEWS

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JULY 2023

Consumer Duty: culture, people and data

By Adrian Harvey, CEO from Elephants Don't Forget

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T-CNEWS

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Welcome to the July edition of T-CNews. With just a few weeks to go before the Consumer Duty deadline it will come as no great surprise that the key focus of many articles this quarter is this topic. We are also supported by a great range of other articles designed to keep on top of current developments and industry thinking. Enjoy. Jeff Abbott

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Keeping the faith

By Jane Pitt from RedTree Training

After having a former English teacher as my Line Manager many years ago, I developed a pet peeve of people using words without having really considered the meaning. There are two small nouns that I consider to be frequently used erroneously - TRUST and FAITH. Trust is defined as a 'firm belief in someone or something' whereas faith is defined as 'having absolute trust in someone or something'. As the words are both nouns or descriptive words that represent something or someone, to use them, we should be able to provide something tangible that allows someone to trust, or have faith in us. I recently completed a project where the engaging stakeholders trusted me to produce something that was completely new and unfamiliar to them.

As I reflected on the successful delivery, I thought about the key things I did that I believe helped them to make that leap of faith and to trust me to deliver.

Articulate your proposal

In one of my previous articles, I talked about the way in which I create a 'master pack' of slides that I use to create multiple presentations as a project develops. I still do this as I believe the way you depict your plan has a big impact on how people think about it. It is obvious that you'll need to be able to describe the who, what, when, where, how and why, but *how* you do this is also critical.

If you want people to have faith that you can create and deliver something that is new and exciting, then your proposal should be too. I demonstrated the programme timeline as a colourful path divided into the different steps that became affectionately known by colleagues as 'the snake'. When anyone referred to 'the snake', everyone knew what was being discussed and more importantly, many could recall and visualise the simple diagram which helped them to gain a good understanding of the programme. In turn this led to them sharing it with others with confidence.

I also mocked-up some scenes I planned to use in an animation, which included some of the proposed characters, so that they could visualise how the animations would be used as part of the learning experience. In case you are thinking this was extra work, you'd be wrong. It allowed me to test my idea. Could I actually build the required Coffee Shop scenes that we needed? Would I be able to make the characters demonstrate the behaviours we needed to share, using the functionality of the software? Would it provide the learning experience we were looking for?

It also meant that when I shared my proposal, I was able to share the scene mock-ups so that my stakeholders had something tangible to base their trust in my abilities. I also added in other things that my stakeholders could relate to such as referencing a historic familiar game show format as a means of explaining how active learning worked in practice.

Take your stakeholders on the journey

Any good project manager will tell you how critical this is, but it is often limited to the stakeholders who have accountability or those to which you have some form of responsibility to. We book in regular check-ins with these stakeholders but sadly, we can forget the importance of bringing our peers on the journey too.

For the project to be a success, the Training Delivery team were to be asked to step outside their familiar delivery style. It was essential that they felt involved, that they had a voice in the design process, and that the way the materials were written meant that they could use them to deliver with ease. I asked them how they needed the materials to be written – what did they need instruction on? How did they like their *Facilitator's Guide* set out? How best could we reference the props in the session to make it easy for them to find the right ones? Again, simple activities that I viewed as a test of the proposal rather than additional work. It gave me a chance to excite and share with them what they had been chosen to deliver as it took shape. It was also an opportunity to see if I understood exactly what the delivery team needed, then when the time came for the *train-the-trainer* event, they would have what they needed which, should negate the need for any costly re-writes because the intended messages weren't clear enough.

Reflect, Review, Refocus…

It is natural, or if it isn't it should be, to suffer bouts of self-doubt as part of the creative process but again, rather than being something negative, I embraced this as part of the journey as I always do. I use these episodes to **reflect** on my original scope or plan, **review** what I have done so far against this and then **refocus** my efforts.

In the midst of the design process, it is easy to veer off course so it is good to use these moments to make sure that you look back at your objectives – check that the learning you have designed meets them. Is it what you said you would create in the proposal the client signed up to? If the scope had to change, do they know what has changed and why, so that there are no nasty surprises on the day?

I also shared my content with any peer who showed an interest in reading it. Apart from keeping them involved, it also gave them the opportunity to give feedback. I am very aware of how close you get to the materials when you write them and how hard it is to remain neutral when hearing others' opinions, but sometimes, someone just may offer you an absolute nugget of idea that you hadn't considered. And hopefully, this article may have just been able to do that for you too.

Consumer Duty: culture, people and data

By Adrian Harvey, CEO from Elephants Don't Forget

Over the last 12 months, Elephants Don't Forget have run a popular Consumer Duty webinar series that has been attended by 1000s of financial services professionals.

We have been fortunate to collaborate with several industry leaders and specialist consultants within the fields of Training & Competence (T&C), compliance and risk, and front-line operations; collecting their thoughts and observations regarding challenges and approaches to Consumer Duty that they have seen during this period.

We have also accumulated candid poll feedback from your industry peers. Our Consumer Duty series – available here – has explored a range of key topics, including: practicalities and challenges of implementation, data sources and MI aggregation, cultural progression initiatives, front-line training support programmes, and ways to successfully embed and evidence best-in-class compliance with Consumer Duty.[1]

In this article, it is my intention to share a critical review of some of our key findings, with the objective of supporting firms to get a sense check of where they currently are. I will also offer some opinions that may challenge your current perceptions on areas associated with culture, people and data; three critical elements that – I think we can all agree – are foundational components of achieving successful compliance with Consumer Duty, and – more pertinently – strengthening trust in the sector and improving outcomes for consumers.

Culture eats strategy for breakfast…

When I think about Consumer Duty, two infamous maxims – credited to management guru: Peter Drucker – often spring to mind: *"Culture eats strategy for breakfast"* and *"What gets measured, gets managed."*

I think we can all recognise the sentiment underpinning these phrases and – in the context of Consumer Duty – we can say that a genuine customer-centric strategy is very likely doomed to failure in the long term unless there is a comparable "people" culture underpinning it. Likewise, failing to (adequately) measure what (genuinely) matters – more often than not – simply serves to drive more systemic challenges and continual firefighting of underlying issues that are "inputs" of culture.

Within organisations – often in the absence of prescriptive guidelines for "everything" – we know that staff rely on their organisational culture – and individual competence – to guide, influence and inform their responses to day-to-day situations, expected conduct and behaviours.

The FCA are well-versed in this mindset too; hence why the theme of culture has continually run in parallel – and constantly been reiterated in subsequent speeches over the years – with high-level regulatory principles like Treating Customers Fairly (TCF).

Yes, culture has always been seen as difficult to define and change. The FCA acknowledge this. There is no singular, definitive or prescriptive view of what a 'good culture' is. However, there are fundamental principles and "inputs" that the FCA believes shapes appropriate culture.

Cultural inputs: getting back what you put in…
I think back to a speech made in 2017 by the (then) Chief Executive of the FCA – Andrew Bailey – *'Culture in financial institutions: it's everywhere and nowhere'*, in which Bailey outlined the regulator's view on cultural expectations.[2]
Bailey expressed that: *'culture emerges from inputs'*, that *'firms are responsible to ensure that their desired culture is consistent with appropriate conduct outcomes'*, and that firms must *'identify the drivers of behaviour within the firm and control the risks that these drivers create'*.
For the FCA's part, their judgement as to whether inputs were producing appropriate culture and outcomes within firms was by seeking answers to whether practices around recruitment, performance management, reward and capability were driving positive behaviours and creating a culture that works in the long-term interests of the firm, its customers and market integrity.
Any of this sound familiar? Fast-forward to 2023 and the regulator is still banging the cultural drum. Now, we have the four key drivers of culture, and the FCA has provided their definition of it as: *'the habitual behaviours and mindsets that characterise an organisation'*.[3] As an aside, I think 'habitual' is a key word to remember in the context of Consumer Duty: *consistent*, *continual*, *persistent* – create the climate you need to get the culture you want and continually look at your inputs and outputs, is the sentiment I take from this.
So – by now, as we approach the July 31 implementation date of Consumer Duty – you would reasonably expect that firms get the regulator's point with regards to the importance of culture underpinning this change.
Principally being that: organisational culture that supports good conduct, behaviours, capability and outcomes is not a new concept. And, ultimately, a healthy culture is one in which firms strive to go beyond a mindset of rule-based compliance towards a shared responsibility for ensuring the right outcomes for consumers within their day-to-day activities.
Consumer Duty: will it evolve culture?
We know that Consumer Duty has been positioned as the corrective cornerstone of the FCA's three-year strategy to evolve how we see – through further enhanced data and evidence requirements – genuine customer-centric cultures in practice; and this is fundamentally what the regulator is looking to achieve. However, the big question is: will all firms correctly interpret the requirement and put enough emphasis on culture and people as a foundation for successful compliance?
If the regulator's findings from their review of firms' implementation plans to embed Consumer Duty is anything to go by, then some firms still have a way to go. And – critically – let's not forget that this evaluation consisted of reviewing the plans of larger 'fixed' firms, which have a dedicated supervision team at the FCA, and where the regulator believes they are substantially in scope of Consumer Duty. Areas of culture and people improvement found that plans: *'lacked detail in the area of culture'*; *'lacked limited information about how Consumer Duty will be embedded in their culture and people approach'*; *'provided little explanation of tangible action the firm needs to take'*, and *'gave no evidence of any consideration of how far their firm's current purpose, culture and values do, or do not, align with Consumer Duty'*.[4]
Yes, firms must set the right "tone from the top" but the regulator is also stressing that firms need to think more holistically – more qualitatively – around how customer-centric ideologies are authentically embedded at all levels of the organisation; there needs to be an "echo from the bottom", if you will. There is little wiggle room for complacency too, with the regulator highlighting that Consumer Duty *'will be a significant shift in what [they] expect of firms. It means making lasting changes to culture and behaviour to consistently deliver good outcomes'*.[5]
Consumer Duty: exploring current challenges
In September 2022, we asked a cross-section of compliance and risk professionals what their greatest challenge would be for implementing Consumer Duty. There were two joint top answers. No surprise – given the timing of the poll – 44% said: 'conducting a gap analysis between current processes and the new rules'. The other top answer: 'developing a culture that takes a joined-up approach to customer centricity and propositions'.[6]
Culture is fundamentally about people. So, it is an inescapable reality that a firm's people – especially the front-line; the staff charged with delivering Consumer Duty in practical terms and owning the risk on a day-to-day basis when interacting with consumers – will need to be evidently competent and capable in their roles to deliver against the requirements – and culture plays an essential role in this.
Circling back to Bailey's earlier point on "inputs", attaining and maintaining a customer-centric culture therefore means having the continual inputs that permeate the Cross-Cutting Rules and the Four Outcomes to create the best experiences for customers. So, in the context of T&C, I hope we can all agree that "a little bit more e-learning for staff" might not suffice.
T&C consultants that have joined us for our webinar series have told us they have seen a real mixed approach to Consumer Duty T&C. Some firms have done their mapping exercises and are quite happy and confident in terms of the knowledge and skills that are required. Some are looking to introduce T&C principles across all customer-facing and back-office teams. Others have adopted less robust approaches. For some firms, it is a line on the implementation plan; a "once-and-done" exercise they have to do because it is a requirement. Some have simply cut and pasted FCA guidance into their T&C arrangements or tweaked 'fair outcome' to 'good outcome' on a final check document. Some are planning on doing Conduct Rules training – eventually.
When I speak candidly with firms about their "people" challenges with regards to Consumer Duty, I get the impression that the "people-aspect" seems to have been deprioritised in some cases, primarily due to the fact that firms have had pressing priorities they needed to complete. Now – as we near Consumer Duty biting – we see that firms are increasingly becoming concerned about their people, their competence and capability. They recognise that they will need 'buy in', and they also

> The regulatory landscape has never been so complex, and the pressure on staff to learn and retain what is trained – and to individually translate this into in-role competence – is seemingly endless

recognise they may well need new sources of granular and actionable people MI that evidences an appropriate incorporation of Consumer Duty in their people and training approach.

To gauge sentiment on data confidence, in March 2023, 77% of compliance and risk professionals polled said they are only 'somewhat', 'slightly', or 'not confident at all' that they have the appropriate data/MI available to meet Consumer Duty obligations.[7]

Then, in May 2023, we asked two fairly blunt questions to a cross-section of compliance, risk, oversight, T&C, and operations professionals with regards to the competence of their people and their ability to evidence this requirement to the FCA. 67% said that they were only 'somewhat', 'slightly', or 'not confident at all' that their people have the required competence to deliver against Consumer Duty. 84% of them said they were only 'somewhat', 'slightly', or 'not confident at all' that they could evidence to the FCA that their people fully understand their Consumer Duty obligations.[8]

A dynamic and continual approach

Authentic compliance with Consumer Duty will continually need to evolve with changing customer needs and regulatory expectations. We see this with the FCA's continual focus on vulnerability and the cost-of-living crisis, for example. As a result, firms will need to have a dynamic approach to compliance for which embedding the expectations of Consumer Duty into the firm's culture and people will be paramount.

The regulator has provided helpful pointers on training pitfalls too. For example, in 2022, the FCA said they had found *'limited evidence of MI from firms that demonstrates whether vulnerability training for staff is resulting in improved outcomes for customers in vulnerable circumstances'* and that firms should *'think about how they can monitor the effectiveness of training as part of their strategies on vulnerability'*.[9] It is also worth remembering that – over the last three years – FCA Final Notice action regularly identified deficiencies in firms' training programmes, highlighting a reliance on "one-size-fits-all" approaches, a culture in which employees did not complete mandatory training, infrequency of training, and the provision of limited and generic training which was not sufficiently targeted at employees' roles to enable them to understand their responsibilities.

The underlying problem is that the majority of firms in the sector have followed largely the same employee T&C regime. On joining a firm, employees receive training across a curriculum of content, often through a variety of media. Then annual refresher training is conducted, sometimes en masse, and sometimes the "pain" is spread across the year. The refresher training is followed by a short-term memory test, where employees are frequently allowed as many goes as necessary to "pass". The employer can therefore tick a box that training has occurred, and competence is (apparently) maintained.

All this method achieves is to record an event occurring. It has little – if anything – to do with an accurate reflection of employee competence. This approach is also widely resented by employees and fuels compliance fatigue – the exact opposite of what the regulator is hoping to achieve with Consumer Duty, where the very culture of the firm is embedded in customer centricity and good customer outcomes.

Is it time to review your approach?

The regulatory landscape has never been so complex, and the pressure on staff to learn and retain what is trained – and to individually translate this into in-role competence – is seemingly endless.

To mitigate the risk of non-compliance, many firms are now seeking a more modern, inclusive, and authentic approach to T&C; one that ensures their people genuinely understand their obligations and provides the firm with best-in-class data, MI and evidence of employee compliance. This is why over 80% of our customers come from regulated industries; with the majority of these authorised by the FCA and/or Prudential.

In interactions with firms, we can now see the focus on "people capability" gaining pace. Over one firm per week is now abandoning the default, tick-box, single-point-in-time refresher-training methodology in favour of our real-time approach to assessing, improving and evidencing best-in-class employee compliance.

So, if you would like to develop an authentic culture of compliance – and benefit from happier, genuinely capable, competent and compliant employees – get in touch to learn more. Thanks for reading.

1 https://info.elephantsdontforget.com/consumer-duty-hub
2 https://www.fca.org.uk/news/speeches/culture-financial-institutions-everywhere-nowhere
3 https://www.fca.org.uk/firms/culture-and-governance
4 https://www.fca.org.uk/publications/multi-firm-reviews/consumer-duty-implementation-plans
5 https://www.fca.org.uk/news/speeches/what-firms-and-customers-can-expect-consumer-duty-and-other-regulatory-reforms
6 Elephants Don't Forget, *'Consumer Duty – it's closer than you think'*, webinar poll, 14 September 2022. 124 professionals polled.
7 Elephants Don't Forget, *'How to approach Management Information (MI) for Consumer Duty'*, webinar poll, 29 March 2023. 433 professionals polled.
8 Elephants Don't Forget, *'How to successfully approach Training & Competency (T&C) under Consumer'*, webinar poll, 24 May 2023. 246 professionals polled.
9 https://www.fca.org.uk/firms/treating-vulnerable-consumers-fairly/ensuring-fair-treatment

Bank of England raise 'credit risk' concerns

Nick Baxter
Baxters Business Consultants

David Bailey, BoE Executive Director for UK Deposit Takers Supervision and responsible for the supervision of the UK's banks, building societies and credit unions, gave a speech at the recent Building Society Association annual conference. His two main themes are intertwined; managing the fast-evolving outlook for credit risk and supporting building society members in what is becoming a quickly changing and challenging economic climate.

While his message that day may have been aimed at the mutual lending sector, his warnings should resonate with lenders of all descriptions. Managing 'credit risk' and 'supporting existing borrowers' are two key issues for lenders at the moment.

In the month since his speech, we have seen a further deterioration of the UK economic environment. While I am sure many mortgage professionals won't need reminding:

- Inflation, which measures the pace of price rises, remains at 8.7% in May, the same as April
- Core inflation, which strips out energy, food, alcohol and tobacco, rose by 7.1%, its highest level since 1992 (31 years!)
- UK debt has reached a 60 year high
- UK debt is now higher than annual GDP for the first time since 1961
- Government borrowing costs (the yield on two-year gilts) have reached a 15-year high
- Some economics 'experts' are calling on the Bank of England to *"create a recession"* to bring inflation down!

As a result of the above, the Bank of England increased Bank Base Rate on 22 June by 0.50% to 5%, the 13th increase in 13th months. Yet another ratch on the affordability impact on new and existing borrowers.

What is the Government response? Chancellor Jeremy Hunt, recently told the Commons he will meet with lenders and ask, *"what help they can give to people struggling to pay more expensive mortgages and what flexibilities might be possible for families in arrears."*

Déjà vu! I can remember the then Prime Minister John Major calling lenders into No 10 in 1992 and the then Chancellor (Alistair Darling) and the then Housing Minister (Caroline Flint) doing the same, but in No 11, in 2008. It seems that the default position of Government, of every flavour, across many decades, is to call in the lenders.

Sure, the 1992 John Major lender summit resulted in the Council of Mortgage Lenders producing a document called *"Statement of Practice on Handling Arrears and Possessions"* which provided robust guidelines to all lenders. However, does Government really think that lenders aren't doing everything they can to help struggling borrowers? We live, today, in a more regulated world and regulators have given as much thought to existing borrowers as they have to 'origination harm' issues. In respect of struggling existing borrowers, lenders must already comply with:

- FCA 'Treating Customers Fairly' requirements
- FCA 'Mortgages: Conduct of Business' Sourcebook – *"MCOB 13 Arrears, payment shortfalls and repossessions: regulated mortgage contracts and home purchase plans"*
- FCA 'Consumer Credit Sourcebook' – *"CONC 7 Arrears, default and recovery (including repossessions)"*
- The Debt Respite Scheme (Breathing Space Moratorium and Mental Health Crisis Moratorium) (England and Wales) Regulations 2020
- The Ministry of Justice Pre-Action Protocol for Possession Claims based on Mortgage or Home Purchase Plan Arrears in Respect of Residential Property
- The Ministry of Justice 'Part 55 – possession claims' Civil Procedure Rules.

Adding to the above, the new FCA Consumer Duty requirements will apply an additional focus on the fair treatment of existing borrowers.

No lender would willingly repossess a property while there remains a realistic possibility of 'preserving' the borrower as a customer. Apart from the fact that lenders care about their customers, it is only by maintaining the existence of the loan account that a lender can cover its origination costs and make long-term profit from an account. Repossession terminates the lender's opportunity to make a profit from that account.

As I wrote in a mortgage trade magazine in April 2008, *"it is clear to me that of the many issues the Government and FSA* [now FCA, of course] *does have to issue warning shots about, established lenders treating customers in financial difficulty fairly is not one of them."*

Déjà vu, again!

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

Organised or disorganised?

By Andy Snook from Performance Evaluations

Don't we all love those of our colleagues who constantly find themselves in a position of disorganisation? We all have them. The one's that are always late for meetings, miss or misread emails, need to be chased for late reports or meeting notes, and always the last to update some spreadsheet or other. Surprisingly their workload itself isn't the problem. Usually, it's three other components of working life that create the disorganisation: Meetings, holidays, and emails.

From my perspective it doesn't have to be this way. When a person if organised, they also increase their efficiency, and when there is a lack of efficiency this may also have a knock-on effect to competence too. As Lance-Corporal Jones from Dad's Army used to say: "A tidy mind is a tidy behind". And he was right. Think about it.

If I'm preaching to the converted, then I apologise. I too have been guilty of all of these, and occasionally still am if I'm honest, but generally these are the guidelines that I work with.

Meetings. Try to avoid back-to-back meetings as inevitably some will overrun, potentially throwing your planned day into chaos. Limit the number of meetings you attend in a day to no more than half your working day, so you have time to manage your existing work. Deal with any actions arising from those meetings as soon as possible to get the work off your desk. When invited to any meeting, ask yourself if you need to be there. If you don't, decline the invite. The meeting organiser will come back to you to explain why you should attend. If the meeting organiser needs you there, they will tell you why. You are entitled to a break, so decline any meetings you have been invited to that are scheduled in the lunch period. If the other attendees of any meeting haven't arrived within five minutes of the start of the meeting, take yourself out of the meeting and reschedule. You should always check the other person's diary before sending out an invite, so your meeting isn't back-to-back in their diary, or overloads their diary, or is in the lunch break.

Holidays. These come in different guises; annual leave, yours or somebody else's, bank holidays, and celebrations. They shouldn't be used as an excuse to delay work, especially if somebody else is relying on that work. Nor should they be used as an excuse to delay one to one meetings or annual reviews etc. Plan your work around your holidays, not the other way around. For example, if a piece of work needs to be delivered right in the middle of your two-week leave, either deliver it if possible before you take that leave (assuming you're not waiting for somebody else to deliver their work to you) or arrange with the recipient for the earliest date for delivery when you return. The key word here is to "arrange", not to just deliver late. Likewise, if you're waiting for somebody lese to deliver work to you and you know they're going on leave, arrange for that work to be delivered before they go on leave, if possible. Try to bring forward one to one meetings or annual reviews, so they take place before you go on leave.

Emails. The curse of the inbox. Plan to have time in your diary to deal with all emails received. If you don't, they will stack up. Any that you can't deal with straight away should be acknowledged with a timescale when they will be dealt with. Put them into a "must do" folder and action as soon as possible. Delete any emails that have no benefit to you, such as general information, or those that you have been copied into where the sender thought you might want to know. Try to clear all received emails each day, except for those that cannot be actioned that day. If you have a busy inbox, try to at least clear the morning's receipts by the end of each day. There's nothing worse than having an inbox that always seems to have a couple of hundred emails (or more) every day. When sending an email, always ask if that person needs to receive that email to avoid adding to their inbox unnecessarily and wasting their time. If you need a response to an important email, check that the person you are sending it to is not on leave, or not in back-to-back meetings before sending. Or if you need an answer same day, explain why. If you need to write a contentious email or response, draft it, walk away for a few minutes, return and review. Almost certainly when you return you will make some changes before sending. If you work in an office, and the person you want to email is also in the office, walk round and talk to them. And most important, always plan time each day to deal with emails. If any of these, are you, hopefully this will give you some thoughts. If the same applies to a colleague you know, perhaps you can pass it on. It works for me, anyway

Unleashing the Power of Independent Business Reviews

By Michelle Hoskin from Standards International

In the complex and high-stakes realm of financial services, firms are constantly navigating through a sea of challenges and intricacies. From evolving market dynamics to stringent regulatory standards, and rising customer expectations, these firms need to stay on their toes. Amidst these multifaceted pressures, there exists a powerful yet often underutilised tool that can offer the clarity, direction, and enhancement businesses need – the independent business review.

An independent business review (or the Business excellence Review as we call it), is a comprehensive audit or analysis conducted by an external party. It offers a fresh, unbiased, and objective assessment of the firm's operations and overall health. This outside perspective can be incredibly valuable as it sees beyond the confines of the firm, peering into areas that internal stakeholders might unintentionally overlook due to familiarity, entrenched practices, or corporate blind spots.

A well-executed independent review acts as a mirror reflecting the firm's reality, emphasising its strengths, and casting a light on areas that require attention and improvement. It slices through layers of internal assumptions and offers insights grounded in empirical data and a wider industry perspective.

"We have such a clear focus, we have clarity on where we are going, not just this year or next year, but for the next ten or fifteen years." Eoin McGee, Prosperous Financial

Unleashing the opportunities

A gap analysis, brings to the table numerous benefits that can be a game-changer for your firm. They provide a deep dive into a company's operations, strategies, and processes, helping pinpoint inefficiencies, gaps, inconsistencies, or unexplored opportunities. They unlock various facets such as workflow management, time and diary management, team skills, and leadership effectiveness.

In doing so, these reviews can help identify potential bottlenecks that may be hindering productivity, growth, and innovation.

Gaining that clarity – priceless!

With a clear understanding of where the company stands, businesses can map out a path to reach their desired goals whether that's sustainability, scalability, or saleability. These reviews foster clarity around the company's purpose, and help create alignment among team members, guiding them towards shared objectives. They facilitate the formulation of robust, realistic, and results-oriented plans to achieve these goals.

In a world where consumers value transparency, an review of your business serves as a testament to a firm's commitment to openness. It demonstrates a proactive stance towards accountability, a desire for continuous improvement, and a dedication to meeting the highest industry and professional standards.

Such a commitment can significantly enhance a firm's reputation, cultivating trust and confidence among stakeholders. A positive review can boost client confidence and employee morale while also providing invaluable insights to the firm.

How often should I have a review?

Just like regular health check-ups are vital for maintaining physical health, independent reviews should be conducted frequently (or when you have business changes ie. New people, new regulatory policies, new systems etc) to ensure the sustained health and success of a financial firm.

However, a general rule of thumb would be to conduct these reviews annually. An annual independent business review allows firms to keep their finger on the pulse, taking stock of their performance and progress towards strategic goals. It helps detect any issues or inefficiencies early, enabling timely interventions and course corrections.

The value in doing a review…

In this industry and profession, financial and reputational risks run high, the value of independent business reviews is amplified. These reviews equip firms to keep up with changing regulatory demands, adapt to market trends, manage risks effectively, and maintain their competitive edge.

They provide insights that firms can leverage to design effective risk management strategies, ensure compliance with regulations, and make informed decisions that drive growth and profitability.

An 8 Principles Review: A Unique Approach to Business Excellence

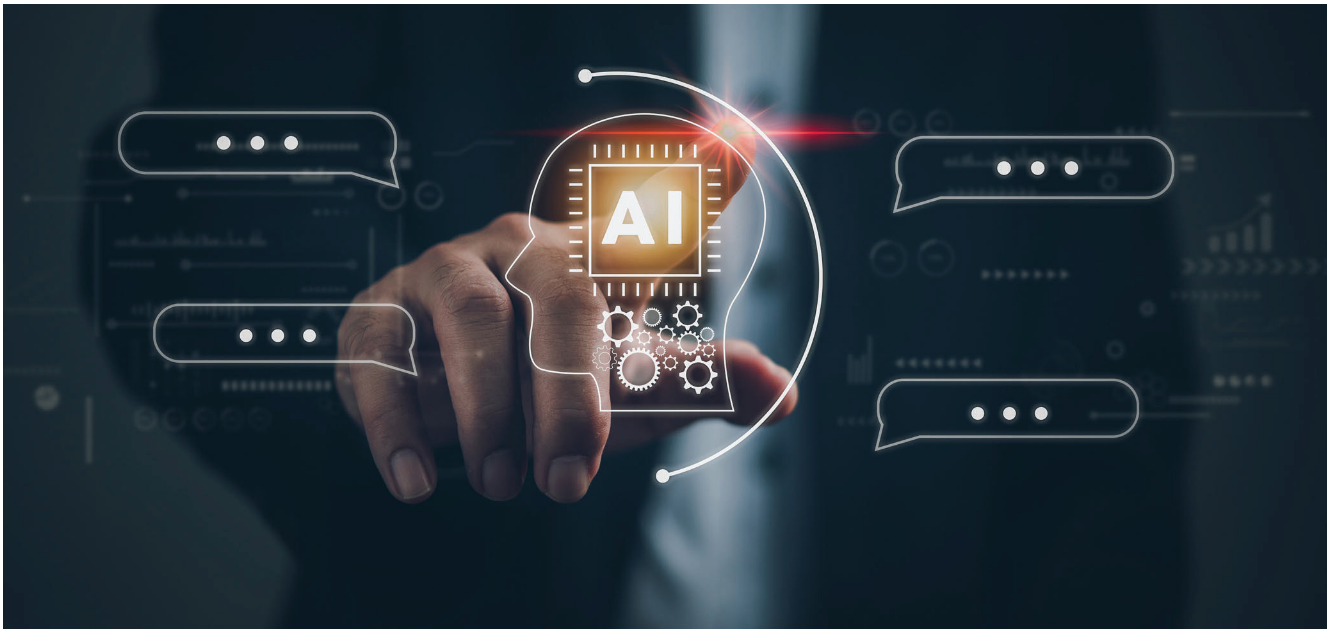
In the quest to help financial firms harness the full potential of independent business reviews, we at Standards International have crafted a unique service that has helped many firms excel!

This comprehensive and trusted review provides a detailed exploration of a firm's operations, identifying the strengths to build upon and the areas that require enhancement.

Ready to embrace the power of independent business reviews and propel your firm on the path to excellence? Discover the difference this proven review will make for your business today. Remember, the journey to business excellence begins with understanding where you stand and knowing where you want to go. Let us help you make this journey a successful one.

AI in Financial Services – educate and evaluate rather than fear and forbid

By Joseph Twigg, CEO from Aveni



We're witnessing history

The release of ChatGPT has brought a technological tectonic shift, bringing AI (and even terms like large language models (LLMs) and generative AI) into the consciousness of pretty much everyone on the planet. ChatGPT is the fastest growing application in history reaching 100 million users in two months and almost 70 million news articles talking about ChatGPT and other large language models.

We're at the start of a new era. LLMs are going to fundamentally change the way people work over the next four or five years, with wealth management and financial advice heavily impacted.

Large language models – what are they?

ChatGPT is a change in the paradigm of natural language processing and an example of a LLM. These are models that learn the underlying distribution or combination of words in a particular language – be it the spoken word or even programming languages. These models are amazing at predicting the proceeding most probable words given a certain context. They can do that for really long paragraphs and long pieces of text. They are trained on data using text that is available on the internet.

LLMs are black box technology, reflecting the fact that it's not always clear why they produce the type of response they produce. However, this is not a reason to panic – there is a lot of research about how to understand the reason for these responses and techniques such as fact checking the models. We can also use traceability techniques to make sure the model is producing an accurate and correct summary, for example.

A brief history in AI time

In 2018 AI took a big shift with the appearance of an architecture called the Transformer. It was a type of probabilistic model designed to produce and generate content. This model was quite powerful, but nothing compared to GPT 2 and then GPT3. We then moved to instruct GPT which not only changed the size but the way we trained the models. Trained on instructions, not how to give a general answer, and this was augmented with a new technique called Reinforce. This meant learning from human feedback and being more aligned with the type of output a human would expect. This helps to control outcomes and ensure they are not biased and toxic.

Reinforce is what the ChatGPT model is based on and that is why when you ask a question that can be considered toxic or inadequate the model politely refuses to give you an answer. What happens with this technique is that the model is also more aligned with the type of output that a human would expect. ChatGPT is almost '*chatty*' keeping information that has been discussed previously and setting the right tone for human interaction.

The next iteration is GPT4, but we don't have a lot of details about this because Open AI hasn't revealed how it was trained, or its size or how much information it can handle. We do know it can handle images as well as text so it's another big jump and potentially trillions of parameters.

> “ LLMs are going to fundamentally change the way people work over the next four or five years, with wealth management and financial advice heavily impacted

Where to next?

The phenomenon of emergence – something we can see in nature and in physics in different scenarios and the ability to show completely different behaviours and capacities. This happens with LLMs when they reach a certain size, they can suddenly start to perform tasks that they were not able to before. This is what we’ve seen with the GPT models moving from millions to billions, potentially trillions of parameters. The model is starting to show capabilities that we haven't seen before.

So what for AI and financial advice?

We can use LLMs with a combination of tools, and this is really beneficial in financial services. However, because LLMs have been trained on data from a certain period of time it's vital to keep the information current and accessible on the internet. Domain expertise is particularly important in a highly regulated industry like financial services and the point- in-time knowledge base is fundamental. However, risk management is also essential and even with the appropriate guard rails in place, it is imperative that the research and development to manage these risks is really emphasised and undertaken.

Don’t panic, AI is not taking over financial services…yet

AI is (probably) not going to take your job anytime soon. AI-derived advice from the black box is a regulatory minefield and we also don’t know if it is what consumers want. What we all need to be aware of is of humans using AI effectively as that will bring about a productivity revolution. It is coming and will fundamentally change the economics and the approach of financial advice. So, if you're an adviser you will be able to see 2-3 x more clients whilst delivering an equivalent or better service. That's something that really can't be ignored.

Humans are most definitely needed

This productivity revolution all revolves around what we call a ‘human plus’ activity. In terms of AI adoption to date, it has been quite niche. Larger companies have fraud, cyber or AI type analytics in place. For example, AI looking at customer experience or automating compliance monitoring. But where we are going now is more general, and AI assistants will be part of our everyday life, significantly reducing admin burden. Humans will become the validators and reviewers of the advice that is being driven by machine outputs. This will ultimately allow the main focus for advisers and managers to be on relationship and customer support.

Aveni Assist – how can we help you?

Aveni has developed Aveni Assist powered by GPT, and combined it with a range of our own internal models that have been developed specifically for financial advice and wealth management. We've created gold standard prompt engineering designed to drive excellent customer service and created important information retrieval mechanisms and traceability algorithms. This enables you to trace back from any piece of data that's machine generated to the source of that data. It provides the control but also the comfort and trust that the output is accurate. This can be deployed face-to -face if you record meetings and over phones, but it is optimised in the video conferencing setting. The meeting is captured, outputs processed in our natural language pipeline and within a minute or two the report is available. It provides an admin workflow; instant compliance and vulnerability checks; generates emails; updates CRM systems and generates highly detailed suitability reports; and all easily searchable with briefings notes incorporated.

This will take a process that is typically three hours down to 15 to 30 minutes. We’re very excited to bring this to market and believe it will revolutionise the administrative and risk management burden.

Whatever starts from its centre, grows – do you provide the right conditions for your culture to thrive?

Emma Lowndes,
Searchlight Insurance Training, part of The UKGI Group

> I believe many firms are already working extremely hard to ensure their customers receive excellent service, but what I feel is lacking is the full understanding of, 'why am I doing this?'

By the time you are reading this, Consumer Duty for new and existing products and services that are open to sale will be nearly upon us or already in force. By now, the FCA expects all firms to have made the necessary changes to policies, processes, governance and culture to ensure that you are acting to deliver good outcomes for your retail customers.

To help you start thinking about the culture in your organisation as part of Consumer Duty, I like to think about something that I learned in school: the, '**what, when, where, why and how'**. I remember being shown the rugby posts (resembling the letter H), with five bare bottoms perched on it as a way to remember these words (maybe my teacher had a funny sense of humour). At school, this English grammar technique was designed to help children create questions when writing stories. But for me now, I believe this little primary school technique should be used to help define your culture in a way that will help satisfy the regulator when it comes to Consumer Duty.

Now I'm not saying that making changes to your policies, processes and governance hasn't been painful, but this is where your Consumer Duty journey began. From October 2022, you will have decided by way of your implementation plan **what** actions needed to be done. You understood **how** you were going to fulfil those actions, **when** those actions were required, and **where** within your businesses those actions were taking place. But hand on heart did you truly understand **why** you were having to take on this gargantuan piece of work?

Truly understanding the **why** is always the missing 'bottom' on everyone's rugby posts.

Have you ever asked a member of staff, '**Why** do you read that section of your script?', '**Why** do you complete your after-sale notes?', or '**Why** do you have to disclose our administration fee?'. I'm sure the majority will reply, 'because I'm told to' or 'because that's what I have to do as part of my job because we are regulated'. You couldn't say to those members of staff that they were wrong, but we all know it's far more than that (and not just because the regulator told us to!).

Consider your Team Leaders and Managers. If you were to ask them, '**What** do you do in your role?', would their responses be, 'I ensure my staff sell the required insurance products correctly', 'I ensure my staff follow all operational processes', or 'I manage the day-to-day activity of my team'. Take it one step further and ask your Team Leaders and Managers, '**How** do you perform your role?', and I'm sure they all would answer with very professional responses.

Now consider what responses would you receive when asked, '**Why** do you do your role?'

Apply this to your Senior Managers and ask all the **what**, **when**, **how** and **where** questions, and once again they will all come back with extremely complex and thorough responses, each response with as much clout as the other, but what will the reactions be to the '**why'**?

How many when asked the '**why'**, respond with, 'everything I do is to ensure our customers receive the best service'? I imagine only the few.

So how is this going to change?

I believe many firms are already working extremely hard to ensure their customers receive excellent service, but what I feel is lacking is the full understanding of, '**why** am I doing this?'

This is where education comes in. Culture (good and bad) is easily formed because from its centre it can grow. Education creates that centre of all organisations and from that your culture can easily grow. Education comes in many forms: training and competence, skills-based training, coaching, mentoring and on a regular basis by using active listening skills and understanding the meaning of what is being said. If all of these are all pulled together, it provides everyone with the knowledge, skills and empowerment to ensure your culture thrives.

Starting from top to bottom.

As Senior Managers sitting at the top of the tree looking down, you have such integral roles to play in the encouragement of education across your organisations and this includes your own. I'm certainly not saying you amazing people who are running these organisations are not educated. In fact, working in this complexly regulated sector, I believe you are probably some of the most educated. However, education isn't just about qualifications and business degrees. Education is about having the knowledge, ability and skills to understand and learn from every aspect of your business.

When SM&CR regulation came into force, it wasn't to just reinvent the wheel, what it created was the opportunity for Senior Managers to really focus on their actual responsibilities within their firms. This in turn created fantastic educational opportunities for Senior Managers, (and I'm not talking about learning about SM&CR), as it allowed them to delve headfirst into their areas of responsibility and work within them to make them the best they can be for their customers.

SM&CR also provided Senior Managers with a second educational opportunity. It has allowed them to work more closely with their teams to ensure everyone within those teams have the knowledge and skills needed to service their clients to the best of their ability. By working with your teams, you can inspire the next generation of leaders. Don't forget leaders do not have to be managers, they can be the staff who are going to grow your culture and lead the

way to ensuring good outcomes are achieved for your customers.

As we move down the organisational chart, let's look at Team Leaders and Managers sitting at the coalface. How are they seeking educational opportunities for their teams and themselves to ignite and embed the culture your business is striving for? There are so many educational opportunities that can be identified by your Team Leaders and Managers directly from working with their team instead of over them. As Team Leaders and Managers, they need to inspire their teams, in the same way as Senior Managers need to inspire them.

Would your Team Leaders and Managers be open and encourage their staff to give constructive criticism of internal processes either following customer feedback or even their own thoughts and feelings? Even if the feedback was heard, would your Team Leaders and Managers follow through? Do your Team Leaders and Managers understand the customer complaints that are received into their teams? If so, do they dig right down into the cause and work with their staff to fully understand how the complaints arose and work together to put them right?

Remember, customer complaints (although one of the toughest parts of anyone's role) gives you the opportunity to make the most positive impact on a customer's interaction with you. During one to one, coaching and monitoring sessions, do your Team Leaders and Managers really understand their .staff members' knowledge and skills gaps, or do they just ask, 'are there any courses you want to go on?'. On the flipside during a one to one, if a member of staff failed their call monitoring would the Training Department be called in without fully understanding why the staff member's performance wasn't at the acceptable level? These are all opportunities that your Team Leaders and Managers need to take, and by seizing them with both hands, they will instil the culture you are wanting to grow.

Finally, let's think about your business as if it was part of a school biology lesson. I recently read within a scientific journal: cell cultures fail for one of two reasons, the culture conditions or the actual cells themselves, and although I'm certainly not comparing your staff to organisms in a petri dish, your culture can only fail if you haven't got your conditions right or your staff haven't been educated enough to believe in it and grow. Think about which staff are the most important cell of all the cells within the culture growth. These are cells who need the very best conditions to grow. Make sure that you give them the best opportunity to do so. Help them to understand the **why**

Consumer Duty and sustainable investment

By Tony Catt from TC Compliance Services

As advisers are manufacturers of their advice process, this has given us an opportunity to review the advice process and also the review process. As ever, the main thing is to keep evidence that the review of processes has taken place. The expectation is that with Consumer Duty needing to be embedded by 31st July, there will need to be a high-profile application of the rule and penalty imposed by the FCA to confirm the seriousness or otherwise of the FCA towards Consumer Duty.

On of the mandatory aspects of the advice process is the consideration of clients' attitude to Sustainable Investment. This is already incorporated into many factfind templates and also attitude to risk questionnaires. The clients' beliefs, ethical values and goals are quite a nuanced subject and cannot simply be addressed by "do you want to include Sustainable Investments in your portfolio?"

I have recently spoken with advisers and fund managers about sustainable investments and the replies that I received were along the lines of "Sustainable investment was really big around and just after COP26, but nobody wants it now." They seemed quite oblivious to my withering and contemptuous stare.

They were referring to the fact that sustainable investments "under-performed" against portfolios that contained oil and gas holdings over the last year. This short-term thinking is at the root of our problem. The short-term view of governments. The short-term of advisers who overvalue performance of investment funds. Seeming to put It as a higher priority than maximising the opportunity of clients pursuing their objectives.

Most clients want to give an adviser £10, take a level of income or build for growth and get £11 back. Preferably without putting their investment at unnecessary risk. It is becoming increasingly important for the underlying investments to be in companies that are doing good or at least minimising harm.

Interestingly (to me), it is sustainable investment that is likely to achieve this simple investment goal in the long -term. As we strive to move away from fossil fuels, there is a lot of money being invested in research projects to bring forward means of harnessing renewable energy.

Obviously, last year, oil and gas increased in price due to scarcity and supply problems that have been put at risk by the invasion of Ukraine by Russia. Thus, all the funds that did not hold oil and gas stocks missed out on that gain.

On 22nd June, the Church Commissioners and Church of England Pensions Board each announced they will independently disinvest from fossil fuels this year, as the Church of England's National Investing Bodies (NIBs) reported back to the General Synod on progress against a 2018 Synod motion, which set out a five-year strategy to invest in climate solutions, engage with high carbon emitting companies, and disinvest from fossil fuel companies not aligned with the Paris Agreement.

This is an interesting development, which raises the question about whether it is better to disinvest or to practice stewardship to change behaviours.

But this kind of action brings the need for sustainable investment into the public domain and it may well be the trigger for other fund managers to start to follow suit. If this were to become prevalent practice, those fund managers still investing in a high-emitting companies may well find that they are holding unsellable assets in their portfolio.

This is the sort of information that advisers should be using to introduce sustainable investment to their clients going forward. In fact, the newspapers and other news distribution channels will be the gift that keeps giving to bring the subject live for advisers and clients. Advisers have ready made case studies and evidence to back up their investment recommendations.

Surely, this must make compliance with the Consumer Duty regarding the requirement to cover sustainable investment fairly straight-forward. There is so much information available and if advisers want to start with a basic introduction to all things sustainable, they could do a lot worse than reading my ESG Report from November 2021 to gain a basic level of knowledge of the subject. https://www.thecattseyeview.co.uk/esg-sustainable-investment-report-2021/ I am just embarking on an update report.

The main thrusts of the Consumer Duty to try to maximise the opportunity for consumers to pursue their objectives and to minimise foreseeable harm. Part of this is the consideration of client vulnerability. This is to try to address impediments that may stop consumers from reaching a level of understanding to enable them to make an informed decision about the way to proceed with a course of action to pursue whichever objective they have prioritised.

This is simply the application of empathy to consider particular incidents and circumstances that may be causing clients problems at any particular time. These issues are various and would need to be dealt with separately to do them justice.

We live in interesting times which is a misquote of my favourite ancient Chinese curse.

Consumer Duty: Ensuring compliance, a CD champion's perspective

Julie Pardy - Director Regulation & Market Engagement, Worksmart Limited

As firms move into the final stages of preparation for the implementation of the incoming Consumer Duty (CD) regulation, I thought it would be interesting to think ahead and start considering life post 31st July 2023 and particularly consider what life might be like for a firm's CD Champion who, ultimately is responsible for championing the improvements and enhancements demanded of a business by CD.

In many organisations it is likely that the CD Champion will be a NED and therefore, will only operate in the business on a very part time basis. However, there will be some smaller organisations that don't have NEDs and so will appoint someone with relevant seniority within the business to act in this role. Regardless of whether the CD Champion is a non-executive or an employee, it is worth remembering that the FCA set the expectation that firms should appoint this champion at board level or equivalent. Although many industry commentators felt the CD Champion should be a "prescribed responsibility" under SM&CR, the FCA have been clear that they consciously chose not to formalise the requirement in this manner. Instead, they have made their view clear that the champion role is there to support the Chair and CEO of the business in raising the Duty in all relevant discussions, to lead challenge of the firm's management on how the Duty has been embedded and ensuring the correct focus is maintained around consumer outcomes.

So that said, what will the CD Champion need from the business?

They will need to not only have confidence in any data / dashboards being provided to them to evidence that the firm is delivering good customer outcomes they should also be keen to consider the supporting structures, policies and processes designed to deliver and, where needed, respond to any data provided. Once provided, this will enable the CD Champion to ensure that they deliver against the FCA's expectations around supporting the firm's Chair and CEO in meeting their regulatory obligations.

Putting myself in their shoes, I wondered what I would request, demand even, to ensure that if I was a NED, CD Champion of a large firm post 31st July '23, that I could feel comfortable that I was discharging my CD champion role as expected. Given the mountains of information available from the regulator, trade bodies, law firms, consultants etc., like everyone else in the industry, I could hardly complain about being underinformed. Indeed, thinking about it, the exact the opposite is the issue, i.e. how to make sense of it all as a means of forming a plan of action. Distilling this information available within the industry was surprisingly challenging due to the volume of it, however I eventually settled on the following four areas. Taking each in turn:

Customer Outcomes

The first, and most obvious, place to start is with the four customer outcomes. In my view, the CD Champion would want to know how clearly the firm understands how it behaves against each outcome, and, for me, would find this out by the clarity and detail of the answers to the following questions:

Products and Services:

- Are all the firm's products and services identified?
- Does each of these products and services have a clear target market and are designed to meet the needs of those consumers, (whether marketed directly to or distributed face to face (or via call centres) retail consumers)?
- Are the distribution strategies and channels appropriate for each product / service?
- To what extent has the firm considered all of this in relation to potential foreseeable harm and particularly vulnerability?
- What are the approval points for products and services prior to launch? And who has the go/no go authority?
- How often are the products or service's performance reviewed and, if necessary, adjusted or withdrawn?

Fair Value:

- How well are the cost elements of each product or service identified, broken out and quantified?
- What is the pricing for each product or service, (by channel and customer group)?
- How developed is the information sharing between the manufacturer and distributor for each product or service?
- How reasonable is the price versus the costs of each product or service relative to the proposed benefits to each customer group?
- Are the impacts of the cumulative costs of products and services on consumers considered (distributors)?
- How often and how thoroughly are these cost / pricing analyses (value assessments) conducted?
- And how is this data used in making decisions about the product or service throughout its lifecycle?

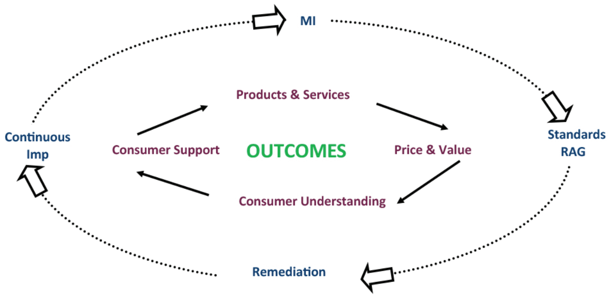
Consumer Understanding:

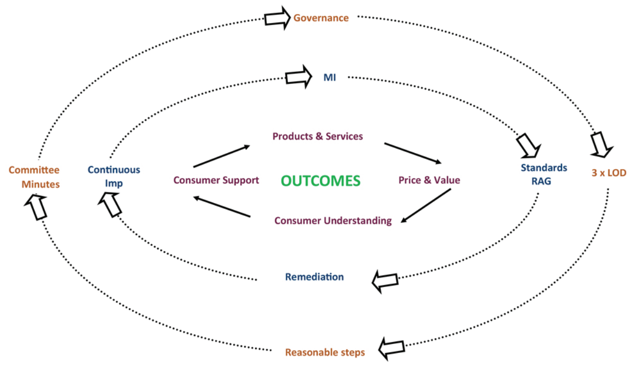
- What information is provided to each consumer group for a product or service, and at what stage of the sales cycle, e.g. layering?
- How sensitive is this information to the power imbalances between the firm and the consumer, i.e. are these imbalances reflected in the type of information, how and when it is communicated?
- Are appropriate frictions built into the process?
- Is the sales process and information sensitive to behavioural economics, e.g. biases?
- How thoroughly has this information been tested on all the different targeted consumer groups, including those with vulnerabilities?
- How often are these product / service information sets tested to ensure continued appropriateness?

Consumer Support:

- How defined are the firm's post sale support processes mapped, i.e. by product / service, by customer group (including those with potential or emerging vulnerabilities) etc.?
- What evidence is in place to explain / justify the appropriateness of these processes?
- Is information provided at different points to help build consumers' understanding of the product / service?
- Are frictions built into the post-sale process to prevent consumers making potentially detrimental decisions?
- What sensitivities are built into the post-sale process to identify changes in consumers' circumstances and so increased vulnerability? What processes are in place to support vulnerable consumers?
- How often are these processes reviewed / evidenced and decisions about their sustained suitability made?

To be honest, the questions could go on and on. For me, however, these questions will identify the seriousness to which the firm has considered consumer outcomes, and so the extent to which the CD Champion should be comfortable.





Data & MI

The second area which, in my view, CD Champions should focus on is the data and MI the firm collects because, without good MI, the firm has a patchy, or worse still, a skewed understanding of performance against the consumer outcomes. Allied to this, it is equally important for the CD Champion to understand exactly how this information is used in ensuring the firm continues to deliver good consumer outcomes. Again, for me, the areas the CD Champion should ask questions about are:

- What data is collected against each consumer outcome? Is the data both quantitative and qualitative? How often is this data collected and how is it aggregated?
- *(The FCA provides suggestions on the information to use: FG22/5 – section 11:33).*
- What level of granularity does the data provide for each of the products and customer groups, particularly those with potential or emerging vulnerabilities?
- What are the standards for each dataset, i.e. what does 'good' mean, what does 'reasonable' mean? How well does the data gathered provide insight into the standards?
- What are the tolerances, i.e. RAGs, for each of these standards? How do these tolerances balance the commercial needs of the firm versus the risks of foreseeable harm?
- If the data leads to action being taken, what are the corrective actions and how are these actions monitored, and the results of improvement evidenced?
- How is continuous improvement provoked? By whom, when and why? Again, how is continuous improvement tracked and the results evidenced against good consumer outcomes?

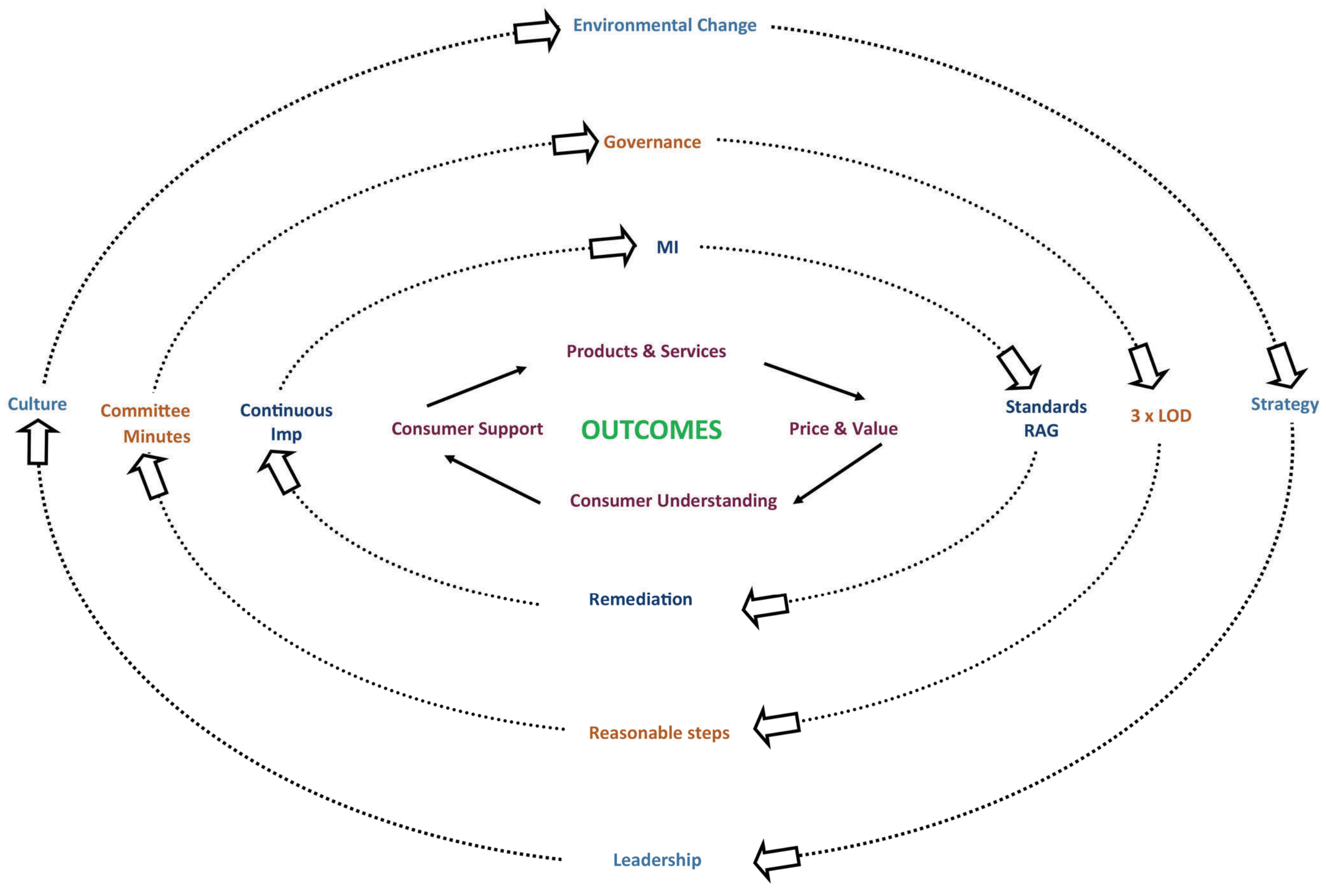
Interestingly, in a recent webinar on CD run by PIMFA and Worksmart, attendees were asked about their confidence in their firm's dataset for monitoring compliance with CD. The overwhelming view was not encouraging, with 57% saying they were only 'somewhat confident', their firm's dataset, despite the firm 'having made a number of improvements'. And a further 32% said that although their firm's dataset 'had improved', they had 'little confidence' in it. When probed, attendee's biggest concern, 57%, was the 'granularity of the available data'. This may well be an unrealistic sample, however, if these figures are in any way indicative of what is going on in the industry, it does not bode well!

Governance

The third, and critical, area for incoming CD Champions is governance because, although good MI is a precursor, without good oversight, the firm is at real risk of non-compliance. So, what should the incoming CD Champion be looking for:

- How are the three LODs operating? Are their responsibilities effectively allocated and segregated? What responsibilities, including the lines of communication are defined between these areas and the CD Champion?
- How independent are the second and third LODs? Are they staffed with people of sufficient experience to make important, potentially challenging, recommendations?
- What MI / dashboards are they being provided with? Does the second LOD have sufficient information to be able to provide senior management, and the FCA if requested, an opinion on the firm's conformance with CD?
- What evidence is there from senior management that CD is being taken seriously on a day-to-day basis by senior management, e.g. SMF's reasonable steps records, committee minutes etc?

> "Having a rounded set of data that monitors performance is key alongside having the confidence that supportive structures, policies, and processes are in place to respond to the need for change



Culture & Strategy

The fourth and final area is, perhaps, the most challenging for firms and CD Champions to understand in relation to CD. The FCA has talked about culture being the single most important factor underpinning achieving good outcomes for consumers and preventing foreseeable harm. As such, it should be 'front of mind' for incoming CD Champions. However, it is notoriously difficult to pin down. Despite this, CD Champions should look for indicators in the MI they receive about culture, specifically:

Purpose:

- Is there a communications plan in place that states the firm's purpose and strategy and how it relates to and supports CD?
- Are changes to strategy sensitive to and consistent with CD, e.g. deteriorating economic conditions and strategy changes that take vulnerability into account?

Leadership:

- As senior management are the creators and custodians of culture, is there evidence of senior managers acting to support examples of good behaviour and 'calling out' examples of bad?
- Are the firm's leaders behaving and making decisions that clearly demonstrate their support for and commitment to good customer outcomes?

Governance:

- Are there policies in place that inform and guide staff to the behaviours expected of them under CD?
- Are there monitors in place to identify the cultural risks to preventing foreseeable harm?

People:

- Are the principles and key components of CD integral to staff training at all levels?
- Do the firm's recognition and reward processes promote best practice CD behaviour?

The role of the CD Champion is a vital one in helping firms maintain their required focus in this area. Having a rounded set of data that monitors performance is key alongside having the confidence that supportive structures, policies, and processes are in place to respond to the need for change. With these in place, the CD Champion will be able to engage with the CEO and Chairman in meaningful discussions about their firm's obligations under CD. Let's hope that the projects designed to ready firms for 31st July put their CD Champions in a good place by having answered these questions on their behalf. If so, they can be the positive influence for change envisaged by the FCA.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Tips to present hybrid'ly

How to successfully run a live On-Site Workshop when you have several people joining you online
By Paul Archer from Archer Training

What is Hybrid Presenting?
Hybrid training and presenting were never an issue before the Pandemic. During COVID, everyone was online continuously, so the problem didn't rear its ugly head until people were allowed back out on site.
Now we have two challenges.
Hybrid, where the presenter is on-site, plus
Fusion, where she is online, and the audience are on-site.
An audience in a room on site gathered around a table with you appearing on a large TV screen at the front has its own challenges. We can deal with that another time.
You on-site with the audience both in the same room as you and online have many challenges.
Picture the scene. You're in a room because the event organiser or host has asked you to be on-site. You probably prefer it as well. Seeing people, watching their reactions and encouraging interaction gives you energy and more intrinsic enjoyment than speaking to a camera lens with no feedback. I know dozens of trainers and presenters who prefer this route. I'm not judging this preference; I'm just helping you with some ideas to handle it.

Have a Second Facilitator
She would be devoted to the online audience and, ideally, be online with them. In a perfect world, the facilitator would be dedicated to the task. Still, this luxury is often challenged when budgets are discussed. Instead, use one of the audience members and ask him to facilitate the online group. He might be a manager or someone who tends to encourage others and learn. This person would operate online software such as Zoom or Teams. They would set up the breakout rooms when exercises were announced. They would listen to the main presenter and react accordingly. They might liaise with the online group via chat and gauge the energy.
Questions from the online group may be fed to the main presenter, but only if she reads the chat stream. More on this later. I've had people in the on-site room operate the Zoom account, taking questions from the chat stream and asking them along with other audience members around the table.
The downside is that they can't be participants as they cannot concentrate with the rest of the on-site group. You do need a dedicated resource here. The client might still be able to provide this person. They could also operate the camera selection on Zoom or Teams – more on this in a moment.

Camera Angles and Options
The presenter must appear online to the audience, but she mustn't be distracted by this as her focus is on her on-site group. That's how she achieves her momentum. However, she needs to regard the camera as an additional participant, giving the lens occasional eye contact in the same manner as everyone else in the room.
This primary camera should pick up her presentation and, ideally, any flipchart or screen work she uses. A webcam at the room's rear may work, or at the front with a wide-angle lens. The camera needs to be in a fixed position; you don't need a camera operator – that's weird for small audiences and expensive too. Try positioning the camera at eye level with the presenter on a tripod or stand.
Don't rely on a webcam for this task. You need a fixed, HD video camera hooked up to the laptop, not a standard webcam.
Ideally, you would want a second camera attached to the laptop that feeds the stream to the online audience. The dual camera would focus on the group in the room, capturing reactions and audio so people can hear their questions and discussions online. This is surprisingly important.
Zoom and Teams need someone to switch the cameras that are feeding in. Someone has to physically do this by pressing a button or menu selection on Zoom. The presenter mustn't do this; she can't be asked to stop her presentation and start fiddling with the laptop. Your on-site facilitator or assistant can do this.
Lighting
This is an area often neglected. Good lighting enhances the image on the camera enormously. Make sure the presenter is well lit, her flipchart or whiteboard and the audience.
Default lighting in meeting rooms or boardrooms is usually inadequate. Windows spoil online lighting but are welcomed in an on-site environment. This is where a compromise is needed.
Audio
A webcam or camera a fair distance from the presenter will not be good enough to pick up clear audio from her. It will be muffled and quiet. Poor audio will turn off the online audience very quickly.
Beg or borrow a wireless mic for the presenter and have this hooked up on her lapel or around her mouth, Madonna Style. Attach the receiver to the laptop. It's not that tricky to do but requires a little preparation.
Desktop mics are available that pick up surrounding sounds. This might be an option, particularly boardroom-style mics in telephone conference setups. These work well and can pick up audience sound as well.
It's almost impossible for the online audience to speak to the presenter and others unless you have a speaker system in the room to allow this. Your facilitator can make this happen; the presenter should not be expected to stop everything and take verbal questions from the online audience. Some can multi-task this process, but many can't. Your host is being paid to present, not operate tech.

The Role of the Presenter
Is to speak, present and engage with her audience on-site and online. There are a few things she can do to enhance the experience, though:
Periodically talk to the camera more than the live audience
Address the camera as one person, not a group. Use language like "how are you doing" rather than "how are you all online". You are addressing individuals at home or in remote locations. They're not part of a group, so don't address them as such.
Be wired to a mic so the online audience can hear clearly.
Not to forget that you have an online audience.
Possibly keep an eye on the chat stream if there is no second facilitator. I've achieved this on a few occasions by having two monitors hooked to the laptop or computer. The primary monitor has the audience's heads on it. Some rooms have enormous screens that allow this easily. However, this chapter is not designed for those multi-million-pound setups – it's designed for a training room with a small computer or laptop drafted in to help those who can't be there in person.
A second monitor is jolly helpful to house the chat stream. Change the settings so the text is more prominent – say 20 points – that you can read from a distance. That way, you can occasionally stop to narrate what the online audience is asking. Awkward, but it can be done.
Encourage interaction from the online audience. Via chat with questions, maybe. Using the memes available, like raising hands or question marks. Stopping to take questions more formally during a training session. Your on-site audience will ask away as you flow. You can see people wanting to ask questions; it's easy. However, it's cumbersome on a screen unless you have a 100-inch monitor at the back of the room with HD images of people's faces and bodies to read.
Pausing every now and then to take questions is a great idea. I use the phrase "learnings, questions, discoveries" to encourage input.
Summary
Here are some ideas to handle potentially troubling hybrid situations. Use the ideas; they all work – I've used them all. Resorting to type will produce a disjointed affair. Your online audience may lose attention and get on with the million other tasks facing them. Their excuse – I can watch the recording, but people never do.
Ask yourself, how many live webinar recordings have you ever watched? Truthfully.

Paul Archer is the author of nine books. His latest book, "Mortgage Advising – The New Rules" was published in March 2022 and is available on Amazon
Watch Paul in Action on his YouTube Channel by going here http://www.paularcher.tv
His LinkedIn Profile can be found here http://www.paularcher.uk and he welcomes your link

Navigating the complexity of pension advice: FCA thematic review of retirement income advice

John Reynolds

Expert Pensions Limited

The UK's retirement landscape has transformed since 2015. More individuals are embracing various drawdown options rather than settling for annuity purchase. This shift brings a greater degree of complexity, making professional financial advice vital for consumers to make informed decisions. The Financial Conduct Authority's (FCA) thematic review of retirement advice is seeking to evaluate the efficacy of the market in yielding good outcomes for consumers.

Is there anything we can learn from the current reviews of defined benefit transfer advice, using the FCA Defined Benefit Advice Assessment Tool (DBAAT) tools and guidance?

Here are some key advice points that have emerged from using DBAAT tools, focusing on the intersection between good advice and regulatory guidelines.

Understanding the Client's Profile

1.To provide meaningful advice, firms need to secure essential facts about the client. This covers information such as their marital and employment status, tax rate, residency, health status, and if they are considered vulnerable. The DBAAT also emphasises the importance of understanding the client's objectives. They should be specific, measurable, achievable, relevant, and time-bound (SMART). By considering these points, advisers can ensure tailored advice that aligns with the individual's specific circumstances and goals.

Risk Profiling and Client's Preferences

2. A crucial part of advice relates to understanding a client's risk tolerance and profile and capacity. Advisers should gauge the client's attitude and appetite for investment risk and the risks associated with flexible pensions. Furthermore, an assessment of the client's capacity for loss helps shape the advice provided. By capturing these aspects, advisers can align advice with the client's risk profile and financial capacity, resonating with the FCA's focus on client outcomes and understanding.

Consumer's Knowledge and Experience

3. Comprehending a consumer's investment experience and knowledge is integral to a good outcome. Advisers should consider the types of services, transactions, and investments familiar to the consumer and their transaction history. This ensures that the advice provided is suitable, taking into account the client's familiarity with various financial products and investment strategies - and that it is understood by the client...

Understanding the Consumer's Financial Situation

4. Accurate information about a client's current and estimated future expenditure is key to effective retirement income advice. Advisers need to obtain detailed expenditure plans for retirement, split into essential, lifestyle, and discretionary spending. Additionally, the need to understand a client's income sources and other financial assets gives a comprehensive insight into a realistic and sensitive client financial situation.

Insight into Pension Benefits and Proposed Investment Arrangements

5. Advisers must obtain detailed information about the client's pension benefits and proposed alternative invested or flexible arrangements. This information helps tailor advice that's appropriate for the client's pension benefits, providing options that best fit their retirement plans and objectives.

The FCA DBAAT DB TV thematic review reiterates the importance of capturing comprehensive information about clients - evidence, evidence and more evidence on file about three key things:

- Objectives
- Risk
- Financial situation

Good pension advice (whether it is DB TV or a thematic review of retirement income advice) is rooted in understanding the individual client – their profile, risk tolerance, investment knowledge, financial situation, and specific pension benefits. It must be tailored, transparent, and aligned with their financial goals, ensuring they navigate the complexity of pension decisions with confidence.

The FCA's review will reinforce these aspects, reinforcing the role of comprehensive, personalised financial planning advice in yielding good outcomes for consumers.

Expert Pensions deliver a full PTS Knowledge Hub to provide you with the required CPD hours as outlined by the FCA, and to keep you up to date with regulations and policies.

You can find out more here: https://expertpensions.co.uk/cpd-2/

Consumer Duty – an opportunity to make valuable change or just another stop on the route to compliance fatigue?

By Neil Herbert from HRComply

It is certainly nearly upon us – Consumer Duty that is – and there can be barely anyone in the Advice industry that isn't at least aware of it and the possible significance of its impact. What is striking is that that awareness is not matched amongst the consumer – or potential consumer – population. There has been far less coverage of the new regime and its impact/benefit in the broader client-targeted media. I would imagine that relatively few consumers would have much understanding of the brave new world of Consumer Duty and yet it is designed to benefit them. Of course - one could argue that that's way it should be and that the Consumer should expect the best outcomes and value from the industry without having to worry about compliance regulations.

As it draws closer though - one thing is clear. Many firms are struggling to deliver – or even define – what is an adequate response and strategy. Consumer duty is definitely presenting a challenge on resources and company capacity for many firms. Others seem to take the view that they already have their customers' best interests at the heart of everything they do and that should mean they are fine. Still others are discovering that they already aren't delivering on other aspects of regulation in which the quality of their product delivery – the suitability of advice, the competence and conduct of their advisers – is properly audited and mitigated when it falls short. They will be worrying about the further challenges that Consumer Duty will present. Hopefully they will use this challenge as an opportunity.

Consultants everywhere will be urging advice firms not to adopt tick box – go through the motions – solutions and to lead from the top with culture-based game changing boldness. But the truth is there is no one size fits all when it comes to what is required and what level or type of processes are put in place. For one thing proportionality and cost of your response has to be taken into account.

Compliance fatigue is another. In a recent survey that HRComply conducted with IFA magazine we found that 70% of Advice professionals worry that they will be found wanting when it comes to compliance – their own and their business's. And that nearly 40% responded that the ongoing and growing burden of compliance has made them consider exiting the industry altogether. Access survey here

In delivering – as we do – automated solutions to assessment and benchmarking of quality and compliance – we always aim for simplicity and affordability as one of our key objectives. Simplicity because if its not simple Advisers will be reluctant to use it and they won't engage. Affordability requires no further explanation.

One of the first questions you should ask – after that is that you have:- defined your data sources; your benchmarks; what good looks like; your processes and assessment regime etc etc – is what are the barriers to engagement and completion. Yes - there is general fatigue at yet another tranche of regulatory processes to complete – but make them relevant and easy to use and you will be well on the way.

Many smaller firms desperately need automation - not just of the Consumer Duty compliance/assessment process - but of other personal compliance and certification processes (RDR or SMCR for example). But they certainly should consider the proportionality of their strategy, processes and the system they invest in. In other words, don't build a sledgehammer to crack a nut.

I recently read an article about defining 'value' for customers and how firms should be looking at how clients would be faring- or what they would have done - if they hadn't purchased the firm's advice. And in that gap lies the benefit or not of that firm's delivery. Easy to write – really not at all easy to define or deliver. In my view firms should be wary of investing time and resources in chasing after the intangible. The truth is there isn't a clear definition of benefit or value – so stick to simple quantifiable benchmarks and common-sense processes that can determine satisfactory outcomes and real benefit to clients.

If you haven't done so already you should be considering the following key questions when approaching Consumer Duty compliance:

- Is the principle of Consumer Duty embedded fully into your organisation and flowing top down?
- Are your staff fully trained and understanding of the principles of Consumer Duty?
- What is the broad strategy you are taking? Based on affordability and proportionality
- What will be your data sources for assessment and tracking?
- What does good look like for your business as well as your clients? What will be your benchmarks and assessment processes?
- How are you thinking about implementing Consumer Duty – will you utilise an automated system?

How will you determine the cost/benefit to the business of your chosen strategy and process?

I truly believe that if a firm is delivering well on the elements of say - RDR – or they have a fully automated properly benchmarked SMCR certification system in place then delivering on Consumer Duty should be a piece of cake. Yes - the data benchmarks and assessment processes need to be more customer-centric – but the general principles, the methods and processes remain very similar. If you have engaged staff already in clear easy to use assessment processes on the path to Compliance then delivering on Consumer Duty Compliance shouldn't be too much further a stretch.

Consumer Duty: The MI conundrum

By Ian Ashleigh from Compliance Matters

On 31st July, the FCA's Consumer Duty comes into force for all regulated firms that give advice or guidance to retail clients. We acquire a new Principle 12:

A firm must act to deliver good outcomes for retail customers

With it, comes a new individual conduct rule, rule 6:

You must act to deliver good outcomes for retail customers

I will not repeat the cross-cutting rules or the four FCA outcomes here, instead, I want to focus on the how businesses will demonstrate how they have implemented the consumer duty and work they did leading up the various deadlines.

MI: Management Information or Management Intelligence?

A long time ago, I attended a seminar in which the facilitator suggested that MI as Management Information is just that, it can go in a drawer and be forgotten. MI as Management Intelligence will be acted upon, and recommendations implemented. Many firms already have MI to help them assess conduct risk or treating customers fairly, but how do you develop MI to satisfy the conditions of the Consumer Duty?

MI is a term that is used a lot. Here, we will explore what it means, how to approach developing MI and how to apply this to the new Consumer Duty.

Management Information (or Management Intelligence) is where data is used to provide insight to help better understand organisational performance. In the context of the Consumer Duty, this means how the firm is performing in delivering good consumer outcomes. Where good outcomes are not being achieved, MI should also help to reveal 'why', so that improvements can be made. The first challenge for a firm is to define what a good consumer outcome means for it, given its size, complexity and which market it operates in, be it, for example, general insurance or wealth management.

A risk management approach also complements an MI framework. With good outcomes defined, firms can then identify threats, establish thresholds in line with the Consumer Duty and risk appetite, put in place mitigating actions, and track on an on-going basis.

The FCA Consumer Duty expects firms to:

- monitor and regularly review the outcomes that customers are experiencing;
- identify sources of poor outcomes and harm; and
- act to better enable consumers to achieve good outcomes, including making changes to products and services where appropriate.

There is no one-size-fits-all, MI should be appropriate to the size and complexity of the firm ensuring all products, services, touch points and customer types

What does the Board need to know?
Up to now, Boards have been expected to oversee implementation of the Consumer Duty, and challenge where necessary. The Board should have reviewed progress towards implementation and signed off any milestones as appropriate. The FCA has made it very clear that the Consumer Duty must be a top priority for the Board and the Senior Management Team (SMT) and that ultimate accountability for compliance with the Consumer Duty will sit with the Board and Senior Management (holders of SMF designations). The FCA has stated that *"Firms will need to pay as much attention to good consumer outcomes as they would any other significant aspect of their business, such as their level of profit and loss"*. Serious stuff, but how will the members of the Board and the SMT know the effectiveness of the firm's delivery of good customer outcomes?

Information (data) is the key
The start point for designing MI is to carefully define what is to be measured. One of the marked differences of the Consumer Duty is the responsibility of firms to achieve good outcomes and not just to demonstrate that certain processes have been followed. Articulating outcomes as opposed to processes will demand thought, and this is critical to developing effective consumer duty MI.

Once the desired outcomes have been captured; at all stages, for all target customers, across all products and services, firms can then start to develop their MI framework. This will include the sources of data that will be used, the tests that will be used to measure, and how these will be captured and reported.

Who is MI for?
Different groups will have different requirements from MI. While it may be derived from the same sources and core analyses, how it is presented should be specific to its purpose.

MI is critical to governance and executive decision making. Boards are most likely to want to see a more aggregated view to assess organisational performance, show trends, and so they can be satisfied in the management of risks and issues. In addition, there is an annual requirement for Boards to review whether consumers are receiving outcomes consistent with the Consumer Duty, the three rules and the four outcomes.

Others in the business are likely to want a more segmented view, whether specific to a senior manager function or to risk, audit, or quality. Dashboards and analytical tools will be useful for those who are monitoring so that they can dive deeper into the data. Greater granularity, such as capturing root cause analysis and detailing remediation actions, will also be important. Maintaining records of MI, analysis, issues, and actions is important in demonstrating active and ongoing monitoring of consumer outcomes.

What data can be used for Consumer Duty MI?
The FCA suggests several sources of data that can be used to derive MI such as complaints data, persistency, and claims ratios. Each business will need to define the data points pertinent to its size, complexity, and target markets. A financial advisory firm will have different data points and MI an insurance broker.

> "Measuring compliance with Consumer Duty is likely to require a single, coherent and current view of every client which may require a review of your CRM and how you use it

There can be a tendency to derive MI only from the data available rather than from what actually needs to be measured. Where existing sources do not fulfil measurement of all defined outcomes, gaps need to be addressed. This may mean that systems or processes need to be developed to capture new relevant data.

The role of technology
The FCA has stated that it is 'a data-led regulator', meaning that firms will need to harness technology to consolidate consumer data that may sit across different platforms and in different formats. Expect another return within the RMAR suite to measure good consumer outcomes from your firm. Measuring compliance with Consumer Duty is likely to require a single, coherent and current view of every client which may require a review of your CRM and how you use it – there may be more power within it than you are currently using – and keep in touch with your software provider for updates and enhancements that will help you monitor MI in respect of Consumer Duty. It is important to remember that the information you pull out of the system will be entirely dependent on the information put into it.

In conclusion
It is said that 31^{st} July will only be the start of the journey and having the correct MI at the correct time will enable your Board and Senior Management to demonstrate how your firm complies with Consumer Duty to the FCA and other stakeholders. It is important to identify any potential shortfalls in the implementation of Consumer Duty with the business, to document how you will address the shortfalls, and prioritise them accordingly.

UK workplace pensions set for more consolidation

Henry Tapper
Chair, Age Wage

After a quiet few months, I foresee the rate of consolidation of DC master trusts picking up over the next few months with announcements over the summer. This article asks what is driving consolidation and what it means for a pension system rocking from its failure to consolidate data onto a pension dashboard.

What is driving consolidation?

I had breakfast recently with the Chair of a small master trust who has been involved in workplace pensions to and through the introduction of auto-enrolment. He reminded me that chairing a master trust is a full-time job and that many of the decisions he has to take are as tough as those for scheme 50 times his scheme's size.

His problem is a microcosm of a wider problem, his trust is too small to compete for consolidation and can only grow by keeping existing clients happy. "Clients" in this case means participating employers – who are increasingly looking to the secondary market to get members better deals (typically on price). In short, the small master trust, as a commercial entity is toast, its better off selling itself now – rather than in three or five years where its clients have left.

Medium sized schemes with powerful private equity backing are looking to compete with the bigger schemes, especially the larger consolidators, and need the assets to cut the deals to make them credible at the top of the market.

Now is a good time to offload your smaller scheme – there are buyers.

Finally, the direction of regulation is towards delivery through scale of value. Value comes from a high quality of service along the way (important to employers in the short term) and from high quality investments over the long term (what drives better outcomes). The access to capital that is available from well-funded master trusts allows regulators to feel comfortable when consolidation is put to them.

So ready sellers, ready buyers and a benign regulatory climate mean that any master trust with less than £1bn of assets and some with more, are actively considering selling up.

Is consolidation in the consumer's interests?

The Pensions Regulator has to consider these interests in the short and medium term, no one can look much further than the end of the decade, it is likely that consolidation will continue beyond then, if we are to move towards an Australian system of Dc superfunds.

Australia is touted as an example of consolidation working for the consumer, the pensions dashboard is an example of a lack of consolidation meaning that savers can't see their pots and pensions in one place.

A consolidated pension market makes sense for the consumer in the longer term though in the short term, many will lose options that they cherished.

And for employers – who carry the responsibility of administering workplace pension contributions compliantly, a simpler system where there are fewer and easier choices, makes sense. The small pots problem becomes manageable when the feeds needed to operate systems such as "pot follows member" are reduced in number to the fingers of one hand.

Ultimately, members will benefit from a simplification of the system, as a result of employers finding ways to understand their pension choices.

The VFM Framework operates properly where there are tens rather than thousands of schemes under assessment.

What's stopping us consolidating?

The complex system of checks and balances that ensures schemes consolidate without "member detriment" can be a curse rather than a blessing.

The technical wrinkles that differentiate schemes are often of more consequence to lawyers than members. Think minimum normal retirement dates.

But more importantly, the proliferation of charging structures, platforms, funds as well as “scheme rules” mean that it is never as easy for schemes to transfer ownership as it seems.

And then there are the vested interests that get lost; - jobs – not just in operations but in governance; - lucrative advisory deals and of course the consolidation of professional service contracts for lawyers and auditors. Everyone has notice periods, no-one is happy to lose work.

And many small schemes can legitimately argue that they have pioneered innovation. Master trusts such as Malcolm Delahey’s SuperTrust for instance. Many small schemes which are now part of Cushon and Smart had features about them that they could be proud of and which may not survive as the consolidators combine investment and service propositions.

“The technical wrinkles that differentiate schemes are often of more consequence to lawyers than members

Many of the smaller master trusts which we will lose in the months and years to come have built up special relationships with their participating employers which will be lost – or at least changed.

With so many stakeholders tied up with each master trust, there are many more things to consider, many more interests to serve.

Towards a better market

We sometimes forget that we have a highly sophisticated professional services market in the UK – one that is the envy of the world. We may feel that we are making heavy work of consolidation – but we are making a good job of it. Members interests are being looked after, the master trust assurance framework is working and consolidation is happening in an orderly way.

At a time when there is a lot to be worried about, the state of our workplace pension market is improving at a pace. For that we should be thankful.

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