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T-C NEWS

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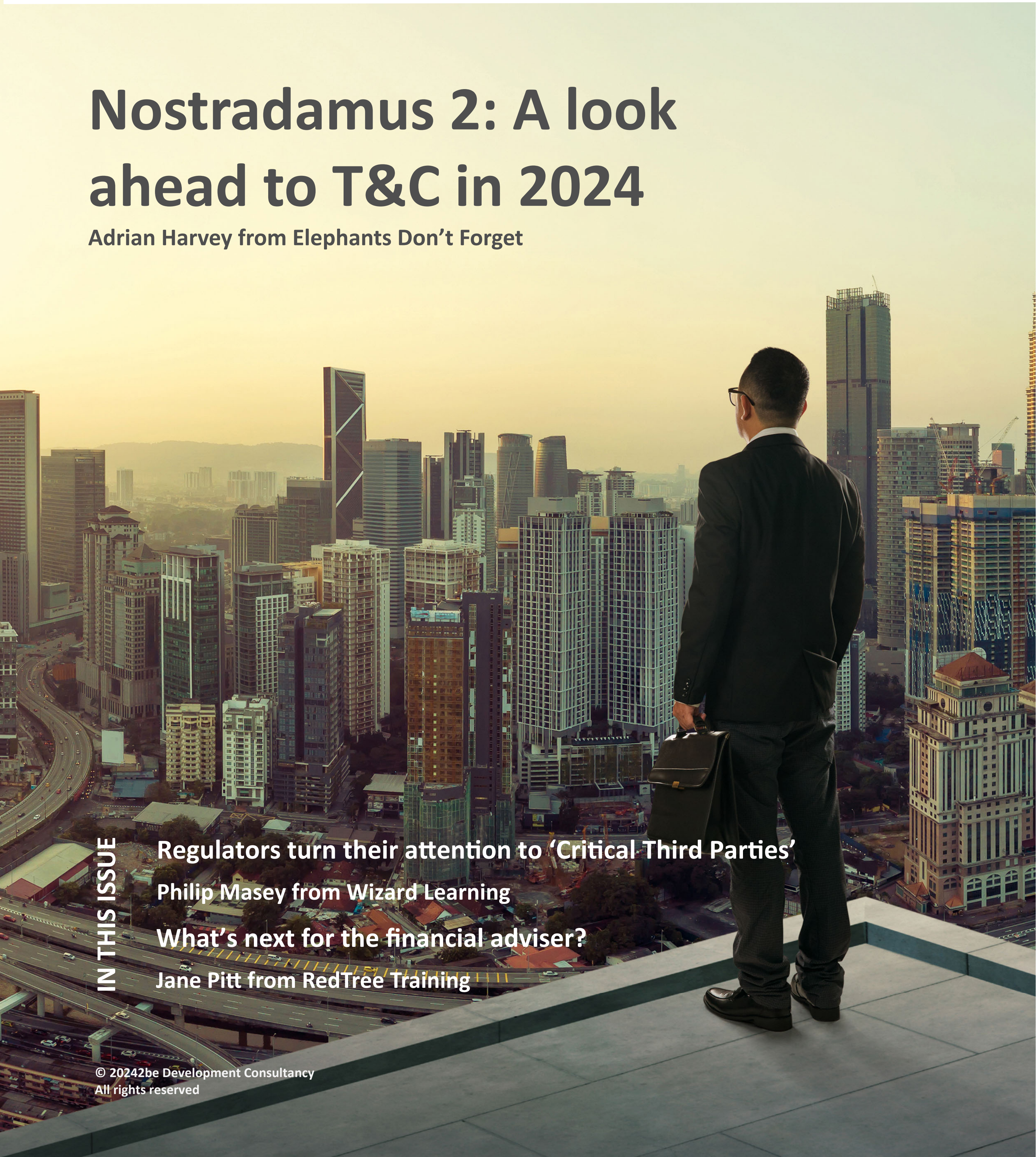

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Welcome to the January edition of T-CNews and Happy New Year. It is the ideal time to look out over the next 12 months and gather some views of what lays ahead. By adding some other articles that carry greater detail of some of the elements we are able to offer you sufficient articles to put together a great picture of what to expect. It goes without saying that we are faced with another busy year. Enjoy. Jeff Abbott

Nostradamus 2: A look ahead to T&C in 2024

By Adrian Harvey from Elephants Don't Forget

Last year, Jeff asked me to gaze into the future and share my thoughts about what 2023 held for T&C. For those who missed it, it's available to read here.1 So, how accurate was I in my predictions and observations? Well, on the basis that none were lottery-ticket winning predictions, it will probably come as no surprise that I was on the money!

My macro prediction was that – despite all the hype around Consumer Duty – unless the FCA specifically targeted ineffective 'one-size-fits-all' training practices and a general 'tick-box' approach to regulatory compliance – we would see little material change in how firms trained and supported their employees. The reason being that – in the absence of a major step-up in enforcement on this issue – most firms would be very slow to change. And this first prediction would appear to have been validated by recent FCA rhetoric.[2]

The second major prediction was that firms would only move fast if there was a catalyst to do so – and there is no better catalyst than a *positive* one. Fines and enforcement have a place, but these are ultimately extrinsic motivators. Intrinsic motivators are far more powerful and are usually positively framed. E.g., firms will change their employee T&C regimes overnight if it gives them a competitive advantage and generates more revenue/profit.

In this regard, during 2023 more firms recognised the need to improve their in-house training practices because the current ones were falling short of what was required. One interesting datapoint that surfaced through one of the many financial services webinars we organised during the year was the fact that attrition levels – specifically during the first 180 days for new recruits – were reaching what some referred to as "all-time highs". One of the main drivers being the inappropriate way in which firms were training and supporting their employees; particularly in a hybrid working environment. We had an article on this subject published in the HRDirector.[3]

This trend is looking like it is set to continue. Increasingly, more firms are now being forced to revisit their workplace learning practices for fear of failing to attract and retain the talent they need to run their firms. So, my first prediction for 2024 is that we will see an acceleration of change in how employers train and support employees; particularly recruits. Interestingly, this is likely to resonate well with what the regulator has been saying about workplace T&C and the need to make it personalised, specific and continual, rather than 'one-size-fits-all' and sporadic.

I also made a brief comment last year about some firms believing that they had already complied with Consumer Duty (particularly in the Wealth Management and IFA sectors) and were treating it much like TCF 2.0. Well, what we did see was a whistleblower inside SJP "outing" the blatantly unfair fee structures which has (eventually) led to SJP succumbing to public pressure and changing these.[4] Quite how senior management at SJP believed that these represented *good* outcomes for consumers, escapes me. But, in their defence, it was perhaps reflective of much of the mood music we experienced in 2023; with many firms believing they already complied with Consumer Duty and that their culture was "just fine thank you very much". The lesson being, I think the majority of the financial services market underestimated Consumer Duty in 2023 and the extent to which the regulator expects firms to fundamentally change.

> “we will see much more enforcement from the regulator over Consumer Duty failings

That said, regulation is only effective when it is strongly enforced. I also made some comments about increased enforcement and – whilst we have seen the FCA act immediately over retail savings rates, for example – we haven’t seen a wholesale step up of enforcement (at the time of writing). So, my second prediction for 2024 is that we will see much more enforcement from the regulator over Consumer Duty failings.

Unlike last year, I am going to be even more specific in my 2024 predictions – and I’ll be happy to face the music come January 2025 (if Jeff gives me the chance!). I predict that key areas that the regulator will focus on will be:

1. Systemic unfairness related to particular markets, e.g., high fees, slow and low payments, and restrictive practices (these are more structural and not entirely related to T&C).
2. Inappropriate and poor levels of customer service.
3. Customer vulnerability (specifically: what actions firms are taking to identify, monitor and support customer status change over contracted periods).
4. Evidencing good outcomes.

Let’s look at inappropriate and poor levels of customer service. According to The Institute of Customer Service’s July 2023 UK Customer Satisfaction Index (UKCSI) 2023 saw record low levels of customer satisfaction across all sectors (not just financial services).[5] However, unlike other sectors, good levels of customer service are now enshrined in Consumer Duty regulation. When we speak with firms about making service improvements, they often tell us that training staff on service improvement initiatives can be challenging – especially for frontline employees.

Hybrid working models, for example, make on-the-job learning near non-existent. Increasing levels of ‘need-to-know’ regulatory change also continues to fuel compliance fatigue. In fact, in October 2023, a research report compiled by the Call Centre Management Association (CCMA) – in which 339 interviews were conducted across frontline agents and team leaders/ managers – found that escalating compliance requirements – especially within regulated industries – is negatively increasing the cognitive load required of agents, finding that ‘frequent changes in policies and rules have become commonplace’, placing an added burden on training needs and on frontline staff to learn and retain these complex changes to remain compliant in -role whilst meeting increased service demands from customers.[6] 32% stated that working within the contact centre environment is more difficult than it was 12 months ago. It’s actually that bad that one in three agents surveyed (33%) say they are likely to quit within the next 12 months.

To further compound matters, thanks to the increasing use of self-serve and digitalisation strategies in customer service operations, a far greater percentage of interactions are now – by default – the “more difficult ones” (i.e., the customer cannot or doesn’t want to self-serve) for frontline staff to deal with – especially around key areas such as customer support and complaints; which the FCA have referenced as key elements that need improving in a lot of cases.

Low service standards will prevail until firms recognise that their workplace training strategies have not kept pace with market sophistication and post-Covid operating practices. Firms must invest in practices where employees are genuinely supported, and in-role competence is measured and optimised. Some firms have already acted but most have not, and I predict the regulator will be penning Dear CEO letters regarding customer service outcomes and then acting against firms who are so obviously failing. An example might be where waiting times to speak to an agent are measured in tens of minutes – not seconds – and CSAT is consistently low.

Waiting for customers to complain is too late. In the instance of poor customer service, all the regulator needs to do is pick up the phone and dial your customer services function to know, first-hand, how long wait times are and then how ill-equipped and inappropriately trained your employees are. Interestingly, a recent study commissioned by Microsoft revealed that UK customers are often waiting upwards of 85 minutes to speak to a representative at some of the country's largest providers of consumer goods and services.[7] The study – in which 140 calls were made to large UK organisations across various sectors – looked to shed new insight on current waiting times and potential frustrations that UK customers are facing. Finance and retail organisations were found to be the most likely to state they were experiencing delays due to "circumstances beyond their control".

Customer vulnerability is also going to form part of the regulator's 2024 enforcement. It is not good enough that firms have a customer vulnerability policy. This policy needs to stretch far beyond acquiring the customer and far beyond a specialist customer vulnerability team/unit. Every employee who interacts with customers in any way will need to understand the policy and be able to spot vulnerability. Customer status changes over time and firms will need to evidence that they screen their portfolios for vulnerability status change. And, of course, that their policies ensure that vulnerable customers get good outcomes. Firms who have "done some vulnerability training" and ticked the box, will be – forgive the pun – vulnerable, I suspect.

The evidencing of good outcomes is where I have seen a lot of angst and chatter over 2023. Firms are rightly concerned with how they achieve this and many openly admit it is their Consumer Duty Achilles heel. For example, in a webinar we ran in September 2023, we polled 395 financial services professionals and asked them a fairly blunt question: "Do your MI, Board and Committee packs enable you to track the quality of customer outcomes?" 51% of respondents said they either didn't or didn't know if they did. Most firms acknowledge the role that genuinely competent employees play in ensuring customers get good outcomes, but I don't think we will see the regulator enforce against this particular point in 2024. That isn't to say it's not important, just that it is probably reasonable to expect firms to need more time to achieve this and – let's be frank – the FCA will probably have their hands full enforcing points 1, 2 and 3!

Whilst structural failings and systemic unfairness isn't a function of T&C, it will certainly occupy the regulator during 2024. Primarily because the regulation is not (as some would complain) "ambiguous". In my opinion, it couldn't be clearer: put the customer at the centre of everything you do and test everything you do to ensure that products, practices, processes and people all deliver good outcomes for the customer. You don't need a bunch of highly paid consultants to tell you that delaying customer claim settlements or deliberately underpaying them fails that test. In fact, whilst researching this article I notice the FCA has sent yet another Dear CEO letter to the insurance sector addressing (amongst other things) these very points.

So, in conclusion, what do I think Santa is bringing us for 2024. One word: action. I predict that, given the effort the regulator has put into communicating Consumer Duty requirements and shortfalls with the sector in 2023 – way more than SM&CR – what will follow will be a flurry of action. The regulator has a number of tools at its disposal and 2024 will, in my opinion, be a record year for various types of enforcement activity.

And what about T&C? Well, intrinsic motivation will always trump the extrinsic forces of the regulator. More firms will invest and upgrade their workplace T&C offerings as their desire for authentic, competent in-role employees increases in line with dwindling sources of available talent to recruit and promote. "Great training" was a regular feature of job adverts in the 1980s and I predict it will become so again.

There has never been a better time to be a change agent in the learning and development and T&C space, but – like all things in life – L&D needs to keep pace with rapid changes in the marketplace and society or risk failing their employers, as employees will seek employment elsewhere with firms who understand that workplace learning isn't a cost centre to be managed down to irrelevance, but rather a source of competitive advantage and authentic regulatory compliance.

Happy New Year!

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Purpose in financial services – what's the point?

By Phil Ingle from Phil Ingle Associates

It's the money, isn't it? Working in financial services means when you go home at the end of the day, you have nothing tangible to show for the hours and effort spent: no goods produced, no house built, maybe some changes in numbers shown on a computer screen.

To see the context of purpose in financial services though, we cannot ignore the wider discussion around purpose in business. A spotlight was thrown on this in 2019 when the US Business Roundtable published a statement on the purpose of the corporation. Crucially this overturned the previous statement defining the principal purpose as maximising returns for shareholders. Instead, they suggested:

"companies should serve not only their shareholders, but also deliver value to their customers, invest in employees, deal fairly with suppliers and support the communities in which they operate."

This statement came from 181 CEOs in US corporations and was followed up by numerous discussions on the topic. Yet some came to feel things were being taken too far. Terry Smith, whose Fundsmith annual shareholder letter in early 2022 reflected on Unilever's focus on purpose (especially having seen their shares underperform the market in the previous year)

"A company which feels it has to define the purpose of Hellmann's mayonnaise has in our view clearly lost the plot. The Hellmann's brand has existed since 1913 so we would guess that by now consumers have figured out its purpose (spoiler alert — salads and sandwiches)."

A useful reflection on the purpose of the financial services sector comes from the FCA, in their Discussion Paper in early 2020, and followed by a speech by Jonathan Davidson, Executive Director of Supervision – Retail and Authorisations, given at the 6th Annual Culture and Conduct Forum.

"Put simply, the financial sector channels and guides the investment and funding with which our economy is built, diversifies risks and provides affordable financial support to those in need by advancing credit. It also facilitates every single economic transaction through the payments system."

The Discussion Paper contains 19 (short) essays on the role of purpose and its connection with culture.

Despite having around 19 definitions of purpose – though with substantial common areas (it would make a complex Venn diagram) - there are some useful tools to enable the consideration of purpose and especially its cultural connections.

Joe Garner, CEO of Nationwide Building Society used the pyramid of purpose:

I feel this provides admirable clarity and direction, although a weakness could be the use of the word 'sufficient' in the foundation layer. Surely this provides a get out to anyone to argue that sufficient can be seen through the eyes of shareholders ahead of customers and employees? But then Nationwide is a mutual society 'owned' by its customers, who is 2023 received a payout based on Nationwide's financial results. I guess that means Nationwide has effortlessly met the requirement for at least the lower two levels of the pyramid.

But what about organisations, including the majority of financial services firms, who have a shareholder ownership and not mutual model? The discussion here still revolves around shareholder primacy and how shareholders sit alongside other stakeholders. This is usefully summarised by Lynne S. Paine in a recent Harvard Business Review Article on Stakeholder Capitalism. She provides a spectrum of four versions:

Four Versions of Stakeholder Capitalism

Proponents of stakeholderism take varying stances on the strength and basis of their commitment to non-shareholder stakeholders. The spectrum below explains those commitments, from weakest to strongest.

Instrumental

Managers should respect stakeholders' interests when doing so will maximize long-term returns to shareholders.

Classic

Companies have ethical and legal obligations to stakeholders that must be respected whether or not doing so is likely to maximize shareholder value.

Beneficial

The corporate objective is improving all stakeholders' well-being (rather than just maximizing value for shareholders).

Structural

To protect stakeholder interests, stakeholders other than shareholders should have formal powers in corporate governance.

Lying behind these four versions is the concept of stakeholder – mainly shareholder – primacy, and shareholder value. The latter is easier to define, although shareholder primacy may run beyond "the sole objective of maximising returns to shareholders".

Paine argues for greater clarity from organisation about which model of capitalism they are aiming at. Despite the length and depth of annual reports the direction of travel is not always clear. One exception in 2023 came from Shell's CEO Wael Sawan, in an interview for the Financial Times in June:*"Ultimately what we need to do is to be able to generate long-term value for our shareholders. The answer cannot be 'I am going to invest [in clean energy projects] and have poor returns and that's going to vindicate my conscience' That's wrong."*

The FT goes on to quote him: *"The strength of our company is the level of engagement we have with staff… but we are at risk when we confuse the concept of caring about people, with the decisiveness around how do we actually allocate capital."*

I imagine if you work for Shell at least you know where you stand.

For views on financial services, it is worth reading he FCA's Discussion Paper which was published just as the UK went into the first lockdown of the pandemic. Yet how are things looking nearly four years later?

The essays still provide a thought-provoking range of approaches and tools to look at the role of purpose and culture. I would highlight two areas mentioned in the DP but which seem to have become more significant since then.Firstly, the discussion on climate change and the services of banks and insurance companies especially in assisting the exploration and enablement of fossil fuel consumption. Barclays in particular comes in for criticism from environmental bodies (including but not limited to Extinction Rebellion). The continued use of fossil fuels remains an integral part of our society, despite huge increases in the use of renewable energy, and COP 28's statements remain too recent to see definite changes. The words of Shell's CEO also give us a clue about possible direction in this area.

The second are concerns how employees of financial institutions feel about their work, and how therefore they contribute to wider society (the top of the Pyramid). Should you be reading this on a Friday I suggest there is a chance you are not in the office in 2024: a significant change since a Friday, or several other working days of the week in early 2020. Working patterns are one aspect of the employment and have an impact on how employees feel about their contribution. Or could a reluctance to return to the office provide a further reflection of doubts about overall purpose?

In financial services despite all the technology, the outcomes of the provision of financial services are the results of human interaction and human decisions. Consideration of purpose must therefore continue to revolve around who has the power, and how benefits are shared. Maybe purpose will be witnessed by a neat equal Venn diagram between employees, shareholders and customers.

The purpose question then moves to the equality of focus about who gets what.

" Consideration of purpose must therefore continue to revolve around who has the power, and how benefits are shared

In January 1940 Fred Schwed's book "Where are the customers yachts?" was first published. This "good hard look at Wall Street" is based on the story of someone in post stock market crash New York being shown the yachts belonging to Wall Street financiers, and is a reflection on the question about who gets what, and suggests that if a Venn diagram was drawn, it would not be equal.

I doubt it is today either. Making money in financial services should be a given. But who gets to benefit – that is the point.

Relevant links and sources

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The unintended consequence of long term repayment loans

Nick Baxter
Baxters Business Consultants

Anyone involved in the residential mortgage industry will not have missed the steady, and now significant, uptick in the number of lenders offering longer terms alongside their mortgage range. It seems a day doesn't go by without 'X' lender announcing 'we have extended the maximum term for all residential mortgage to 40 years', or words like that. I know one lender who routinely considers 45 year terms. The headline is usually accompanied by statements such as, 'it is expected that this change will help customers spread their payments over a longer term allowing a wider range of customers to secure financing with terms that suit their individual needs'.

Unpicking this code, it simply means we have amended our affordability assessment to lend more money.

It's now reported that a quarter of homeowners under 30 now have repayment terms on their mortgage of 35 years or more. One doesn't need to be a brilliant mathematician to work out that means that is a hell of a lot of people who will be clearing their mortgages around, or after, the current state pension age. Even planned increases in this date won't provide relief for many who will be forced to continue working, just to pay their mortgage.

I may be 'teaching grandma to suck eggs', but it's worth noting the potentially adverse consequences of longer term repayment mortgages? To focus on just five:

1. **Paying more interest over the whole term:** With longer mortgages, customers will pay far more interest overall. For example, a mortgage of £100,000, at a typically current SVR of 8% interest rate would result in significantly higher total interest paid over 40 years (£233,738) compared to a 25-year term (£131,545).
2. **Higher total repayment:** While longer mortgage terms result in lower monthly payments, they lead to a higher total repayment over the life of the mortgage due to the extended term and the accrual of interest. Using the above example, total payments over 40 years (£333,738) compared to a 25-year term (£231,545).
3. **Reduced flexibility:** Longer mortgages have lower monthly payments because the capital is repaid more slowly. This reduces future flexibility and takes away potential 'forbearance' tactics such as term extensions.
4. **Risk of negative equity**: As the capital is repaid more slowly, longer mortgage terms may increase the risk of being in a state of negative equity for a longer period.
5. **Early retirement options are removed:** As customers are locked in repayments for all their working life, early retirement options are limited.

Clearly, there are potential downside risks for consumers arranging long term repayment mortgages. My question then is who is thinking about the long-term needs of the customer? Surely, in today's world 'Consumer Duty' should be the yardstick to measure the effectiveness of any consumer interaction in the financial services world?

If so, back to basics, what is the foundation of Consumer Duty? The original FCA Dear CEO letter titled *"Implementing the Consumer Duty in mortgage intermediaries"* (issued 3 March 2023), it was a good starting point back then, and is equally relevant now. The FCA messaging is clear,

1. Intermediaries need to design services that meet the needs, characteristics and objectives of specified target markets,
2. Offer products that provide fair value with a reasonable relationship between the price consumers pay and the benefits they receive,
3. Communicate with consumers in a way that enables them to make effective, timely and informed decisions,
4. Support consumers needs throughout the life of the product or service they provide.

I am not, of course, saying that long term repayment mortgages are always wrong, but terms should not be recommended by default simply because the lender allows them or to aid short term 'affordability' where it is not a specific customer need. If firms really embrace Consumer Duty, and if it is to be the success that everyone hopes it will be, firms will need to ensure consumers really understand the potentially unintended consequences of their decisions. So the question for firms to address is, what processes are adopted to address different risks in different length of mortgage term advice, how are risks presented to consumers and how do firms assess consumer understanding of those risks?

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

Credit Services Association - a view from Learning and Development

By Fiona Macaskill, CSA Director of Learning & Development

It is late 2023 as I write this piece intended to look ahead to our plans and priorities for the coming year, but in order to look forward I am first finding myself looking back at the previous 12 months.

In what was another busy year for the industry, the Learning and Development team at the Credit Services Association (CSA) was again challenged to adapt and stay informed with what firms within our sector need in terms of meeting regulatory requirements and to tackle operational demands.

As the only national trade association in the UK for organisations active in the debt collection and purchase industry, the CSA possess the experience and knowledge needed to deliver first-class training (to both members and non-members) across a range of business areas.

In this post-pandemic backdrop firms are continuing to face challenges such as recruitment and retention of staff. The CSA regularly engages with members (and monitor the financial service sector as a whole) to establish the areas where we can provide training and support to assist with these areas.

Naturally in 2023 the introduction of the Financial Conduct Authority's (FCA) Consumer Duty was at the front of members' minds, with the duty intended to set higher standards of consumer protection across financial services and deliver the best outcomes for customers.

With this in mind, the CSA identified that support was needed for frontline staff. As a result, the CSA Consumer Duty Online Training Module was developed and launched in Spring 2023. This new popular online training resource complimented the work of our existing compliance, guidance and policy work, as well as that of the Consumer Duty Resource Hub that was launched and made available exclusively to our members in 2023.

In terms of our ever-growing apprenticeship arm of our organisation, it was pleasing to see the CSA's overall rating (from both employers and learners) on the government's apprenticeship platform rising to the maximum four stars ('Excellent') based on reviews, and 2023 also saw the launch of our Level 6 Trading Standards apprenticeship.

Looking now towards 2024 – as with many organisations – we will be watching closely as Artificial Intelligence (AI) continues to develop. We need to assess and explore the role it can play in business, and also in learning and training.

AI is obviously a very fast-moving technology. It is presenting a massive challenge for providers of education and training in terms of how to deal with the more negative aspects such as plagiarism, but also how it has the potential to raise productivity in the production of learning content and increase variety and engagement for learners. Similar challenges are also being faced by the members of the CSA as they grapple with how this rapidly-evolving area can be utilised efficiently and effectively, and how it can best fit into their existing systems and processes while maintaining adherence to the aims of the Consumer Duty.

Within our department we have a member of the team who is currently undertaking a Level 5 Learning and Development Business Partner/Consultant apprenticeship, and for whom the development of AI is a key focus. I am looking forward to the innovation in learning products and services which will be the result.

AI can clearly help us to work more efficiently and effectively - however, like all tech, it's still just a tool and ultimately it is our responsibility to learn how we use that tool effectively and safely.

In 2024 we will also be turning the spotlight on diversity, equity and inclusion (DEI) and how learning and development can support members as they plan for and implement the FCA's new regulatory framework in this area.

One option we are exploring is extending the work we currently do to identify neurodiverse learners in order to continue to adapt learning content, and provide such learners with the additional support they need to ensure an equal opportunity to achieve positive outcomes.

This has the potential to be adapted and to apply it to how firms manage their workforce in terms of the training and even how they are managed on a daily basis. Transferring this approach has the potential to support the needs of individual staff and also contribute towards increased retention rates, productivity and innovation. This all feeds back in to some of the challenges currently facing firms.

The *Neurodiversity at Work 2023* report by Birkbeck, University of London and commissioned by Neurodiversity in Business gathered responses from 990 neurodivergent employees/ workers and 127 employers to explore retention and wellbeing. One finding of the report was that 27.7% of workers responded that they were 'very likely to leave' their current organization in the next 12 months.

The report also found that only 29.9% of respondents had access to 'adjustments' (flexible schedules, private spaces, adaption of rules etc) – with the concern about stigma and discrimination ranked highest in the list of barriers staff had in disclosing their neurodivergence.

Assisting firms to implement adjustments in the workplace could play a key role in lowering the likelihood that a neurodivergent worker may leave a company and increase levels of wellbeing and inclusion.

This all feeds back to our belief that supporting frontline staff through effective and inclusive training ultimately contributes to achieving the best outcomes for customers, and is something that we as a training provider will continue to strive for as we head into 2024.

If you would like to learn more about the CSA's learning and development products and services you can visit our website: www.csa-uk.com/csa-learning

The transformative impact of employee growth in financial planning

By Michelle Hoskin from Standards International

In the ever-evolving landscape of financial planning, have you ever considered where the real cornerstone of success lies? It's not just in the strategies we deploy or the technologies we embrace, but fundamentally, it's within the people who drive these elements. Investing in our team's growth is more than a business strategy; it's an expression of trust and care. As a business, we continue to do just this, through a very transformative period. I have watched people flourish. Excellence in financial services isn't a destination; it's a journey of continuous learning, adapting, and commitment to growth - both personally and professionally.

The Crucial Role of Employee Growth

Why let your workplace stagnate by not investing in employee development? Such oversight can transform a once-thriving environment into one where innovation and enthusiasm wane, negatively impacting team morale and service quality. This not only dents team spirit but can also cause a decline in client trust and, ultimately, harm the firm's reputation over time.

In the world of financial planning, investing in employee growth isn't just important, it's essential. It lifts service quality, enhances client satisfaction, and instils a culture of excellence and innovation. Firms that focus on their team's development create a competitive advantage that's hard to match. Employees are constantly seeking growth and advancement opportunities. They deeply value firms that provide clear career paths and support their professional development, be it through funded courses, exam support, or time off for professional activities. When employees see their growth mirrored by the firm's support, what does it foster? A deep-rooted loyalty and a strong sense of belonging.

The Spectrum for Employee Growth

Employee growth covers a range of areas. Professional development is about staying abreast of industry trends, learning continuously, and securing relevant certifications. But let's not forget personal growth, including nurturing soft skills like communication, empathy, and leadership. These are vital in forging robust client relationships and effective team dynamics. Moreover, recognising the importance of mental health, especially in high-pressure scenarios, is paramount. And, of course, adhering to ethical standards and regulatory compliance is a given in our field.

Implementing Effective Growth Strategies

Investing in the growth of our people benefits everyone - the employees, the business, and ultimately, our clients. Enhanced skills lead to sharper decision-making, improved client interactions, and a strengthened reputation in the industry. So, how do we achieve this?

We embrace strategies that resonate on a deeper level:

- **Customised Training:** We craft training programmes that don't just educate but also inspire and empower.
- **Mentorship with a Soul:** Providing access to mentors who not only guide but also genuinely care and support.
- **Feedback That Encourages:** We believe in feedback that uplifts, motivates, and helps our team grow with confidence and positivity. This is often done at team meetings and in our performance development reviews. However, creating a safe space for valid feedback around improvements is also something we share often.
- **Opportunities for Fulfilment:** Encouraging our team to seek professional development that aligns with their passions and aspirations.
- **Balancing Work and Life:** Promoting a harmony between professional responsibilities and personal joy.

Overcoming Development Challenges

One major challenge in employee development is striking the right balance between work and training. Progressive firms are integrating learning with daily activities and adopting flexible learning platforms. Another hurdle is ensuring training remains relevant and current, tackled effectively through partnerships with educational bodies and industry organisations.

Certifications, like ISO 22222, are game-changers. Designed specifically for financial planners, they set a high bar for personal financial planning. By encouraging our teams to achieve such certifications, we ensure they are not only well-versed in theory but also excel in applying this knowledge in real-life client scenarios. This process guarantees that service quality remains top-tier.

Fostering Growth and Empowerment through Leadership

Effective leadership plays a pivotal role in cultivating an environment where innovation is born from passion – and that's what we are about in abundance – in fact, the reason I got into this area was from sheer passion - and continuous improvement is driven by heartfelt commitment.

Recognising that investing in the team's growth equates to investing in the firm's future, this sets the foundation for a thriving, forward-thinking organisation.

At the same time, empowering teams is about more than just providing them with the necessary skills and tools. It involves inspiring a sense of ownership and pride in their contributions. This empowerment is achieved when leaders make their team members feel valued and integral to the firm's vision. Such an approach leads to heightened engagement, productivity, and innovative thinking among employees. As a result, the entire firm is propelled forward in exciting and new directions, driven by a team that is not just capable but also motivated and dedicated to the firm's success.

In this synergistic environment, where leadership and empowerment intertwine, employees flourish, and firms excel. It's a dynamic where the growth of individuals directly contributes to the advancement of the organisation, creating a cycle of continuous development and achievement.

Fostering a Culture of Continuous Improvement

Creating a culture of continuous improvement is essential in today's fast-paced financial world. This involves not only training and development but also creating an environment where feedback is encouraged and mistakes are seen as opportunities for learning. Such a culture supports not only the professional growth of individuals but also the overall progress of the firm.

The power of people in elevating financial planning is immense. By investing in employee growth, firms not only enhance their service quality and client satisfaction but also build a resilient, innovative, and ethical business. This journey is beneficial for the employees, the clients, and the industry as a whole. As we look to the future, the role of continuous learning and development will only become more integral to the success of financial planning firms worldwide.

> " Firms that focus on their team's development create a competitive advantage that's hard to match

Value, value, value. The theme for 2024?

Tom Wood,
Searchlight Insurance Training, part of The UKGI Group

> Focus on the worth of your service, the quality of your people and the importance that you place on training your staff

Recent communications from the FCA highlight that the regulator is likely to focus heavily on the value of products in 2024. This rhetoric is getting louder, and it is aimed at the whole distribution chain where it will likely extend significantly towards brokers and agents over the next 12 months.

But why has fair value become such a key concern for the regulator?

Let's start by looking at what value means. An internet search offers the following definition from Oxford Languages:

value:

noun

1. the regard that something is held to deserve; the importance, worth, or usefulness of something.
2. principles or standards of behaviour; one's judgement of what is important in life.

verb

3. estimate the monetary worth of.
4. consider (someone or something) to be important or beneficial; have a high opinion of.

Every one of these is relevant to insurance.

Whilst it's easy to think that the FCA is purely targeting remuneration structures and the actual cost of insurance to the end consumer, i.e., "estimate the monetary worth of", it's also extremely important to consider the bigger picture in terms of what value means in this instance captured in the rest of the definitions above.

In my opinion the FCA agrees with this. It is clear that its focus on fair value is not solely on price, because it defines fair value as "the relationship between the overall price to the customer and the quality of the product(s) and/or services provided". So, it's important that we all take some time at the start of this year to step back and think about how we get better at defining the true value of insurance and financial advice as a service.

Insurance is a product that offers value, protection and risk management, and the profession of insurance broking is largely an advisory service that carries its own costs and overheads that need to be maintained to build resilience into the sector and to provide sustainable competition, which all benefits the policy holder.

It's important, therefore, that firms start to think more about how they add value to this service; after all, the key activities, the key resources, and the cost structure that defines how you run your organisation are part of your business model. Without them, you would struggle to grow, let alone continue trading, a key part of operational resilience.

As well as the core overheads, an insurance broker or advisor should consider the various services they provide and the resources needed to provide a fair service that protects consumers from harm, such as:

⇒ administration
⇒ customer service
⇒ sales, marketing and renewals
⇒ claims handling and management
⇒ continuing professional development
⇒ recruitment and career development
⇒ insurer relationship management

When we start to define the value of what our industry does, then it becomes easier to correlate value with end cost, which is no different to how any other business in any other industry calculates its pricing and margins for growth.

How you measure and define your true value is for your board meetings, it relates to how you run your business and define your culture. It's not hard to do, but I would urge you to begin this process if you haven't already.

What I want to focus on in this article is how we can relate this back to training and competence. Training can often be neglected by regulated firms or seen as an afterthought to tick a compliance box, but if we think more strategically about evidencing the true value of the services that we provide, then we can start to build a compelling business case for how training becomes a key differentiator for the worth that a professional advisor brings to the customer.

The value in training your workforce has many benefits to your own business objectives, such as:

⇒ increased productivity
⇒ more motivation
⇒ less staff attrition
⇒ improved quality of work
⇒ less complaints
⇒ less claims repudiation
⇒ better management and leadership decisions
⇒ lower risk of FCA enforcement
⇒ reduction in recruitment overheads
⇒ better customer service
⇒ better relationship management
⇒ building operational resilience

Training is a key factor that firms should be looking to invest in for the right reasons, yet it is also an area that firms look to cut back on when cost savings need to be made. If your staff are not competent, then the FCA will rightly challenge you to explain how you are evidencing real value to the consumer. Lack of training can lead to poor service, poor advice, and a greater risk of consumer harm, which is not a value trade-off in any way that you choose to look at it.

Instead, start making sure that you include a per capita training cost in your budgeting and start thinking about training as an investment that builds greater resilience in your business.

Evidence this in your board packs, and build it into your business modelling, fee structures and apportion that cost across your customer base to evidence how you calculate your margins, commissions, fees, etc.

If a customer baulks at an insurance premium or fee that you quote, you will need to be ready to evidence and discuss the true value that you deliver as part of your service, a key component of any sales and business development process. It's not simply about price and a race to the bottom, there's no value in that to anybody and it will only harm the market's reputation.

Focus on the worth of your service, the quality of your people and the importance that you place on training your staff as a key differentiator. That's where the true value lies.

What's gone wrong with equity release advising and how to fix it

The FCA has reached the end of their tether and we're about to see some major changes

By Paul Archer from Archer Training

Hands up, who remembers the UK Finance's Mortgage Code? Between 1997 and 2004, this 15 -page voluntary Code was followed by lenders and mortgage intermediaries in their relations with personal customers. It was so good that it was copied word for word by the FCA when they formally made mortgage advice a regulated transaction in 2004 and brought in the MCOBs we know today.

History is about to repeat itself, in my opinion. The Equity Release Council has drawn up excellent standards for all members. Still, they are voluntary and have no statute behind them. The FCA has reached the end of their tether with the equity release marketplace and will be MCOB'ing these standards. That'll change everything.

What's Gone Wrong?

Lots, and it hasn't been fixed by the industry. The problems have been well documented, but they stem from a classic mistake we all make when changing something or evolving a process. We forget to unlearn first before creating something new. Let me give you an example.

The Secret is to Unlearn First

The car industry is re-inventing itself to produce electric vehicles (EVs). We know this. The success stories are currently with the new incumbents such as Tesla, who joined the market from scratch and have created sustainable business models producing first-class EVs. The existing manufacturers who have been making internal combustion engine cars for over 100 years are struggling and making heavy progress in converting all their current production lines and infrastructures to making EVs.

Why are they struggling? Simple because they are battling to unlearn first, preferring to use existing processes, equipment, machine tools and so on to make EVs. Naturally, it is more complex than that; it always is with incumbents because they are drenched in current practices and ingrained methodologies. Tesla wasn't and soon progressed.

Similarly, our mortgage sector embraced providing finance to release equity but overlayed existing processes and practices onto the new product offering. Hence, the equity release sales process is uncannily like a mortgage application process. Software is re-purposed from mainstream lending. The advisers are experienced and grizzled with mainstream mortgage advice – MCOBs run through them. Supervisors manage their advisers in the same way.

We even remunerate advisers by a percentage of loan size. Marketing and prospecting for business still have the same call to action as all mortgages. Come to us; we're trustworthy and can help you release money to spend on your children now or go on that cruise you've always wanted.

So, we need to unlearn this first and recreate a new setup. It's not more complex than that. This will allow us to adhere to the new rules that the FCA will copy from the Equity Release Council but with the added teeth of a regulator who can fine you and stop you from doing business.

What Do We Need to Stop Doing?

Here's a list of current practices we've taken from standard mortgage advising and lending that need halting straightaway:

- Using the same sales process as an existing mortgage adviser
- Paying procuration fees as a percentage of the loan amount
- Completely eliminating income and expenditure as a factfind section
- Tightening the sale process where possible to ensure a reasonable fee-to-work ratio is achieved
- Ticking boxes on the Equity Release Council's checklist shows you've adhered.
- Insisting on face-to-face meetings with every client. We can use video.
- Prospecting for new business in the same way as for regular mortgages. Advertising in the local magazine, trusted adviser, intriguing uses for the released money. Product pushing.
- Enveloping customers with enormous amounts of paperwork to show that we're compliant with the rules.
- A mortgage adviser with a mortgage "hat" will look for reasons why a customer wants to raise money on a mortgage. That's what they are conditioned to do.
- Insisting on advice from a costly, specially trained lawyer, a conveyancing lawyer and a qualified adviser. Aiding the adviser to do it right first will eliminate professional fee duplication.

What Can We Do Differently?

Again, in no particular order, we are now able to:

⇒ Bring in the right adviser and properly train them. Of course, mortgage knowledge is helpful but not essential, so we don't need an experienced mortgage adviser. Someone who has experience or has been trained to counsel on:
How to relate to different generations of people and to act as an arbitrator

⇒ Having a more holistic conversation with the customer

⇒ Discuss other methods of releasing equity or raising money on retirement – pensions come to mind, using investments correctly, transferring wealth from one generation to another

⇒ Retirement income options

⇒ Long-term care costs and options

Not a mortgage adviser, they don't have the permissions, authorisation or experience mostly (there are exceptions). What we now need is a specialised retirement income counsellor.

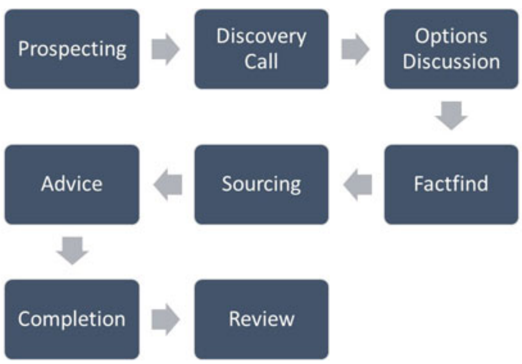
- Proceed to the next stage only when all the options are clear.

Re-Invent Our Prospecting Message

- Re-invent the way we promote the need and bring in customers. No more product pushing. Instead, promote the process, i.e., advice to generate income and capital in retirement. Prospect in a different pool. They need income and capital as they enter their retirement years or need to create additional capital from their current situation – undrawn pensions, property, investments, etc.

Bring In a New Sales Process

- Start with prospecting, naturally and introduce a new meeting with a fee attached. This meeting is the opportunity to consider all the options available to the customer and to bring in other interested parties to assist, e.g., their children. Trigger your vulnerable customer processes and counsel them on their choices.
- Then comes the formal factfinding, but only when the options have been considered and an equity release arrangement is the desired next step. This leads to sourcing, preparing advice and arranging a mortgage offer. Finally, completion and a regular review every six months is ideal.



Holistic Factfinding

- The factfind and the counselling options meeting need a more holistic angle. Since you're exploring several routes to achieve the customer's goal, a "big picture" conversation will occur. This must include an income/expenditure conversation added to the assets and liabilities picture. This data will help the adviser consider the right financing option.

> “So, we need to unlearn this first and recreate a new setup. It's not more complex than that

Change the Compensation Package

- Change the compensation package to suit the new bazaar. With the ubiquitous percentage of loan advanced going, going, gone, we can now tweak the fee position to reward the new process. There should be a fee for the initial options meeting, payable upfront. This can be financed in several ways – from the customer's pocket, pension pot preferably, by the lender as part of their marketing costs. A further fee is payable on completion of any loan but a fixed fee per case, not a percentage of the loan, which is ridiculous and a hang-over from mortgage advising. Percentages encourage all sorts of malpractice. A fixed fee rewards time and effort every time. This fee can be financed via the pension pot, the customer, or the lender as part of their marketing costs.
- Always reward for the right practice.

Supervise and Coach

- Likewise, protect and supervise when the wrong practices are being used. The Training and competence (T&C) schemes need to change to ensure the new processes are being followed. Tighter supervision in the early days should be conducted by specialised supervisors, not just compliance officers. Supervision needs to be around conversations, the right questions and rapport. Challenging the customer with the correct language and influencing skills. Not just "was an IDD issued". Lenders could get on the bandwagon for this and pay for supervisors or supervisor training (it is currently low on the list). This would ensure you have quality advisers fully equipped and skilled to advise.

Summary

It's about doing the right thing, not just doing something right. But sometimes, the right thing must be encouraged more forcefully if the gentle approach doesn't work. Soon, we'll see the FCA step up to tighten regulations, which will be mandatory.

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

What's next for the financial adviser?

By Jane Pitt from RedTree Training

As I write, I am in the midst of the final preparation for the Christmas break. I would imagine that most people find this week hard going; whether it's because you are preparing for a visit from the big man in his red suit or just trying to meet a client's expectations of getting something completed before the festivities can begin, the demands on your time just seem to keep coming. But amid the chaos, there is always a point in this week where we accept what can (and can't) be done and start to relax just like the pain relief advert - you know the one where they talk about the point between the pain and the moment it starts to subside. It is this point of 'acceptance' that is the pivotal moment that moves us from a freeze state to being able to move again.

I think that we are at that point in the financial services industry. Despite the Regulator implementing multiple initiatives over the years that seek to evolve our culture, many within the industry are still standing firm with the old ways, adhering to the rules but not embracing the principle or spirit of the desired change. And no role demonstrates this better than the financial adviser.

Many career advisers will have seen a great deal of change in the financial services industry since they first qualified. The evolution of technology over the last thirty years has had an enormous impact on how they discharge their duties. From how they engage with clients, how they share client information for oversight checks, to how they deliver client services to name a few, and no one can be sure what the next thirty years will look like, especially if technology continues to develop at the same pace.

But during this time, little has changed in how financial advisers formulate financial planning solutions. An increasing body of evidence reveals that the way that we give advice may not have kept pace and be in keeping with the expectations of the younger generations. Advisers may now use technology to gather and document client information, but we still typically create a financial plan in the same way as we did when advisers were first asked to achieve their Financial Planning Certificate. Indeed, much of the current professional qualification training materials continue to reference a historical family structure that, whilst still exists, is becoming less common. It also models a traditional employment arrangement which we know many Millennials are rejecting in favour of a less restricted one, often seeking a more entrepreneurial path. And the products that are in the model recommendations are frequently void of the climate and social considerations that are increasingly important to clients. Whilst the historic assumptions that many financial services products and processes have been built on are being challenged, we've not yet questioned if what we are teaching our new advisers remains current.

The 'assets-under-management' model of old worked well for the Boomers and some of GenX, but it is not a model that is seen as commercially viable for Millennials because they either haven't accumulated enough assets .

or that they don't believe they will ever accumulate enough. A Money Marketing poll in 2022 confirmed the common perception that only Boomers and Gen X are likely to value advisers but, it also appeared to suggest that so do the Millennial generation, just not in the same way, which means we still have something to work with.

With the average age of a financial adviser in the UK being 57, many will have a wealth of knowledge and a lifetime of experience, however, they are also likely to start to retire in the forthcoming years. This presents us with a great opportunity to build on all the advancements of the last thirty years and re-examine how we give advice to ensure we can meet the appetite and expectations of the younger generations for good quality, personal financial advice, whilst still meeting the requirements of the Regulator.

The internet is awash with individual papers and articles sharing different viewpoints of how the financial services industry has changed over the years and what needs to be done to keep pace with the evolving financial landscape. But when I was looking, I couldn't find anything that pulled it all together to say how the role of a financial adviser also needs to change. This could be because some think the role will eventually become a casualty of the technological advances, being replaced by some configuration of Artificial Intelligence. However, I think the evidence suggests there is still (currently and for the foreseeable future) a need for the human financial adviser, but the role needs to adapt to survive. I share my top five suggested evolutions based on this research below.

(i) Educate – historically advisers were viewed as the experts and sought out when individuals felt they had insufficient knowledge to plan successfully for themselves. Clients were often happy to just do as recommended as they had no reason to question otherwise. However, following recurrent industry scandals, the number of these clients are dwindling year on year. Many will now seek to first understand before they consider committing.

Millennial and GenX clients tend to be more sophisticated buyers; that is not saying that they are more knowledgeable, but they possess the ability to evaluate the value and merits of a recommendation due to the availability of information through the sources they have grown up with, namely the internet, to check what they are being told. The information found on forums and through peers will generally be generic and based on fact, whereas when advisers share information, it can feel more 'sales' orientated as often they will pick out the features, advantages and benefits of a product specific to the client and leave out other information that will seem less relevant. There is a balance to be sought where clients feel that advisers are sharing information without selling, versus the amount of information we can realistically share without asking the client to commit to hours of self-study.

Advisers ought to be able to share their knowledge in a way that helps to create trust. Their explanations need to compare to those that clients find through their own sources and consider how the language used to explain

> An increasing body of evidence reveals that the way that we give advice may not have kept pace and be in keeping with the expectations of the younger generations.

our familiar terminology may impact on a client's interpretation. We have long since focused on breaking through the jargon but now we must also consider how we explain it so we can appeal to all our clients.

Millennials like to feel more involved and given time to understand, so advisers may need to be more explicit and not to assume any level of prior knowledge.

Advisers for the future also need to know how to demonstrate their knowledge. The factfinding process can often turn into a 'you share your information and then I'll tell you what to do' process. Whilst Boomers are happy to trust what an expert says, the younger generations also want to understand the 'how' and 'why'. Advisers need to know how to do this efficiently and effectively without overloading the client but giving them enough to trust and be confident that what they are being advised will work for them.

(ii) Coach – individuals tend to learn how to coach in preparation for their first supervisory position, but coaching skills can be used for so much more than developing those we are responsible for.

A personalised service is becoming increasingly important. Whilst advice has always been tailored to the individual's needs, the service may have been more generalised. Most clients will have been placed on an annual review rota when signing up, with instruction to make contact should there be any significant changes to their circumstances in between time. Whilst this will still work for lots of clients, many are seeking a service more akin to a personal trainer who is there to provide coaching on an ongoing basis, guiding them to achieve their goals, motivating them to keep going when they have setbacks and to teach them how to make their money truly work for them.

If we can teach our advisers to be coaches as part of their normal development, then it will be easier for them to adopt this preferred style more naturally when appropriate. We know that Millennials seek less of 'tell' and more collaboration; coaching lends itself well to this need. In turn, it will aid the fostering of long-term relationships as coaching is not something that can be done successfully as a one-time event, but instead something that must be built on over time, reacting to efforts to grow, and challenges faced, so that the adviser turns into a trusted guide.

(iii) Action orientation – the technological evolution has brought about great changes in how we organise our lives. We have become accustomed to instant gratification – whether be it finding information, being able to complete financial transactions, or to being able to meet our consumer needs such as ordering food or a buying a product.

When presented with a professional adviser who wants to meet two or three times, each for several hours before they get to the point of being asked to act, it can understandably feel very alien. Whereas we know that it is only by taking the time to gather all the client's financial information can we make suitable recommendations, many new clients are not used to having to share their information as decisions are frequently made by algorithms using anonymously collected data so that an immediate response can be given.

We must find a way to help our advisers balance the client's need for immediate action with our need to complete a full suitability assessment before recommending a course of action. One suggestion is to consider moving the client onboarding point forward. We can then potentially use client service portals to share information digitally or even connect us directly to different sources on their behalf, thus reducing meeting times. For clients, being able to take action to collate their information and to potentially use tools to analyse it, will help them feel like they are being asked to act much earlier in the process.

(iv) Segment focus - in recent years, we have often divided our clients by their amount of investable assets. The assumption is that those with more investible assets have more complex needs and therefore need to be looked after by advisers with greater levels of expertise. Whilst understandable, it may not be sustainable. With the ways in which our clients work changing, we must improve the financial adviser's knowledge on how different clients make their money and how their needs may differ to the traditional employed single career path client of old. They must understand the needs of the entrepreneur and business owner, the serial career changer, the on-off workers (six months on, six months off), the influencers and the gig economy workers, to name a few. Future advisers must keep pace with both the client's needs and the client's world so that they can speak their language.

The removal of the business financial planning module means that many advisers lack the opportunity to learn even a basic understanding of what it means to run a business or be a hundred per cent shareholder in one. Businesses can be a major part of a person's wealth. 'My business is my pension' is something an adviser may hear without understanding what this realistically means, and then when doing holistic financial planning for a business owner, may result in key aspects being easily overlooked. Couple that with the fact that many business owners become experts in multiple fields, like business taxation, can put an inexperienced adviser on the backfoot before they even get invited to make a recommendation.

Advisers need to regain this knowledge as well as a wider client segment knowledge, perhaps developing expertise in a particular segment to better serve their typical financial needs. Taking this one step further, it is also worth considering the merits of matching advisers and clients more by generation so that they can relate to the challenges they face such as the intergenerational wealth planning for our older clients, or global mobility for our young professionals, or maintaining your income for those with caring responsibilities.

(v) Investor behaviour – Advisers have long since needed to know how to recognise and act on client behaviours so that they can adapt their advice process to keep clients engaged. Many long-standing advisers will have learnt these skills whilst progressing through the customer facing roles, normally for a bank or insurance company, following a once traditional route into financial advice. But even the most experienced career adviser may not have a good grasp of investor behaviour.

The terms 'behavioural finance' and 'behavioural economics' started to appear in the 1990s but many advisers will only learn about the impact of investor behaviour either through bitter experience or if they study for the Level 6 qualification. Investor behaviour attempts to explain how social, emotional and cognitive factors affect our investment decisions. Many of the initial theories continue to evolve with the emerging trends in our financial industry which makes it 'must have' knowledge for novice advisers.

An understanding of investor behaviour furnishes advisers with the knowledge to speak in the client's financial language, create financial plans that fit with their financial beliefs and present them in a way that resonates with their thinking. We talk about creating a personal financial plan unique to our client's requirements but with this knowledge, financial advisers really can and continue to, as new themes emerge.

When writing this article, I also sought the opinions of many Millennials and GenX family members, personal and industry contacts to check what I was reading but also to get their views on my ideas. Some of their interpretations initially shocked me, and I must admit, I initially rejected many of them. Millennials are the generation who grew up with the internet; they use social media to keep up with their friends, to date, to network, to shop, to consume entertainment, and they are the first generation to integrate all manner of digital technology into their daily lifes. Given this, it is wholly understandable that they see things differently to many of us financial services industry lifers.

After I took the time to learn more and attempt to understand the reasoning behind their thinking, I could start to examine how and why they had formed their views and opinions, and importantly, what we could do as an industry to work with them given they are our next generation of clients, and our next generation of financial advisers. Or in other words, I reached a point of accepting that something was indeed amiss with my thinking, and I was ready to take the medicine. The question is, are the big financial planning organisations ready to do the same?

Taking on somebody else's T&C Scheme

By Andy Snook from Performance Evaluations

Recently I had the opportunity to progress my retirement plans and move to a three-day working week, which meant I moved firms.

This of course brought not only new opportunities, but new challenges too. Having spent three and a half years working remotely, the new role was hybrid working, two days in the office, one day remote. Of course, the whole firm works hybrid and being a medium sized firm, this meant that certainly on the days I was in the office, only twelve to fifteen others would be too. Quite a change to those pre-pandemic days. It is noticeably quiet by comparison.

This T&C role has been newly created and takes the work off the Compliance Manager and one of the Directors of the firm. The T&C Scheme itself is well-established and covers a wide range of measurements. There are significantly less members in scope than the last scheme I ran, and the KPI reviews are quarterly, with monthly feedback, so they should just be a review.

Of course, the role is the same wherever you go. However, systems and process will vary. The first variance was that I had to learn a new back-office system, one which I had not used before. You need a good knowledge of the back-office system so you can track, report, and if necessary, challenge, so this was top priority. Two months later I can now get by, but there is still more to learn.

The measurements in the T&C Scheme are taken from a wide range of sources, the location of which also takes time to learn. There were no written processes for the T&C work since this had been done by the same person for so long, they knew what to do and where to go like the back of their hand. Although the knowledge transfer has been great, I have had to build a process for each KPI, and then link each to the relevant data source. I also need to do more mapping of sources, since whilst putting together this quarter's KPI outputs I would complete one KPI from a data source, only to find that I need the same source for another KPI further along.

The sales process is also different. The T&C Scheme covers both the Private Client advisers and the Employee Benefit advisers, and I found that out when I conducted by first accompanied meeting a couple of weeks ago that due to the various stages in the advisory process, some components did not have observation forms. Something else to add onto my post-Christmas to do list!

It is fair to say that whilst this T&C Scheme can easily be run on three days a week basis, this has been a bit of a hindrance during the take-on period. It would have been better to have been working full time, rather than a two-day break each week making it a bit stop start.

Normally when taking in somebody else's T&C Scheme I would start off by spending time reviewing the past records to get an understanding of the members, for example trends in the KPI outputs, development plans, personal strengths, and weaknesses. Again, working full time for the first few weeks might have allowed this. I joined the firm in the second month of the quarter and, after spending the first weeks or so meeting all the advisers and strategic members of the team, it's been full on just to complete most of three months' worth of KPI measurements so I can deliver the outputs before we break for the holidays.

In summary, there are several learns. If you are a T&C Supervisor, always ensure that somebody else can pick the details of the role up as easily as possible. Everything that you do should be written down, especially the how and where. If you are onboarding a new colleague, factor in time to ensure they are up to speed with all the systems and processes before they start the actual work to avoid having to piece things together as they go along. This will help you too, as hopefully it will minimise the number of questions they ask.

If you are looking to take on somebody else's T&C Scheme, avoid any thoughts that you can just walk in and take it on. Assumption can be a dangerous thing. Of course, you can do the job. But how you do it is just as important. Find out how the role compares with your current or last role. I would suggest taking a checklist with you to identify what is different. As what systems they use, an overview of the processes, and most importantly, what their expectations are and timelines for the deliverables. I already knew I would have a different back-office. I expected the processes to differ. What I did not expect was to be thrown in the deep end immediately. Does it change my view on the firm? No. Mainly because their ethical to their people, their clients, and the local community is so good.

From January on it will be different. I will be taking full control of the T&C Scheme and have a full quarter to deal with the measurements. Yes, I will be making some changes since whilst it is a good scheme, it is a little bit too complex and to construct the quarterly KPI outputs is convoluted. My to do list is quiet long. Top of that list is to ensure I have time to add value in any way I can.

How to embrace technology but keep your humanity – implementing a RegTech solution

By Bea Stafford from 1st Risk Solutions

Today, the majority of our business and personal lives are dominated by our access to technology. From business platforms, personal apps and third-party providers, technology drives our daily experience.

Projections show that the technology industry is set to **exceed $5.3 trillion** this year (2023), as firms continue to push back the boundaries of the possible, and champion digital transformation. Yet the challenge with digital transformation is how to embrace it without losing our humanity. Businesses from all sectors are striving to successfully leverage technology that positively influences and supports their humanity rather than pushes it away.

You may have been one of the **84%** of businesses making cybersecurity and resilience a top priority in 2023. If so, and if you are looking to allocate some of your budget to a technological solution that addresses this, then here's how to make those changes and achieve that elusive balance.

Digital Transformation *is* Human Transformation

Implementing new technologies can be problematic. Success has less to do with technology and more to do with managing the cultural and structural challenges that a technological shift produces. Below are 3 key steps to striking a balance, so you can harness digital tools to your advantage whilst remaining human-centric and effective.

1. **Be Clear on Your Business Goals**

Rather than focusing on the technological approach, focus on your business needs and objectives. Once you know your goals you can work out what technology serves your business best. It's easy to be distracted by impressive features but you need to ask yourself whether they will be of any use to your business circumstances.

Remember a digital solution is a tool to aid efficiency. If for example, you are looking to implement a GRC software solution then it is important to recognise it will not do risk management for you, but rather support your organisation with risk management issues.

Organisations investing in technological solutions need to make sure that they have done their preparation and understand their specific aims before purchasing. Take a look at our article **SHOP SMART: 4 Steps to Successfully Adopting a GRC Solution.**

2. Automate Tedious Tasks

The key is getting the balance between technology and human input. There will be aspects of your organisation that will benefit from technological assistance, such as analysing and reporting on large data sets. Automation, in this instance, can complement your business by saving time and improving efficiency.

Nevertheless, technology should be used to *enhance* and not replace. If digital transformation is done successfully, it can improve the effectiveness of human employees too, allowing them to focus on more productive and less tedious tasks.

Ensure that the technology introduced to your organisation enables people to be more constructive, efficient, and innovative. That it helps them to remain connected; and feel safe and cared for. The whole organisation needs to fully embrace the new system otherwise it will never be fully adopted.

3. Manage the Shifts Transformation Creates

It's relatively easy to find a GRC provider that can implement a system for you, but much harder to prepare your organisation to adapt to new technology.

Strong leadership and good communication are essential to embedding a digital transformation. Implementation should be treated as a major change with senior-level support. Business leaders should have a clear vision of what they need a solution to do and what will 'fit' the company. They should collaborate with all departments and stakeholders in the selection, implementation and testing of a new system. So that everyone can get behind it and create true transformation.

It is important to be realistic with the scope and timeframe too, this is not an overnight change. So be sure to allow plenty of time to train, test and become familiar with the new technology. For a more detailed review consult our guide on **The Most Common Pain Points of GRC Implementation – And How to Avoid Them.**

1RS Helping You Get the Balance Right

Our digital tools are designed by risk and compliance practitioners, for risk and compliance professionals. We work in partnership with our clients to select a well-fitting technological solution that meets their specific requirements whilst ensuring complete compliance.

Here at **1RS**, we believe in supporting our clients during every step of their journey – and beyond. To us, customer success means entering a partnership in which everybody wins. Our team will configure your 1RS solution so that it fits the size and needs of your organisation. We then guarantee all structures are correctly and effectively embedded through ongoing monitoring.

Talk to one of our experts further about how you can embrace technology *and* keep your humanity.

Unintended consequences

By Derek Davies

Unintended consequences can be defined as the outcomes of a purposeful action that are not intended or foreseen, and can be applied to regulation, legislation, as well as to T&C Scheme design.

Both the Financial Conduct Authority (FCA) and The Pensions Regulator (TPR) have issued recent statements on the need to ensure that both legislation and regulation does not provide unforeseen consequences. This comes from a focus on ensuring that the relevant rules, regulations, or guidance provide for the correct approach from those affected, rather than providing a series of loopholes that can be used by those who are seeking to evade their responsibilities.

A great deal of focus in the financial services industry is on the implementation and ongoing management of the FCA's Consumer Duty requirements where, in terms of the advisory sector, has created a need for firms to assess what they do, in terms of providing advice, and creating a documentation process to prove that they are doing it correctly. This is part of the FCA's move to improve customer outcomes in terms of financial services, however, like any form of broad regulation, there is a danger that without a practical approach, the impact on advisors and consumers may have unintended consequences.

Many examples have been given of the potential for this, like advice to opt for a fixed or variable rate mortgage, or to opt for a market-based ISA over a Cash-based ISA, for a lower risk investor, as any advice provided can be proved to have been the wrong advice with hindsight. This brings us back to the basics of providing advice that the FCA have encouraged over the years, to ensure that a product meets a customer's needs in the first place, based upon their attitude to risk, and current and future circumstances. However, the model also revolves around the need for advice to be reviewed regularly in the future to ensure that changes in risk, income, or status can be assessed by advisors and any remedial action taken. Indeed, firms often define their relationship with their clients as being of a "one-off" nature, with no set frequency for reviews to be carried out, although many firms do contact clients on a regular basis to offer reviews, but in some cases with seemingly little in the way of educational materials provided to explain why such a review is either necessary or important.

This all sounds good in principle but falls down on the fact that few consumers see their interaction with financial advisors as an ongoing relationship in the same way that they would see their involvement with their Doctor or Dentist, where regular check-ups are seen as the norm, rather than the exception. In part, this is because of the perception of the value of such a meeting, with an "everything is OK" outcome being seen as a waste of money, while the process of paying an accountant or tax advisor to gain a refund from the .

HMRC, is seen as a more positive outcome overall.

The focus of the TPR in terms of unintended circumstances was in relation to the inclusion of more diversity on the boards of trustees of pension schemes, which has also been a focus of the FCA in terms of senior members of management teams at financial services companies. However, while it is laudable that these two regulators are trying to ensure that those that make important decisions in relation to pensions schemes and financial services organisations are more representative of society as a whole, why should the focus be only on the upper echelons?

Surely there is a need to ensure that those providing advice to individuals or pension scheme members are more representative to those that they are advising. Should this not also be a focus of the regulators, rather than leaving such decisions to market forces, rather than to regulatory guidance, as a minimum? I would argue that having advisors available that can speak the wide range of diverse languages of the elements of the ethnic diversity that characterises modern Britain, is more important than ensuring that any minorities are represented on the Boards of companies, to all those receiving advice.

Indeed, many of those who may need advice, are also those that potentially cannot afford to pay for it, or to pay for the full advisory service that those with greater wealth would be familiar with. This is why moves are being made in the financial technology (Fintech) space, to develop useable Artificial Intelligence (AI) based advice systems, which those who need more limited advice could use, as an alternative to seeking the services of a qualified advisor.

However, like all such innovations, the use of such technology could itself have unintended consequences. Some of these could arise from the initial programming or subsequent data updating process, where even a small error could see incorrect advice being provided. Alternatively, those that could afford to pay for fuller advice, whose circumstances are more complex, might see such a service as a way to avoid paying advisory fees and put themselves in a position where the risks of not seeking the services of an advisor, may prove to be more costly than the savings that they have made in fees.

However, that is something for the future and coming back to where we are with the advisory sectors efforts related to the FCA’s Consumer Duty requirements, the Training & Competence (T&C) Scheme for each firm will need to be updated to reflect these changes.

The temptation for some firms will be to take the opportunity to make the entire T&C Scheme a prescriptive copy of the Consumer Duty requirements, and not to include allowances for the fact that the Scheme deals with human beings. Nor will they take account of the fact that the FCA itself is a great believer in proportionality and will accept that Schemes should allow for the various stages of development of all of those that come under the requirements. This attitude, unfortunately, means that the firm is setting itself up to fail, if this is measured by the number of T&C Scheme breaches that are recorded, or the uncertainty of progress in the development of some advisors. Elbert Hubbard, an American writer is quoted as saying “The greatest mistake you can make in life is to be continually fearing you will make one", and this is just what such actions would lead to, and this would be an unintended consequence of FCA’s regulation.

It is important therefore to take a step back and for firms to look at the potentially positive consequences of the actions that firms take in relation to legislation, to regulation, to T&C, to their customers and to their employees, (although I understand that the word colleagues is preferred now in some circles). The Mayor of Boston in the United States, Michelle Wu, was quoted as saying “It is not enough to simply dismiss policy, because it's too complicated or we're scared about what the unintended consequences might be.” This has never been more true in relation to the changes brought in by, and the effects of Consumer Duty, and it is those firms that take the time to consider the positive consequences of their actions in implementing the regime, and who take the time to identify and address and unintended consequences that arise, that will be the most successful

“It is not enough to simply dismiss policy, because it's too complicated or we're scared about what the unintended consequences might be

Transitioning from Solvency II to Solvency UK

By Ian Ashleigh from Compliance Matters

"Solvency II sets out regulatory requirements for insurance firms and groups, covering financial resources, governance and accountability, risk assessment and management, supervision, reporting and public disclosure." (source: The Prudential Regulation Authority website).

On 1 January 2016, Solvency II introduced a more risk-based system of supervision for insurance firms across all 27 European Union (EU) member states.

Following the UK's withdrawal from the EU (Brexit), the Prudential Regulation Authority (PRA) in conjunction with HM Treasury reviewed Solvency II with a view of making the provisions more relevant to the UK whilst maintaining the protections afforded by Solvency II.

In addition to fully harmonising regulation across the EU, Solvency II imposes stricter requirements on firms to protect policyholders via adequate capital and consistent risk management standards. Solvency II continues to apply to all UK insurance firms. The PRA has updated its website to reflect the legal and regulatory framework that is applicable after 1 January 2021, which effectively 'onshores' Solvency II requirements into the UK. You can read the latest PRA Solvency II updates here which include the results of the Bank of England's annual stress-testing exercises and the progress towards Solvency UK.

Who does Solvency UK apply to?

Solvency II applies to all EU insurance firms with a gross premium income that exceeds €5 million or gross technical provisions in excess of €25 million. Following the UK's exit from the EU, the provisions of Solvency II have been adopted into UK regulation. Technical provisions are the amount that a firm sets aside in reserve to fulfil its insurance obligations.

Under Solvency UK, insurers need enough capital to have 99.5% confidence that they could cope with the worst expected losses over a year. The PRA estimates that about 450 UK firms are subject to Solvency UK requirements.

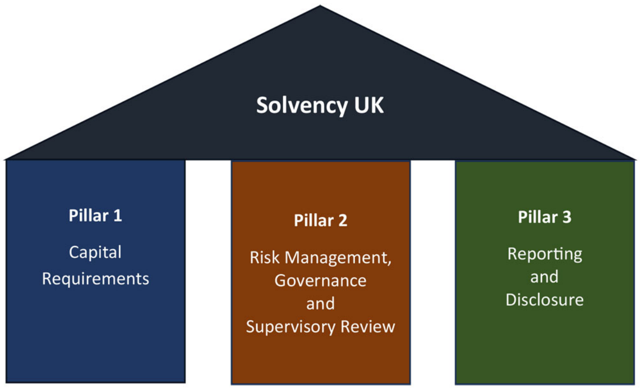
To facilitate the transition of Solvency II to Solvency UK, the PRA has published two consultation papers:

CP12/23 – "Review of Solvency II: Adapting to the UK Insurance Market" and

CP19/23 – "Review of Solvency II: Reform of the Matching Adjustment".

The PRA has stated the implementation date for the majority of the reforms will be at which point all references to Solvency II will be changed across to Solvency UK. The PRA has recommended that firms should take note of the consultation papers and begin to prepare for the new provisions.

The Solvency UK framework has been grouped into three separate "pillars" of capital and risk management.



Pillar 1

Covers the capability of an insurer to demonstrate that it has adequate financial resources in place to meet all its liabilities.

Pillar 2

Defines requirements for the governance and risk management frameworks that identify and measure the risk against which capital must be held, as well as for the effective supervision of insurers. This ensures that insurers' businesses are managed to a high standard.

Pillar 3

Focuses on disclosure, reporting and transparency requirements around these risks and capital requirements.

Minimum capital requirement

Firms must maintain sufficient capital to cover two thresholds, the minimum capital requirement (MCR) and the solvency capital requirement (SCR).

MCR

The MCR denotes a level below which policyholders would be exposed to an unacceptable level of risk. It represents the potential amount of own funds that would be consumed by unexpected large events whose probability of occurrence within a one-year time frame is 15%.

The MCR must be calculated quarterly in accordance with a standard formula set by the PRA on a "value at risk" measure, which is intended to reflect the risk associated with a portfolio of assets and liabilities. The MCR cannot fall below 25% or exceed 45% of an insurer's SCR.

SCR

The Solvency Capital Requirement (SCR) is the quantity of capital that is intended to provide protection against unexpected losses over the following year whose probability of occurrence within a one-year time frame is 0.5% - up to the statistical level of a "one in 200-year event". This robust requirement is designed so that insurers should be able to withstand all but the most severe of shocks.

The intention is for the SCR to reflect the real risk profile of a firm, taking into account insurance risk alongside market risk, credit risk and operational risk.

A firm's SCR must correspond to the value-at-risk of its basic own funds subject to a confidence level of 99.5% over a one-year period.

When calculating the SCR, firms must take account of the effect of risk-mitigation techniques, provided that credit risk and other risks arising from the use of risk-mitigation techniques are properly reflected in the SCR.

Quality of capital

The prudential regulation of insurers under Solvency II notes that "even if the quantity of capital held by an insurance firm is considered to be sufficient, if that capital is not of an appropriate quality, then it may not be able to absorb losses effectively." Under Solvency II, capital is classified into three tiers.

- Tier 1: Highest quality of capital and must be able to absorb losses on a day-to-day going concern basis.
- Tier 2: Lower quality and only needs to absorb losses on insolvency.
- Tier 3: Lowest quality of capital permitted and has only limited loss absorbing capacity.

Pillar 2: Risk Management, Governance & Supervisory Review

Pillar 2 is based on four building blocks of Governance, these are:

1. A risk management system that models potential risks in addition to managing them.
2. Own Risk and Solvency Assessment (ORSA) and capital management.
3. Policy, processes, and procedures that must be fit for purpose, and enforced.
4. Key functions covering

- Risk management
- Compliance
- Actuarial
- Internal audit

Solvency II requires:

A firm to establish and maintain an effective risk management system. At a minimum, this should encompass the following risk categories:

- Underwriting and reserving
- Asset and liability management
- Investments
- Liquidity and concentration risk management
- Operational risk management
- Reinsurance and other risk mitigation techniques

To be effective, the risk management system should take account of the strategies, processes, and reporting procedures necessary to identify, measure, monitor, manage and report the risks to which the firm could be exposed. The system should be documented, regularly reviewed, and fully integrated into the firm's decision-making process.

and

A specific Risk Management Function (RMF) to be in charge of ensuring that the risk management system remains fit for purpose

A firm must ensure that it has an effective system of governance in place, which provides for sound and prudent management of the business.

At a minimum, this should include a transparent

> "In addition to fully harmonising regulation across the EU, Solvency II imposes stricter requirements on firms to protect policyholders via adequate capital and consistent risk management standards

organisational structure, with a clear allocation of responsibilities and segregation of duties, coupled with an effective system for communicating information across reporting lines. This links well with the principles of the Senior Managers and Certification Regime (SMCR), in which firms are required to prepare a Responsibilities Map for the business and individual Senior Managers are required to hold a Statement of Responsibilities.

The firm's governance rules should be documented and approved by the Board and reviewed at least annually.

- Contribute to the effective implementation of the risk-management system, including risk modelling.
- Submit an actuarial function report to the Board annually.

Pillar 3: Reporting & disclosure

The requirements are designed to foster market discipline and provide supervisors with the information needed for effective and proportionate supervision. As the prudential regulation of insurers under Solvency UK states, "Solvency UK introduces new reporting and disclosure requirements for firms, with the aim of improving the availability of information to the market".

Firms must produce a Solvency and Financial Condition Report (SFCR)

- Firms are required to disclose this report publicly and report it to the PRA on an annual basis.
- The SFCR includes qualitative and quantitative information.

In the SFCR, a firm needs to clearly explain aspects of its approach to Solvency UK, such as the use of an internal model and any non-compliance with regulatory solvency requirements.

In addition, firms must comply by the Rules set out in PRA Policy Statement PS2/15 in relation to submitting National Specific Templates.

Firms should also be aware of the PRA's expectations in SS25/15 "Solvency II: regulatory reporting internal model outputs", which contains templates and log files that the PRA expects firms to use when submitting regulatory reports on their internal model outputs.

The PRA proposes to update SS11/16 "Solvency II: External audit of, and responsibilities of the governing body in relation to, the public disclosure requirement" to reflect the proposed changes to the group templates disclosed in the SFCR.

Ahead of 31 December 2024, firms should review the changes brought about by the transition from Solvency II to Solvency UK and ensure their systems and controls are fit to meet the new regime.

Regulators turn their attention to 'Critical Third Parties'

By Philip Masey from Wizard Learning

> "One of the key components leading to this heightened awareness and scrutiny has been firms' ever-increasing reliance on technology and internet services

In a paper published on 7th December, the Bank of England, as well as both the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA), have outlined their plans to bring critical third party (CTP) suppliers to the financial services industry under their supervision.

Changes to the way CTPs are managed were first proposed in a paper released by the Treasury in 2022, but now in an updated discussion paper the regulatory bodies have detailed how they hope to create homogenous rulebooks that "manage potential risks to the stability of, or confidence in, the UK financial system that may arise due to a failure in, or disruption to, the services that a CTP provides".

They propose introducing a "set of six fundamental rules" which all CTP's would have to abide by when providing services to any financial firm, intermediary or financial market infrastructure firms. The proposed rules are as follows:

1) A CTP must conduct its business with integrity
2) A CTP must conduct its business with due skill, care and diligence
3) A CTP must act in a prudent manner
4) A CTP must have effective risk strategies and risk management systems
5) A CTP must organise and control its affairs responsibly and effectively
6) A CTP must deal with the regulators in an open and co-operative way, and disclose to the regulators appropriately anything relating to the CTP of which they would reasonably expect notice

These rules are "similar but less extensive than the PRA Fundamental Rules and FCA Principles of Business" and are being introduced to recognise the risk posed by CTPs to the financial services industry as a whole. The discussion paper and its responses on this topic released by the regulators back in July 2022 has formed the basis for these plans, but CTPs have been monitored for several years in the build up to this, with their potential risk to the stability of the UK financial system being highlighted in the Financial Stability Report (FSR) in June 2017.

One of the key components leading to this heightened awareness and scrutiny has been firms' ever-increasing reliance on technology and internet services, specifically cloud-based services, and cyber-attacks. The FSR from November 2018 specifically noted the risk posed by cloud service providers due to the limited number of operators in this market, emphasising the fact that "disruption at one provider, for example due to cyber-attack, could interfere with the provision of vital services to several firms". In a policy statement last year, The Treasury stated that as of 2020, 65% of all financial firms use the same four companies for their cloud services, clearly

displaying the over-concentrated reliance on a small number of providers.

The response from the UK Government has resulted in legislative changes included in the Financial Services and Markets Act 2023. Under the new legislation, the Treasury has been given the power to designate suppliers as CTPs, and the regulators have been given the authority to impose rules, investigate and enforce judgements against CTPs, as well as the power to order a CTP to either do something in a certain way or refrain from doing something in a way that they deem unsuitable. The new rules proposed by the regulators are a direct result of these new powers.

So how do these new rules affect financial firms?

Up until now, financial firms' only power to manage the systematic risks posed by third party suppliers have been the contractual agreements between them. It is the responsibility of the financial firm to ensure these agreements comply with the regulators' existing operational resilience frameworks, but those have been deemed inadequate to effectively manage the risk posed. The potential problem of a power imbalance between service providers and smaller firms has been shown to be of particular concern, and the hope is that by introducing these new regulatory powers, the responsibility for mitigating the risk posed by suppliers will be returned to the supervisory bodies.

That does not mean that firms' can totally abandon their responsibility for ensuring their contractual agreements are sufficient to provide operational resilience, as these new rules will only apply to third party suppliers designated as 'critical' by the Treasury. The anticipation is that this will only cover a small number of firms from within the vast network of suppliers across the financial services industry. As a result, firms will still need to ensure that they have adequate assurance through their agreements that any disruption to the service will not materially impact their operational capacity.

The new rules are not replacing the existing frameworks for operational resilience but should be seen in conjunction with existing guidance. For example, the PRA has previously announced a requirement for firms to able to demonstrate that they can remain within self-defined impact tolerances towards their Important Business Services (IBS), by 2025. They are keen to see firms identify, map and test their plans to deal with the impact of any disruption from third party supplier services, and consider the impact this may have to their Important Business Services.

What impact will this have on supplier-firm relationships?

A common worry expressed by those in the industry is that these new rules could be cited by suppliers as a valid reason to increase the price of their services. The argument has been made that at a time when many business costs - from energy to wages to rent for office premises - have been steadily rising, implementing a regime that will cause suppliers to incur significantly increased costs could be detrimental to the provision and access to these services for smaller firms if these costs are then passed on to customers.

Another fear is that these suppliers could use their designation as a sales tool, promoting their designation as validation from regulators that they are operating in a manner that is compliant with operational resilience rules. This could then lead to a further concentration in the supply chain with smaller third-party suppliers, not designated as 'critical', being further pushed out of the industry unable to compete for business.

The paper has tried to address this potential misuse of the designation by indicating that suppliers must refrain from claiming the designation means they have the 'endorsement' of regulators. However, it is hard to see a scenario where this designation will not affect a firm's choice when choosing a supplier for their outsourced service. All firms will want to understand and contractually agree on how suppliers plan to remain compliant within the new regime, handing a huge advantage to firms who can demonstrate their compliance through direct supervision from the regulators.

To summarise, firms should not deviate or change their approach when it comes to their compliance strategies for any third-party suppliers, whether designated as 'critical' or not. All supply chain members should be thoroughly assessed for their impact to a firm's operational resilience and firms should still rely upon robust contractual agreements that provide adequate assurance of regulatory compliance and proportionate impact to Important Business Services, in the event of disruption to those services.

The new CTP regime is designed to provide additional powers and oversight for the regulators when dealing with third-party suppliers that are considered critical to the stability of the financial system, but should not impact a financial firm's decision making when interacting or contracting any supply chain member.

What to make of the FCA's latest proposals to close the advice gap

Henry Tapper
Chair, Age Wage

> Decisions around how much to save, for how long, and how to spend those savings sustainably in retirement are central to meeting these customer needs

For a long time, the advice/guidance boundary was on the margin not just of advice and guidance but of pension debate. But today it's hard to think of a more talked about challenge in the UK savings market than closing the advice gap.

Previous attempts have barely dented the surface (FCA clarifying the boundaries) or have fallen at the first fence (simplified ISA advice). The FCA's latest attempt feels different and has the potential to benefit millions of customers in need of support.

The FCA have put now consolidated their thinking into three proposals:

1. Clarifying the advice boundary – helping organisations be clear on how to deliver meaningful customer support without making a personal recommendation.
2. Targeted support – enabling providers to deliver much clearer direction to customers to meet their savings and retirement needs.
3. Simplified advice – targeted around a specific customer need which benefits from a personal recommendation but doesn't require holistic advice.

In isolation the first proposal is unlikely to make a difference, but alongside the other two it can only help. Proposals two & three open up much wider opportunities for providers to help members, the most significant being targeted support.

The FCA has identified wealth accumulation and decumulation decisions as prime scenarios for addressing customer needs through targeted support. Decisions around how much to save, for how long, and how to spend those savings sustainably in retirement are central to meeting these customer needs.

On the boundary but no longer marginal

Far from being marginal, the FCA's latest paper has a forward from Treasury Secretary Bim Afolami and as Tom McPhail puts it in a recent Laing Cat Podcast- " it has the Treasury's pawprints all over it". Tom has a good description of the FCA's approach as saying things "*louder and slower, like a British tourist on holiday*". That is a first class simile and is in line with my reading of the paper.

It looks as if most adviser interest is around targeted support and it catches the eye for its innovation. We are all familiar with the Amazon nudge to take note of what people like us are purchasing. But it comes as a surprise to hear the FCA suggest that people would do well to follow the "*wisdom of the crowd*". It makes a positive change to accusations that advisers encourage "*herding*"!

What is refreshing is that the FCA are allowing this anecdotal approach to point savers to a "*definitive course of action*".

This has historically been one definition of advice and it suggests that within the constraints imposed by the consumer duty, the “stronger nudge” is on the boundary of a recommendation.

Nathan Long of Hargreaves Lansdown calls targeted support, the "*rocket boosters to make the consumer duty work*".

Targeted support also looks a good way for savers to validate decisions made about the products they are already using. The consumer is interested in knowing whether people like him/her take the kind of decision he/she is considering.

There needs to be courage and conviction for targeted support to work but there does not need to be the detailed knowledge of the clients’ circumstances. Knowing just how much information is needed to conclude what someone actually is like, is a matter that will great exercise compliance teams

Who will targeted support work for?

Targeted support looks like an innovation that works for the big firms operating outside the workplace. As McPhail crudely put it

> *"It helps Hargreaves Lansdown to flog more stuff,"*

It certainly looks commercially attractive to larger advisory firms but not exclusively

It will find favour with workplace pensions and even the trustees and administrators of DB plans, all of whom face big challenges from savers with important decisions on how they get their pensions and pots paid to them,

Workplace pensions, provide the data needed to make generic statements about people. The key is to link what is known about a saver to what big data tells support staff about purchasing. But the risk is that the decisions most people take can be sub-optimal and not all defaults are value for money

Is Simplified Advice – the squeezed piggy in the middle?

Simplified advice clearly has its supporter. Vanguard's Sean Hagerty has argued that the payment of fees for simple advice is a door opener for his business. I suspect that simple advice will prove popular for well-heeled but unsophisticated investors for whom Vanguard's approach is designed. It is a product for the mass affluent.

But advisers seem more sceptical. They see the scope for targeted support as being wide enough to squeeze out simple advice in the mass market and they see advisers continuing to cherry-pick the wealthy clients who really need full holistic advice.

Everyone agrees that the conversation has a long way to run. However, I see the endorsement of targeted support as something that can be practiced outside the FCAs regulatory perimeter as encouragement to the support teams of workplace and non-advised non workplace pensions, to get on with what they do best, holding the hands of people like us.

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